

ARMK Earnings Call Transcript

Date: 2025-11-17

Quarter: 4

Operator: Good morning, and welcome to Aramark's Fourth Quarter and Full Year Fiscal 2025 Earnings Results Conference Call. My name is Kevin, and I'll be your operator for today's call. At this time, I'd like to inform you this conference is being recorded for rebroadcast. And that all participants are in a listen only mode. We will open the conference call for questions at the conclusion of the company's remarks. please proceed. I will now turn the call over to Felise Kissell, Senior Vice President, Investor Relations and Corporate Development. Ms. Kissell, please proceed.

Felise Kissell: Thank you, and welcome to Aramark's earnings conference call and webcast. This morning, we will be hearing from our CEO, John Zillmer; as well as CFO, Jim Tarangelo. As always, there are accompanying slides for this call that can be viewed through the webcast and are also available on the IR website for easy access. Our notice regarding forward-looking statements is included in our press release. During this call, we will be making comments that are forward-looking. Actual results may differ materially from those expressed or implied as a result of various risks, uncertainties and important factors, including those discussed in the Risk Factors MD&A; and other sections of our annual report on Form 10-K and SEC filings. We will be discussing certain non-GAAP financial measures. A reconciliation of these items to U.S. GAAP can be found in our press release and IR website. With that, I will now turn the call over to John.

John Zillmer: Thanks, Felise, and thanks to all of you for joining us. On today's call, Jim and I will review our fourth quarter and full year results including the strategic, financial and operational milestones accomplished in fiscal '25. We've built upon our historically strong consistent performance and advanced a number of initiatives that position us well for the years ahead, which will be discussed in more detail. First and foremost, we take delivering on our commitments very seriously, and it's important to understand that as we onboard an unprecedented level of new business, we took the appropriate time to work closely with certain large clients in preparing for a seamless transition to Aramark becoming their new hospitality partner. In some cases, this led to a shift in the timing of new account openings, which impacted revenue in the fourth quarter. With many of these sites now up and running, we are well positioned for strong revenue performance in the quarters ahead. We are more resolved than ever to meet and even exceed the high yet very attainable bar we set for ourselves. This past year has represented many consequential firsts for the company, all of which contribute to the strong growth trajectory for the businesses, including annualized gross new wins of \$1.6 billion, which is 12% higher than fiscal '24 and reflects the largest contract awarded in FSS U.S. history and the second largest globally. An industry-leading client retention rate of 96.3%, with many lines of business and countries in the portfolio above this retention level. All combined, resulting in net new of 5.6%. Over \$1 billion of new purchasing spend added for a second consecutive year in our supply chain GPO network. And lastly, achieving a leverage ratio of 3.25x, a number we haven't seen since prior to when Aramark went private in 2007. Our new business pipeline across the organization is significant, including first-time outsourcing opportunities, and we are already off to another strong start at this early stage of the fiscal year. This includes adding Blue Origin, Pennsylvania's Eastern Public Schools, the Welsh Rugby Union as well as expanding our services for Airbus. I have great confidence in the company's continued ability to achieve net new of 4% to 5% of prior year revenue, with retention levels

