Heather: And good afternoon, this is Heather Balsky, BofA's Business and Information Services Analyst. This is our last fireside chat of the day, so I want to welcome the team from Aramark, CEO John Zillmer and CFO Tom Ondrof, to help close us off. It's great to have you both here today.

John: Thank you, happy to be here.

Heather: I know you guys have some slides to kind of run through before we kick off the fireside chat. So I'll leave it to you for a few minutes.

John: Sure, I'll start off I think. First of all, really want to just focus on a couple of areas. And we've been going through a cultural transformation in the organization to drive profitable growth over the last couple of years. And we feel very strongly about the performance, in terms of the new growth opportunity. The net new business performance over the last two years has been truly extraordinary; and we feel very good about the progress we've made there.

We continue to have verry strong ongoing momentum on both the top and bottom line. And the revenue growth has been driven by net-new business and base business recovery. And we also have significant year-over-year profitability improvements with continued progression expected.

We're working to improve the leverage ratio and the accelerated rate. That's one of the concerns that gets raised by investors over time, the fact that Aramark has historically been more highly levered than some of our competitors. While we're very comfortable with the leverage that we have in the business and our ability to generate free cashflow, we recognize that's an area that is something that will drive our financial metrics.

And so we are continuing to take strategic actions to go ahead and reduce that leverage level, including a transaction that we announced just a few weeks ago with the divestiture of our AIM Services joint venture in Japan. The proceeds of approximately $500 million. So we continue to make – we also continue to make progress on the separation of our Aramark Uniform Services business. Our intention is to do a tax-free spin sometime later this year. We're making very good progress on that; and we feel very good about the trajectory of both the business and the process to get it done.

And we're also very confident in our ability to drive historic margins over time, that as we have our contracts mature, as the new business matures, those contracts continue to improve profitability. Supply chain provides scale and stability. And so we're very confident in our ability to deliver those margins over historic levels over a period of time.

Tom: I can just pick up here on the next couple slides, John. On the margin lines, I'm just reminding folks that as the business has sort of reinflated to – especially on topline to pre-COVID levels, towards the end of last year, the seasonality that is natural in the business has reemerged. And so we do have peaks in Q4 and Q1 – sorry, Q1 and Q4 in the year in sort of a U-shaped cadence to our margin. And you can see it's starting to really mirror the fiscal '19 numbers. And we expect that to continue with quarters 2 and 3 being the margin troughs.

And that's primarily driven because of the seasonal shutdown of our education business that really creates that. And then a bit of contribution in the seasonality from the parks and destinations business.

This also, on the next slide, shows up in the free cashflow. So we do have typically a big outflow in Q1, as you could see for fiscal '18 and '19 on this slide, mirroring in '22 and '23 as the business has – volumes have returned to normal with a big inflow in Q4, as you saw last year and then those two years prior to COVID. Just a moment to remind people, as we move back into and above pre-COVID revenue levels, that that seasonality does return.

Heather: Great. We're going to fireside chat time. I appreciate it. You're now about three years into Aramark's turnaround, your turnaround strategy. What do you think are your biggest accomplishments today?

John: I think we'll both take a shot at that. First of all, I think recreating the hospitality and growth culture that needed to be achieved is maybe our biggest win. And you see that show up in the results of the net-new business, going from essentially zero growth over the previous five years to essentially growing $500 million in 2022. I'm sorry, in 2021, $800 million in 2022, and continuing that trajectory this year. And we're very pleased with that.

From our perspective, the real missing link in terms of the performance and the company over the past has been that growth culture and the hospitality culture that had waned over previous leadership. We're excited to have that return; and it really is fundamental to the growth and the profits of the company. And we continue to be very excited about the growth prospects for the organization.

Tom: Yeah, and the only thing I'd add is that by necessity, I think, through the pandemic and now with inflation, we've battled a couple of multidecade first-timers since we've returned. And that's probably brought a little bit more focus to the business. It's proven out the variable nature of the cost base and our ability to flex, to meet client needs, whether it was just pre, or post-pandemic or through inflation, to be able to manage through that.