exceeding 95% in fiscal '26 and beyond. And when we over-deliver on this metric, we reward our teams appropriately, as was the case particularly in the fourth quarter, reflected in additional incentive-based compensation from net new business, an objective representing 40% of the company's incentive plan for leaders across the organization. Moving to our results in the quarter. Aramark's organic revenue increased 14%, largely from net new business and base business growth. Excluding the 53rd week, organic revenue was toward the higher end of our long-term growth model. FSS U.S. grew organic revenue 14% in the fourth quarter. Again, excluding the 53rd week, organic revenue was up mid-single digits, led by Workplace Experience and Refreshments continuing its pace of record net new business, Collegiate Hospitality with strong retention rates, meal plan optimization success, and benefiting from higher student enrollments, particularly from our portfolio of academic institutions in the popular South and Southeast. And Healthcare reporting its best performance in over 2 years. Our Healthcare+ business was recently named #1 in Best Places to Work by Modern Healthcare for our commitment to a people-first culture and operational excellence across the industry. While we are encouraged with our roster of high-performing teams as the MLB playoffs approached, the outcome was not what we anticipated with the majority of our teams ultimately falling out of playoff contention. We've now entered the NFL, NBA and NHL seasons where fan attendance has been strong to date. Leveraging our expertise in professional sports, Aramark's Collegiate Sports business is experiencing double-digit revenue growth with per capita rates up 14% year-over-year, driven by increased concession spending and expanded premium services. I also want to commend our employees in the Destinations business, who worked closely with the National Park Service to assist during and following the devastating Dragon Bravo fire in the Grand Canyons North Rim. We had been operating the historic Grand Canyon Lodge, which was severely damaged. While it's still early, we are supporting the recovery and rebuilding efforts in the region and are optimistic about what's ahead for their visitor experience at the North Rim. We continue to expand our enterprise-wide capabilities and collaboration, which resulted in our new multiyear agreement with the University of Pennsylvania Health System, the largest contract win ever in the U.S. from one of the most prestigious medical systems in the world. We are proud to put our understanding of sophisticated and complex health care systems to work in new settings. We will be providing patients in retail food, environmental services and patient transportation, alongside an integrated call center to support these operations at sites across a nearly 4,000-bed, 7 hospital system. Among our many technologies offered at Penn Medicine will be an AI-driven patient menu platform that configures patient meals based on diagnosis and dietary requirements, in addition to proven robotic applications for both environmental services and meal preparation. Our proprietary AIWX platform will be used to map staffing and other needs, as well as our Quick Eats micro markets and mobile ordering platforms. We look forward to launching operations early in calendar '26 and are working closely with Penn Medicine to identify other opportunities to further grow the partnership. Additional clients added to the U.S. portfolio in the fourth quarter included Chicago's DePaul University in Collegiate Hospitality, where we'll begin operating next semester. Discover, following the acquisition by Capital One, also a client, as well as expanding our hospitality services into top-tier law firms within Workplace Experience. Now on to International. Once again, International delivered consistent double-digit organic revenue growth increasing 14% in the fourth quarter, with approximately 3% growth coming from the 53rd week, led by substantial new business, high retention and strong base business growth. All geographic regions contributed to this performance, with particular strength in the U.K., Canada, Ireland, Spain and Latin America. Toward the end of the quarter, International experienced its highest revenue ever for a single 1-day event when the NFL's Pittsburgh Steelers played the Minnesota Vikings at Croke Park Stadium in Dublin, Ireland, all Aramark clients. We also just had great success at Olympic Stadium in Berlin, Germany with another NFL match-up as the league's fan base continues to quickly grow in Europe. International was awarded new clients in the fourth quarter across sectors and geographies. This included expanding our growing presence in the UEFA Champions League and Bundesliga with the addition of Bayern Leverkusen Football Club in Germany, the health care network of Hospital Italiano in Argentina, energy exploration and developer, ENAP, in Chile, and mining leader, IAMGOLD, in Canada. Looking forward, we expect International to maintain its strong business momentum, delivering on a growth agenda focused on culture, team, capabilities and process. Turning to global supply chain. Avendra International added another \$1 billion of new purchasing spend in its GPO

network this past fiscal year, primarily from travel and leisure, health care, senior living and education. The supply chain team is also leveraging enhanced technology capabilities to optimize client compliance and contract productivity. We're making the appropriate investments to build upon our strong analytics and client mobile chatbot platforms. These powerful tools put the answers our frontline clients need in the palm of their hand and continue to deliver back-end efficiencies in our supply chain operations. We are now deploying these solutions globally. We are expanding our international footprint and supply chain, and the Quantum acquisition has fit well into the portfolio, contributing accretive growth to both Europe and Latin America. Inflation levels have been as expected, and we currently estimate inflation around the 3% range heading into the new fiscal year as we continue to effectively manage the broader macro environment. Our teams are closely monitoring any changes in the marketplace and will leverage our extensive capabilities to support our clients. Before turning the call over to Jim, I want to reiterate that our teams across the company are hard at work and focused on accelerating performance, and we are already seeing success entering the new fiscal year in leveraging enterprise-wide capabilities, starting operations for a record number of new clients, maintaining our client retention momentum, optimizing global supply chain strategies and, lastly, pursuing substantial growth opportunities. Jim?