We progressed the margin. Our teams have been very, very focused by necessity in helping to drive the profitable side of that growth equation. And so I think we're set up to really be in a good place over the next few years, as fingers crossed, things normalize on the inflation side, and a lot of it – the hard work that's being done on the topline starts to flow through the rest of the P&L.

Heather: Yes, let's talk about the setup to the next few years. Kind of when you – what do you think your most significant opportunities are from here?

John: Personally I think organizationally we've done all the culture work; we've done all the systems work. We have a very strong team in place. I think we'll continue to focus on the growth of the organization to get the spin process complete. When we get that done I think we'll be a highly focused food service specialist that is really engaged in winning business model.

We have a lot of opportunity in terms of leverage on both the overhead side and as the growth continues to improve, supply chain profitability continues to improve, there's just a really good pathway to sustain earnings growth and the shareholder value creation.

Tom: And I'd add, Heather, on that that I think our biggest challenge, if I can turn the question just a bit, is to stay resolved to that. I mean we've put a lot of work in the last three years with everything that's been going on. The benefit is we're poised. You see it a bit on the net growth coming through, but I think down the line, as John just said, we're just kind of staying resolved to the model.

Heather: The shift to outsourcing and some thought the conversion, it really made a nice tailwind for your business recently. And how much of that do you think was a tight labor market and inflation? Do you think that momentum has legs or will it wane as the environment normalizes?

Tom: I think it has legs. I mean we definitely have had – the industry has had a tailwind on first time outsourcing for the last couple of years. And long may it live, as we've said many times. But even if it doesn't, we talked about back in December '21 with our Analyst Day, a 4 to 5% net growth target. We think that's still very achievable in the medium term, even if the first time outsourcing does tail off a bit.

The market is so large, we talked about that many times. We've got a structural difference in our salesforce. We're building stability and we're building productivity. We're not to the productivity, the close rates that we want to be at; and so even if the first time outsourcing wanes a bit, then it returns more to that third, a third, a third as our source of new business -- a third from the big players, a third from major operators and a third from first time outsourcing – versus an inflated number at the moment from first time outsourcing, productivity gains should offset that. We still feel very comfortable with that 4 to 5% long-term rate for the foreseeable future.

Heather: I'm going to ask a follow-up on something. You mentioned the close rate you can get. What gets you there?

Tom: Discipline in the process. It's one of those where we've said before we're rather win three out of five bids than two our of ten. Because we understand what the client wants and we can move on for those five accounts where we really just don't have a chance, for just a variety of reasons. And really focus on the ones where we do. And win more of those. So I think it's just the discipline and the confidence to be able to say that one's not for us and we'll move on to the next.

John: And I would add that, frankly, having the sales organization in place and focused in their respective businesses, in their respective geographies, makes all the difference in the world, because this really is a relationship sale. And so the constant dislocation of sales people in the past kind of led us to the poor performance. The fact that we can maintain this discipline and have people in territory and in grade and focused on developing those customer relationships, so when they do respond to a process or do engage in a process, they're doing it from a basis of understanding and really creating a customized approach and solution for that client.

That's what really leads, ultimately, to our success. And so it's not an out-of-the-box solution and it's not a price-driven solution. It's really designed to meet their individual needs and pain points. And that's what really drives hit rate. It's what makes us more successful.

Heather: That's helpful. You also expect, talking about new customer growth, is some -- part of your story is also there's opportunity for share gains from customers that are already being served. So you're going to be – that means taking from competitors. How is Aramark more competitive today than it was under prior leadership?

John: I think, again, we'll both take a shot at that. I think first of all, I think we have reengaged a leadership team that's really focused on this industry, that really understand the business, that really understand the customer set. And so they have a deep understanding and they're fully engaged and focused on their respective line of business. And that is, I think, a competitive advantage over companies that maybe take a different approach, from an organizational perspective.

We also have just the scale and technology and systems infrastructure in place to deliver very high-quality solutions across a range of the businesses in the portfolio that we operate. I think we've got a, frankly, I would characterize it as the best team in the business. And of course, I'm a bit biased; but I think it's – that team, the people are our competitive advantage. And that may sound silly and trite, but it's really what we're focused on, building the best organization we can, and being just great at execution, great at discipline, and highly focused.

Heather: That's helpful. I want to shift to international. Will you talk about the changes you've implemented there?

John: Sure. We have I think a terrific international team that is led by Carl Mittleman who is our Chief Operating Officer for International. And he has a lifetime of experience in the industry. He grew up inside of Aramark. Joined us out of Cornell. Really understands the various business segments. And we compete in different segments internationally than we do somewhat domestically. Each of the countries has a somewhat different business portfolio. With Carl's broad experience he's able to bring to bear, like I said, entire set.

And so I think that the fundamental change that we've made over the course of the last couple of years is making sure we have disciplined leadership in each of the individual countries. And we focus on operating them with local teams. We don't run Germany from the US, Germany runs itself. And it's really focused on the German market. And yet, we provide the tools and support that they need to go ahead and continuously improve their operations and make a real difference in the world.

I think we've got a lot of runway internationally. We're in all the geographies that we really want to be in. We don't need to plant flags in other countries in order to grow. And we've got a lot of runway and room for that team to be successful.

Heather: The segment has been posting very strong growth. What has been the biggest drivers of late?

John: For international?

Heather: For international, yeah.

Tom: Stability I think is the key there. For whatever reason, the US sales team was really pulled apart for four or five years prior to John arriving. I think to drive out costs and it created instability on the salesforce that really had to reestablished, and again, we're seeing the early benefits of that the last two years.

For international was not really. They were left to their own and they had a stability – everything John talked about for the US, that was sort of left intact internationally. If you look at the results and the net growth, the difference between US and international, you can see them very much diverge around 2016-17. International stayed very steady, US fell off. And the international business then reaped the benefits of that, as we sort of gotten further away from COVID. It had that machine sort of going. And that's helped them as they've come through the recovery.

Heather: A good sign for the US as you gain traction, yeah. So you said no new geographies, but I guess, what are goals in terms of expanding that market? And what are you most excited about?

Tom: Yeah, goals are to continue to accelerate growth in those geographies where we operate. We do have, we have made some tuck-in acquisitions, particularly in the UK to build capability and geographic concentration. And that business has a very strong leader and very big presence, of course. That was where we won our largest contract with Merlin and that's been a terrific implementation. Very strong leadership team in Helen Logan-Smith and the rest of the team in the UK.

And so we're going to continue to focus that team on growing the business, to extending the boundaries, to looking at other markets. And when I say markets, I mean other lines of business in their respective geographies, looking at healthcare in Germany, which is a part of the business we haven't typically played in, and where we've been more B&I focused and sports and entertainment focused. There's plenty of runway and plenty of opportunity. So we're just focused on continuing to keep the international team focused on growth. And continuing to build the capability of that organization.

Heather: COVID disruption, you've talked about earlier, took a big toll on Aramark's business. But you exited 2021 or your fiscal '21 with that 95% of that business recovered. That was a really for the quarter, so not the full year. I know you stopped providing an update on recovered sales; but can you speak to how the recovery has progressed so far this year? Is it consistent with your expectation? Have there been any setbacks or surprises?

Tom: Yeah, we exited fiscal '22 at that 95%.

Heather: Yes, sorry.

Tom: We've all lost sense of time. But yeah, we expected the remnants of the recovery to continue throughout this year. And certainly level off. And that's what we're seeing and the big recovery in 1st quarter, not so much of Q4 of this year. I think there's still opportunity for a bit more. We've got a combination of confluence of eventually between recession possibility and return to work. And they are cutting across each other in a little bit. So as return to work sort of continues to build throughout this year, it could be offset a little bit by some of the particular white collar layoffs that we've sort of heard of.

But there's been a funny phenomenon also within the work from home and return to office, is that you hear a lot of companies talking about going back, but they haven't really. We are not sure that the full recovery story is over. So we do have people who have headlined say let's go back; and maybe it's gone up to two days. But that could continue and you could see more mandates, as opposed to strong suggestions or mandates that are being lowered by some companies.

And you see it very much different in different sectors, financial, hospitality, you name it. So we are seeing a leveling versus the full on '21/'22 recovery. But just because we seem to be plateauing out at 95, I think there's still potentially some more room as we finish out this year and maybe into a bit into '24.