James Tarangelo: Thanks, John, and good morning, everyone. We reported another year of commendable operational performance on both the top and bottom line, a testament to the capabilities of our business model. We are experiencing unprecedented levels of success in key leading indicators of performance, annualized gross new wins and client retention, which provide us the momentum to deliver our expected growth in fiscal '26 and even beyond. I want to now provide some insights into our fiscal '25 financial performance before reviewing our expectations for the upcoming fiscal year. As John reviewed, fourth quarter organic revenue was up 14%. The growth was driven by new business, high retention levels, increased base business and the benefit of the 53rd week which contributed approximately 7%, more than offsetting a shift in the timing of new account openings. For the full fiscal year, we reported revenue on a GAAP basis of \$18.5 billion, up 6% compared to the prior year, with approximately 1% of foreign currency impact. Organic revenue grew 7% versus the prior year, again from net new business, base business and 2% from the 53rd week. And as you know, also reflects the company's portfolio exits in Facilities in the prior year. Adjusted operating income for the quarter was \$289 million, and grew 6% on a constant currency basis, led by higher revenue levels, leveraging technology capabilities, particularly in supply chain, and above-unit cost discipline. The increase more than offset higher incentive-based compensation of \$25 million recorded in the quarter associated with achieving record net new business. As a reminder, our growth-oriented model is structured with 40% of our incentive-based compensation tied to an annualized net new business metric. Throughout the fiscal year, we accrued this compensation based on expected performance. The Penn Medicine win in the fourth quarter, in particular, resulted in a maximum payout under the incentive plan for this metric. Additionally, we did have higher prescription claims in the quarter along with some new business start-up costs in Higher Ed and Collegiate Sports, areas of attractive growth for the company. Excluding these expense items in the quarter, AOI margin would have been higher by 70 basis points. The company has taken decisive actions to decrease future medical expenses related to elective lifestyle prescription, specifically GLP-1 coverage. For fiscal '25, AOI was \$981 million, up 12% on a constant currency basis, which represented AOI margin expansion of nearly 25 basis points. This growth was led by our operating levers and the estimated contribution from the 53rd week of approximately 2%. Which more than offset the additional incentive-based compensation I just mentioned, affecting AOI growth by 3% or 20 basis points. Turning to the business segments. The U.S. reported AOI growth of 2% during the quarter. Growth was due to higher revenue levels, enhanced technology capabilities and effective cost management. AOI growth in the quarter more than offset the higher expenses associated with incentive-based compensation, medical and some new business start-up costs already mentioned. We also took the opportunity to make some strategic reinvestments within Destinations, which included property development, digital marketing optimization and other enhancements to drive the guest experience. To a lesser extent, we did feel some effect from our MLB teams falling out of playoff contention. The International segment experienced AOI growth of 31% during the fourth quarter and

21% for the full year, both on a constant currency basis. AOI margin for the year improved by more than 40 basis points. AOI growth and margin expansion was led by higher revenue, effective cost management and supply chain efficiencies. For the fourth quarter, adjusted EPS was \$0.57, up 6% on a constant currency basis. For the full year, adjusted EPS was \$1.82, an increase of almost 20% and on a constant currency basis. The additional incentive-based compensation impacted adjusted EPS by \$0.07 in both the fourth quarter and full year. On a GAAP basis, Aramark reported consolidated operating income of \$218 million and EPS of \$0.33 in the fourth quarter. And for fiscal '25, operating income was \$792 million and EPS was \$1.22. This included severance charges from restructuring initiatives to further optimize operations as well as a noncash asset write-down in the fourth quarter associated with a minority interest investment made in the previous fiscal year. Moving to cash flow. Consistent with our normal seasonality of the business, the fourth quarter generated a significant cash inflow, which contributed to our strong cash flow for the full year. Net cash provided by operating activities in fiscal '25 was \$921 million, and free cash flow was \$454 million. Our free cash flow grew by more than 40% compared to the prior year period from higher cash from operations and favorable working capital, particularly from improved collections. Our cash flow performance and higher earnings resulted in our consolidated leverage ratio improving to 3.25x at the end of September, down from 3.4x a year ago and represent the company's lowest level in nearly 20 years. We closed the fiscal year with more than \$2.4 billion of cash availability. This provides us with the continued flexibility to execute on our capital allocation priorities, which effectively optimizes investing in the business, reducing leverage below 3x and increasing the quarterly dividend, which was just increased by 14%, while repurchasing stock utilizing excess cash generation. I'll now wrap up with our outlook for fiscal '26. Based on our current expectations, we anticipate the following full year performance. Organic revenue of \$19.45 billion to \$19.85 billion, representing growth of 7% to 9%. AOI of \$1.1 billion to \$1.15 billion, an increase of 12% to 17%. Adjusted EPS in the range of \$2.18 to \$2.28, reflecting growth of 20% to 25%. And a leverage ratio below 3x. One point to keep in mind on the quarterly cadence for fiscal '26. There is a slight calendar shift from the 53rd week in fiscal '25, which has no effect on the full year fiscal '26 numbers, with more detail in the analyst modeling section of our earnings slides. In summary, we remain resolved in driving our strategies to capitalize on the significant growth opportunities for the business centered on strong revenue growth and through new business wins, high client retention rates and base business growth. At the same time, we expect to continue accelerating our profitability from our multiple operating levers, including differentiated supply chain capabilities and disciplined cost management, enhancing our efficiencies and scale across the business. With a resilient business model and a clear path forward, we are well positioned to deliver long-term value for our shareholders. We believe the future of the company is extremely bright, and we're energized about the opportunities ahead. Thank you for your time this morning. John?