Heather: I think some people are trying to back into how your recovery looked in the 1st quarter. Is it fair to say though that it's kind of within your expectations and the recovery is still kind of holding up?

Tom: It is, yeah.

Heather: Okay, that's helpful. And you talked about this. In B&I, it seems like in terms of the uncertainty of the environment and that sort of thing, is that something you're just kind of looking out for, in terms of there's an impact from the downturn? Or have you started to see the – especially 1st quarter – do you see any of that pressure yet?

Tom: Yeah we have and it's been more headline than I think reality at this point. And just to remind everybody, we're less than 20% of our global revenues are from B&I. And of that, about 20% is truly white collar, which seems to be where a lot of the noises around recession, tech, financial. So put the math together, that's sort of less than 4% of our overall revenues. So even with some level of impact, we're not particularly concerned about it.

And the rest of our portfolio, we're well diversified and between healthcare, education, parks, sports stand up very well in recession. We've seen that in the past, even though that's discretionary spend. So really in other cycles, recessionary cycles, B&I has been the only business largely affected.

Heather: Yeah, I was – later on I was going to ask you about sort of where the most cyclicality in your business. And where's the most durability? And maybe as you go through your segments, kind of where is the most resilience? I think some of it might be surprising.

Tom: Yeah, it is. It's been and John add in here, but I've been through two recessions in my career, contract from service and it's just been incredibly resilient. Healthcare and education, people tend to go back to school when jobs are lost, they tend to get sick when jobs are lost. So those two businesses held up really well. Like I said, parks and destinations, sports, very resilient in the past. So yeah, across the board really other than B&I, we've seen in the past very little impact on recession.

John: Yeah, and I would just add when you think about discretionary spending, sports and entertainment in particular, baseball games, football games, national parks, represent an opportunity for people to continue to enjoy their circumstances in their lives. And the national parks are a great business. We love it, and even in times of recession or economic concern, the national park attendance rates are always very high. And that may be a driving vacation as opposed to a flying vacation. And so we tend to be the beneficiary of that.

And then we have a couple of businesses, obviously, that are very consistent, the corrections business, the facilities, you have to keep building steam and you have to continue to operate them. So those businesses are also very recession resilient. And for overall, I think if you go back to 2008/2009 to the last great recession, if you will, I think our sales were only off 3% during that time period. So it is – as a portfolio, the business is highly resilient to recession.

Heather: That's helpful. You talk about another macro topic, which is food inflation. It's persistent this year. We just got another CPI number, I think food away from home is up 8.4% or so year over year. What are you seeing and what are some of the tools that are still available to manage through this higher cost environment?

John: We are seeing that persistence on the food inflation side. And luckily, because we are such a large purchaser of food products and such a big customer of most of our manufacturer partners, we do have preferred pricing and we are managing those relationships aggressively. And we continue to grow the organization. And we get rewarded for that growth through enhanced purchasing deals and enhanced volume discounts, if you will.

So that is a lever we continue to work very aggressively, just the supply chain management process. And we are seeing some progress, with respect to commodity pricing. We are seeing some opportunity for us to take hedging positions in certain commodities, like coffee and others, soybean oil, things that we had to stay away from over the course of the last 12 months.

So we're seeing some glimmer of hope, if you will, on the inflationary side. But in the meantime, our managers have a series of tools that they use to manage the inflation in a particular unit. And that's with both the menu design; it's service hour changes; concept implementations. There is a number of different tools that they bring to bear to manage the costs in the middle of the P&L, whether it's food or labor. And they've got the tools that they need to go ahead and get the job done.

Tom: I think, Heather, as we look forward, it's one of the things that excites us about the opportunities in the next few years. Because we have – supply chain has been disrupted massively. Our team has really been fighting the good fight to manage those costs and work with suppliers and, as John said, aggressively, to help mitigate our costs and continue to help the business move forward and recover through COVID.

But combined with buying Avendra about 18 months before the pandemic, and the new growth volumes that we're starting to see, as we emerge out of the next few years, that platform of Avendra, which really we didn't have time to take advantage of, plus the new growth opportunity, is going to put us in a really good position going forward with suppliers to leverage that and really drive down costs.