John Zillmer: Thank thank you, Jim. With fiscal '26 now underway, we look ahead with great confidence. Our efforts are centered on building a high-performing, sustainable business focused on providing exceptional hospitality services to our clients. I want to reiterate that we are committed to creating significant value for our shareholders and are taking the appropriate actions to realize this unwavering objective. And operator, we'll now open the call for questions.

Operator: Thank you. We will now begin the question and answer session. If you have a question, please press star then 11 on your touch tone phone. If you're using a speakerphone, you may need to pick up the handset first before pressing the numbers. In order to accommodate participants in the question queue, please limit yourself to one question and one follow-up. Remove yourself from the queue, please press star 11. Our first question comes from Ian Zaffino with Oppenheimer.

Ian Zaffino: Very impressive on the new win side. I mean, I guess this kind of just speaks to the culture of the company, retentions going up. And I guess this is just a culmination of a very kind of client-focused culture here. Glad you're taking the time to spend time with the clients to do so. But the question would be, when we're thinking about these new account openings, can you maybe just delve a little bit more into the shift in timing? Was this in particular sectors or areas? Do you think it will continue? Any economic related factors that you didn't mention? Or any kind of other color there would

be helpful.

John Zillmer: You bet. Yes. First of all, it was the calendar shift or the opening shift, if you will, really occurred in multiple businesses, Corrections, Workplace Experience and Healthcare, all had kind of late-breaking opportunities for openings, which were deferred into calendar -- into fiscal '26. Without going into specifics, the impact was significant in the quarter, but it was appropriate from a timing perspective to make sure that we could open effectively. And frankly, it was also appropriate for the timing of the client. It was really ultimately their decision with respect to the opening timing. So yes, it was significant. It's not typical. Generally, we -- when we sell accounts, we tend to open them in the year that we sell them. This was a result of a number of different opportunities, all of which were terrific for the company. And we're very excited about the overall results. As you know, we sold nearly \$1 billion of new business -- of net new business this year, on a gross basis, \$1.6 billion. So just a fantastic performance by the entire team delivering on the new business objectives, and with the retention rate exceeding 96.3%, just ends up being a great trajectory for '26.

Ian Zaffino: Right. And since you mentioned new business, congratulations on this Penn deal, and this will bring me into my next question. Maybe you could talk about 2026 cadence here. Maybe talk about that UPenn contract, how that kind of ramps throughout the year. Do you have any other deals baked in to the guidance or how are you thinking about deals? And then also, just as you talk about cadence, just maybe day count, playoff lapping, which might mean maybe a better back half of the year. But any other color you can kind of give.

John Zillmer: Sure. With respect to Penn specifically, Penn will begin -- we'll begin operating at Penn in February. That will be staged over the course of several months as we open up the operations in the individual locations over multiple cities and multiple institutions. So it is a very exciting process. As you know, much of it was self-operated, so we're converting self-op, we're converting some competitors' operations as well. So a very complex opening. So taking the time to do it effectively, I feel absolutely committed to delivering on the performance for Penn and, frankly, to taking the time to do it right for Aramark as well. So in typical fashion, we have significant new business expectations for next year as well, but really don't have any cadence, if you will, on those opportunities. Our pipeline is very robust and very strong. We've had very strong early successes. As I mentioned, the Welsh Rugby Union and others, DePaul University opening as well. So the cadence, I think, is going to be more normal next year than it happened this year. So all in all, very strong results, and we're very pleased.

Operator: Our next question comes from Toni Kaplan with Morgan Stanley.