So with some easing inflation, the continued normalization of the supply chain, combined with our growth and a new platform, it's exciting about what we can do with it.

Heather: And how have the customers been in terms of your client side? How are customers responding to price increases? Are you seeing any pushback on that?

John: Well, we look at these customer relationships as annuities. We keep these customers for 15, 18, 20 years. And so we have very strong relationships. And we're always working very aggressively to make sure that we're delivering value to that customer and that client, so that when we're in a position of having to negotiate price or service changes, or other, we're doing it from a position of relationships and strength.

And so we – we're working always very diligently to both optimize the profitability equation for us, but also the service equation for them. And so I wouldn't say we're getting a lot of pushback from clients or customers; but we're being very careful not to push so far, that for whatever reason it might jeopardize that relationship. Because the relationship is worth much more to me over the long term than this particular quarter. So we're always very cognizant of that. But we're working to deliver value, not just more profitability in this particular quarter.

Heather: That's helpful. And I wanted to ask lastly on end consumer. Folks like me that are eating in cafeterias. Are you seeing any changes in behavior such as diners trading down or cutting back?

Tom: I'll jump in for a second. One of the things we're seeing in B&I that's been very interesting is that human nature is kicking in. When people were in the office pre-pandemic, five days, we were capturing roughly half the time that they were eating in the cafeteria, 50% participation. We theorized that that would move up post-pandemic, just at the start, because things weren't as available out on the high street, mainstream. But then also, once you came into the building, you were sort of happy to stay in the building. So participation kicked up. Also some free lunch or subsidized lunches being offered.

But as things have sort of opened up a little bit more and there are more options, if you're coming in three days a week, you're there to work with your colleagues, see your colleagues, have lunch with your colleagues. So you're staying in the building. So we're sort of capturing three out of three days now instead of 2.5 out of five. So even though people aren't there five days a week, we're getting the same participation or even maybe a bit more in some cases.

Heather: Interesting. I'm going to the cafeteria more, personally. So it makes sense. Don't want to read into that. You guys are – we have 10 minutes left, I kind of want to jump to something which is the uniform end. Why do you think this should be spun-off? What drove that decision?

John: Obviously, the company has wrestled and the board has wrestled with that decision over a very long period of time. There really are no synergies between the two businesses. We have a commercial relationship between the food business and the uniform rental business; but it is a truly arm's length commercial relationship. So it's not like we're getting discounts from AUS for our food service operations. We're paying a market-based price.

And we have an obligation to do that because we exist in our client's facilities. So, we need to be paying a fair price for the services that we get.

So there really are no synergistic benefits to having the two businesses combined. And, frankly, it's been operated independently, from a management perspective, forever. It's never really been operated on an integrated basis. And so we felt that on a standalone basis, that the shareholders would benefit from a focused valuation that really looks at the business in its competitive environment. It has significant opportunity for both growth and for margin accretion going forward.

And that a focused leadership team, a separate entity would be more capable of delivering that when managed as part of the conglomerate. So if you do all the theoretical math around what kind of conglomerate discount exists by combining the two organizations, and you can make all the multiple assumptions about well, if it's trading as an independent and it's in the Uniform services industry, what multiple will be attached? We did all those strategic evaluations and came to the conclusion that ultimately that was the best decision for our shareholders.

We looked at the range of strategic alternatives and an outright sale certainly doesn't make sense because of the tax basis of the company and the way it was put together over time. And so a tax-free spin made the most sense, in terms of delivering economic value to the shareholders, and ultimately to create focus and real discipline in the business.

And we've hired a team of great people that have both the operating discipline and the financial discipline to run that business going forward as an independent concern. We've assembled a terrific board that will be making an announcement about relatively soon. We're well on our way in terms of the process of managing the spin, expect to get that complete by the end of the year. And so we're really pleased with the progress we've made; and we think it's just ultimately the right strategy.

Heather: And I know as you get closer to the Uniform spin, we will have our opportunities to hear from that team. [yes] And I'm curious if there's anything in particular outside of the spin, that the Uniform's team is most excited about? And just kind of where they are in terms of innings on that, and turnaround opportunities of that business?