Toni Kaplan: I wanted to start with a question on margins. Just wanted to understand with the new wins that you got this year, I know there's this cost dynamic where sometimes there is a ramp in higher costs when you ramp up on those contracts. And so I just wanted to understand the cost trajectory there. And then also, if you could talk about any AI initiatives or other efficiency initiatives that should contribute to '26 margins?

James Tarangelo: Yes. So we've had really good progress right on margins. I mean, from 4.6% to 5.1% to 5.3% this year. And if you look at the midpoint of the guidance I think for next year, to be at about 5.7%. So sort of consistent 30 to 40 basis points of margin appreciation has been generated. So yes, we do have some -- obviously, with the large wins coming in next year, that will be associated with maybe some incremental start-up costs. But I think we're able to offset that with the continued productivity we're seeing in our supply chain, in particular, leveraging AI in supply chain and across other functional areas. And then continuing to scale our overhead. We have very good visibility with respect to our corporate costs and SG&A.; We're able to take on this business really with not adding much in the way of new above-unit overhead costs. So I think we're fit for purpose and able to take this on and still continue to leverage the operating levers that have been working well for us over the past couple of years.

John Zillmer: Yes. And Toni, I would just add, normalized opening costs are baked into our projection and into the guidance. So we don't anticipate opening costs impacting our guidance negatively next year. If we continue to see accelerating performance in terms of net new, that ramp does occur. But as Jim said, we're basically able to offset those cost increases through efficiency, through productivity, through SG&A; leverage and through supply chain dynamics. So we're very comfortable with the continued margin accretion as we continue to grow the company.

Toni Kaplan: Great. And then you mentioned the double-digit growth in Collegiate Sports, which is great. And just want to ask about the pipeline there and particularly how the progress is going with converting some of the education contracts, either sports to education as well or education to sports, et cetera, that would be great.

John Zillmer: Sure, you bet. We have taken the opportunity. We do engage both the Collegiate Hospitality and the Sports & Entertainment teams collectively when we pursue those opportunities. As you'll remember, we added Arizona State's system this year. As we grew the relationship there, we added the sports. That's being run by our Sports & Entertainment team. And Oklahoma, that's being run by our Sports & Entertainment team. We are pursuing several large university athletic programs right now. They're currently underway and that we have engaged the S&E; team on those opportunities. So we run them based on what we think the needs of the business are, particularly if there's alcohol involved. Our S&E; team has extraordinary capabilities with respect to the delivery and the appropriate management of alcohol systems in university environments. And so we engage both sides of the organization to do it. And we are seeing significant opportunities for growth there and major institutions that are currently self-operated and looking for support and help and also some competitors who are currently out for bid as well. So it's a great marketplace and we intend to -- we're the #1 company in that space and we continue to be focus aggressively on pursuing growing it.

Operator: Our next question comes from Leo Carrington with Citi.

Leo Carrington: If I could ask a follow-up on that Penn Medicine deal. What's the implications in terms of the potential for further hospital groups to follow suit and consolidate and outsource their catering? What can you tell us about the rest of that subsector, if you like? And then secondly, on the B&I; segment, the organic growth, even excluding the 53rd week, was quite a sharp acceleration. My understanding is this is the most consolidated segment. So can you elaborate on what is driving your market share growth here in terms of your capability?

John Zillmer: Sure. I think both great questions. First of all, on the health care systems, yes, there are significant new opportunities that we're pursuing in health care for self-op conversion, large systems adopting strategies like Penn did to go ahead and find ways to become more effective and to reduce their overall cost of operation. And we're able to deliver very significant benefits to the institution as a result of both our supply chain capabilities as well as our systems that we're bringing to bear across their enterprise. And so the solutions that we offered to Penn are very, very transferable to other institutions, and we think the opportunity there is very large. So in this particular case, Penn is such a wonderful institution and has such a stellar reputation that we do believe other systems will follow their lead in terms of consolidation and systemization, and we're already pursuing new opportunities in that regard. With respect to B&I;, Workplace Experience group, our team has just done a fantastic job growing that business, pursuing opportunities, competitive opportunities, and as you noted, continue to grow share across the organization. I think it's a function of both our capabilities, our different brand offerings, if you will, under the Workplace Experience umbrella, and frankly, just overall performance. Our team is delivering at a very high level. Our customers recognize that, our potential new clients recognize that. And so we've been able to grow that share in a number of niches where we haven't historically competed. So we're very excited. It's got -- it has great leadership, and we're very confident in its future growth opportunities as well.

James Tarangelo: Yes. And John, I would just add that it also includes our refreshment services, coffee service and micro market, which is also growing very rapidly, very consistently. Both Workplace

Experience, Refreshment Services, high levels of retention, high levels of net new as a result of the branding and success they've had with clients that John just mentioned. So we're seeing it from really all parts of that organization.

Operator: Our next question comes from Andrew Steiner with JPMorgan.

Andrew Steiner: It's Andrew. When you talk about base business growth, I'm pretty sure you're talking about both price increases and other base business growth like cross-selling. And so with that, in mind, could you just go through the organic revenue drivers between net new price increases and other base growth both in the fiscal '26 guide as well as '25 just completed?

James Tarangelo: Yes, I'll take that. So yes, in terms of the components of growth for fiscal '25, the base business growth was consist of volume and price. And pricing generally has been at about 3%, and so base business sort of 3.5% in '25. Net new contribution, that's the in-year contribution, about 1.5%, and then the 53rd week added about 2%. That gets you to the 7% for fiscal '25. And in terms of the outlook for '26, we'd expect to gain about 3% to 4% base business growth, roughly 3% or so coming from price. And then again, given the strong levels of retention and record new, be in the 4% to 5% range on net new contribution in fiscal '26. And this is on an apples -- on a 52-week comparison to the prior year. That gets you to the guide of 7% to 9%.

Operator: Our next question comes from Jaafar Mestari with BNP Paribas.

Jaafar Mestari: I had just a follow-up on this net new business contribution in '26 in the year. Given where you ended at the end of '25 and given some of your KPIs in terms of new signings and retention being very much forward-looking, why is the outlook for '26 not a bit stronger in terms of the contribution in that year? The 5.6% wasn't reflected in '25 because of the timing of some of those signings and the ramp-up, should we now expect it to be reflected in '26 fully?

James Tarangelo: Yes. So there's a couple. So as we -- so Penn Medicine, remember, it's an annualized number, and Penn Medicine, for example, the largest one, is starting early in the year and will ramp up throughout the course of fiscal '26. And then the Oakland A's is another large win that will have more of an impact into the following fiscal year. So that's why there's some -- there's always a bit of timing between the annualized and in-year realization of those revenue.

Jaafar Mestari: That's clear. And then one follow-up on the margins. You're right, obviously, that the guidance in '26 will mean that the margin improvement year-over-year will be between 30 bps and 40 bps. But that's using as a starting point '25 with some of the items you flagged, including the exceptional sales team compensation in Q4. And so a similar question here, if we don't expect those to reoccur -- if they reoccur, fantastic, it's something you've signed a lot. But if we don't expect those to reoccur, shouldn't the margin in '26 normalize a touch for those and then grow 30 to 40 bps on a normalized basis?

James Tarangelo: Yes. If you look at the range of outcomes, so I think if you sort of the low end and high end of the range, right, sort of 5.6% to 5.8%, and as I mentioned, 5.7% in the middle. So the range of outcomes is wider. So correct, those items, if you don't -- if they repeat, it's a good problem to have. But sort of, yes, if you normalize fiscal '25 and you're in the 5.4%, 5.5% neighborhood. The other factor is, given the large ramp-up of these accounts, there will be some additional start-up costs in '26 that is baked into the guidance. You can think about that as sort of maybe 10 basis points as part of that.

Jaafar Mestari: It's baked in. And then just last point, very quickly. You've updated us on health care opportunities where you're saying you're still working on some material opportunities. Another area where you've been talking about some potential big wins to come was Corrections. Any update here? Is the decision-making process in that segment just very slow?

John Zillmer: Yes. We actually had some significant Corrections new wins, some of which did actually get recorded as wins in the net new and are ramping up now. So we are continuing to pursue additional

state systems and it continues to be one of our largest opportunities for self-op conversion. And so we think the pace of that business's growth will continue, both on the correctional feeding side as well as the commissary side of the business as well. So still a very significant total addressable market available to us to pursue and very confident in that team and its approach to the business and its ability to generate top line growth.

Operator: Our next question comes from Neil Tyler with Rothschild and Co.

Neil Tyler: I'm just interested in the restructuring measures that you've initiated in the International business. Can you talk a little bit about the thought process and maybe operational metrics that prompted you to initiate restructuring in a business that seems to be growing very healthily? And then secondly, perhaps when you're talking -- when you refer to the postponement or sort of slightly delayed startup of some of the operations, can you talk a little bit -- give us a little bit of a sort of context or description around what sort of factors need to be considered when you decide to slow down the start-up of operations in a contract? Maybe give us some anecdotal evidence or anecdotal sort of description of why that might be the case.