John: Yeah, well, I think they're very excited about the value delivery that can be achieved. One of the things that Kim has brought to the organization is a deeper understanding of the route-based businesses and the true operational metrics required to run it effectively. And I think she's very excited about the forward-looking business case and the strategy, particularly when you apply certain marketing elements to it that is not something we've historically done, but it's something that she brought to the equation, based on her past experience.

And so I think the team is very excited about the future prospects and about that value delivery that they believe they can achieve.

Tom: Yeah, I think they have a number of opportunities to continue to enhance their margin going forward. ABS was rolled out and completed last fall. And the opportunity for it to be fully used and productive is exciting. They've done that a little bit through pricing initiatives recently, that they weren't going to be able to do. It was going to be very manual for them, over the past couple of quarters without the ABS tool. We're excited about that.

And continuing with the progression on sales. I think Kim would be the first to admit that the growth, topline growth of the uniform business to date isn't what she wants. And that even though we've added a number of folks, 300 plus folks over the last couple years, the productivity gains still need to be there. And proportionately to the competition, there's still some incremental investment to be made. So a lot to go after and topline is so important in that business, given its fixed cost base. So yeah, no, excited. As John said, a really high-quality team has been assembled.

Heather: And when you did your slides you guys talked about leverage. You're targeting 3.5 times exiting fiscal 2025. Why is that the right leverage level for your company?

Tom: Yeah, there's no right level. I think we're in this environment, in particular, we just feel as though a little bit less is better. Aramark has carried higher leverage over its history and it's a great cashflow producer. So I don't think there was any great stress about that. But I just think it gives us a more solid platform to go forward.

I've said to a few people that if over the course of time, we really want to get to the point where we're a mid-single digit topline grower, a margin progression, leverage down below 3.5, probably below 3. So we're returning money to shareholders and just sort of get boringly consistent that way. And I think that that drives a lot of value; and I think that this business model is really built for that; and this industry is really built for that.

Heather: In light of the spin, how are you thinking about optimizing balance sheet for both core Aramark business and then Uniforms as well?

Tom: Yeah, I think we're coming out, in terms of the leverage profile, for each, I think we're coming out pretty consistent. I mean we've – with the sale of AIM Services, our leverage target by the end of the year is at four times, and on a path to 3.5. So we're getting there quick. And I think with a couple of other things that will happen here in the second half of the year, we'll probably end the year below 4.

And with that, we'll probably spin off in a pro rata basis, so that neither side is really burdened at all and they're able to do what they need to do to grow and RemainCo – the same. So yeah, we're moving down that leverage curve pretty quick.

Heather: That's really helpful. And I'm going to squeeze one in the last few minutes. There's a lot of uncertainty in the environment. I asked you about B&I, but are you seeing anything in your business that reflects sort of economic uncertainty that we're seeing? Have you – I guess just in terms of your customers, in terms of their behaviors, sales cycles, anything like that?

John: Certainly not in terms of sales cycles. From the pipeline it is as active as we've ever seen it. We continuously review every month with each of the business operations -- both their financial results as well as their growth projections and their current pipeline of opportunities and the current prospects that we're working on. That level of activity is as high as we've ever seen it.

So we're very encouraged by that. We think there's a lot of momentum in the business and a lot of runway, if you will, across the portfolio.

We haven't seen any behavioral changes on the part of prospects or clients related to macroenvironmental trends. There are pressures in all the businesses. They're all somewhat different. You have in collegiate hospitality you have, in theory, an enrollment cliff coming in a few years. In healthcare you have always the pressure on cost recovery and reimbursements and the like. So there's always some kind of pressure from a macro perspective in the various business units.

But historically we've always been able to manage very aggressively through those. And frankly, we become a solution to those clients under those circumstances. We can help them get through those kinds of pressures and meet the demands that they're facing as a result of those macroeconomic challenges.

Heather: I appreciate that. With that, I want to thank you for being here, closing out the conference. Thank you everyone who's been listening to all of our various fireside chats today; and those who came for the conference in person. We really appreciate it. And thank you very much.

John: Thank you.

Tom: Thanks.

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