John Zillmer: Yes. It's really more client-driven than it is Aramark-driven. Clients have time frames that they have -- that they're working under, and in particular, they're dealing with multiple constituents. One of those opportunities, for example, using Penn as an example of an account that we anticipated potentially opening earlier, they had to work through a number of different decision processes. They needed to inform their employees, they needed to work through union relationships. And so really, we tend to respond to our clients' needs and our customers' needs more than ours with respect to timing. And that was also very significantly evident in a couple of those correctional opportunities where decisions were deferred by states and in a couple of opportunities in the Workplace Experience group where we had a large client we were already serving that was making a decision to displace a competitor that was also a customer of theirs. So as I said, more often than not, these deferrals tend to be related to customer timing, not Aramark timing. And we just had a number of them occur that affected our fourth quarter this year.

James Tarangelo: Yes. And on the restructuring in the International, again, the backdrop here, this -- the International group has had a long track record of success, multiple quarters, multiple years of up double-digit growth. So this is a business we're happy to invest where we need to, to make sure we're well positioned to achieve our financial targets and streamline the business a little bit. So it's geared toward streamlining some SG&A; and optimizing some SG&A.; As you know, it's fairly expensive to do that in certain parts of Europe. So that was a piece of it. Optimizing a little bit in mining in South America to position us for the coming year. And then there is a final piece that was related to some real estate consolidation as well, some of the bolt-on deals that we did presented an opportunity to bring those together more efficiently.

Neil Tyler: Got it. And then just going back to the first question just so I have it clear in my mind. When we think about the slight growth shortfall relative to the sort of lower end of your guidance that occurred in the fourth quarter, is it fair to characterize the majority of that as being down to contract timing as opposed to sort of the comp effect of things like the MLB playoffs and the like?

John Zillmer: Yes. I think that was certainly the most significant part of it. The MLB impact was secondary. The closure of the Grand Canyon was certainly secondary to that. So there are a couple of items. Rather than giving you a laundry list of every reason, the one that I would really focus on is that, opening deferral mechanism and timing of that. But the other 2 impact items were also part of that fourth quarter.

Operator: Our next question comes from Jasper Bibb with Truist Securities.

Jasper Bibb: I wanted to ask if you could give us a bit more detail on the organic run rate into fiscal '26, maybe using what organic growth looked like in October or September excluding the 53rd week?

James Tarangelo: Yes. Thanks, Jasper. Yes, so the cadence in '26, so just a couple of points here, I said that the 53rd week will have an impact on the cadence, as I mentioned in my comments, on '26. So essentially, we have a strong operating week in higher ed and K-12, in particular. That sort of gets absorbed into fiscal '25 with that extra week. So with that, you could think about losing a few days in Q1 that will come back in Q2. So first half growth will be kind of consistent with our run rate. But I think the first quarter, think that sort of minus 3%, 3.5% versus the run rate that will be captured back in the second quarter. So that's the cadence I wanted to note. But we're exiting with good speed, good run rate here as we exited here in Q4, and good momentum as we expected in October and the outlook for Q1. So it's running according to track, but I just did want to note there's some timing of -- due to the 53rd week that will have no impact on the full year, just quarterly.

Jasper Bibb: Maybe give us a bit more detail on the quarterly cadence of margin. I imagine with the contract ramps, you might be a little lower in the first half than is seasonally normal and stronger in the back half. Is that a fair interpretation? Or any other detail you can give us on what that will look like?

James Tarangelo: Yes. I think that's fair. But again, the larger driver on the margins will be the same thing. It's the drop-through on the revenue in Q1 versus Q2. So the first half will look normal. But given less revenue in Q1, there will be a margin impact on Q1 as well, but it will even out in the -- for the full first half.

Operator: Our next question comes from Andrew Wittmann with Baird.

Andrew J. Wittmann: I think the last question is actually a really important question. And I understand that you commented on percentages here, Jim, for the revenue first quarter down 3% to 3.5%, bigger -- sounded like bigger impact to margins just because you don't get the fixed cost leverage. Did you want to -- did you want to be even more precise on that one? I think we can all do math, but did you want to give revenue and EBIT kind of numbers for 1Q? I just feel like it's a big enough change. And then I think as we -- given kind of the last couple of quarters how numbers have been kind of moving around a lot, it might be even better to give actual numbers for 1Q. I know that's a big ask, but I just think it's important here.

James Tarangelo: Yes. Again, I think what I would just say there, if you think about the first half versus second half, and if you sort of again adjusting for the 53rd week, and I'll just give a sort of ballpark, if you're sort of running at sort of 7% to 8% in the first half, a little bit higher, in the second half, right, I mentioned about a 3% impact in Q1, you could think of that coming off of the 7% to 8% roughly, and then that will be captured back in Q2, just to give you a little bit of sense. But again, I don't want to be too specific, but that gives you a sense of some of the movements.

Andrew J. Wittmann: Okay. And then, John, maybe have you comment a little bit more on the pipeline. Obviously, it's been robust. Can you give a little bit more there, kind of what you're seeing, how the size of the pipeline compares today versus maybe this time last year? I think that would be kind of helpful to just build some mental model for all of us around how the top line might unfold this year.

John Zillmer: Yes. I would say the pipeline continues to be very robust. And at least as good as last year at this point. So we continually build on those pipeline of opportunities and we continue to add new markets and new niches that we're pursuing aggressively to go ahead and expand our total addressable market, adding sectors, in particular, if you think about Workplace Experience, really aggressively pursuing new opportunities in the legal world, if you will, in top-tier law firms. If you look in International, pursuing new mining initiatives, new remote camp initiatives. So we continue to build the pipeline with lots of new opportunities, and it continues to be very robust. So I would say there's really no fundamental change year-over-year other than we're continuing to invest in the growth of the enterprise. We expect it to continue. Very encouraged by the strong results this year. And also, again, encouraged by the very strong retention rate and the discipline inside the organization. And so all in all, I think it leads to fundamentally a very strong trajectory going into '26. And as Jim described, we'll have our seasonal kind of normal impacts on a quarter-to-quarter basis. But overall, I think our full year

guidance is absolutely achievable and, yes, very comfortable with the ranges that we've talked about.

Operator: Our next question comes from Shlomo Rosenbaum with Stifel.

Shlomo Rosenbaum: Can you just talk -- just getting back a little bit more to those contracts that didn't start quite as expected in the fourth quarter. Can you just talk a little bit more about whether there were carry costs that were incurred as part of that? And for some of those contracts, does that continue into the first quarter in terms of impacting margin? Or just trying to have a better understanding as to the impact financially. And then frankly, the visibility that you have in terms of managing your business towards those things. And then I have a follow-up.

John Zillmer: Yes. I would say, yes, there is a little bit of ramp-up in starting costs, particularly for those accounts that have already opened in the first quarter on the correction side and in some of those other businesses. So yes, we were preparing to open them and incurring costs in the fourth quarter in terms of the run rate opening costs, if you will. So there is some -- a little bit of an impact there that dribbles into the fourth quarter or into the first quarter, I would guess. But I wouldn't characterize it as overly significant. So I think all in all, the -- I would point you to 2 big items. Obviously, the medical costs last year were a significant impact on the total earnings of the company, both the medical claims cost as well as GLP-1s. And we have taken very decisive action with respect to the GLP-1 impact and which will go into effect in the -- in January and which will significantly reduce our costs year-over-year from that perspective. So if you look at the 2 big impact items in the quarter, there are medical costs and the higher incentive compensation. I'll take those higher incentive costs every year if I can achieve those kinds of numbers, and drive permanently the growth trajectory of this organization by outperforming on new growth, I'll do it every time. And I feel very good about that. And I love the fact that I've got to pay the people of this organization for delivering on those results. The GLP-1s, we've taken care of that; that won't be an issue. So if I really look at year-over-year, the earnings miss in the quarter, I would be focusing on those items as opposed to the other details in the business. That's really where the fundamental miss was.

Shlomo Rosenbaum: Okay. And then one of the things when you started years ago and you and I talked about the focus on retention, and you've done -- you really moved the retention up significantly. And I was wondering, are we looking at retention right now as a steady state? Or hey, it was kind of unusually high, we're usually looking for like around the 95%, but we had some big contracts that really skewed those numbers? Or is the bar just moving higher because of the operational changes that you've made within the business in terms of getting ahead of some of those contracts, better servicing the contracts, better in [indiscernible]? As we sit here next year, are we going to talk about 96% plus again or we should think that, hey, annually, you want to expect 95% and, if you can outperform, you outperform?

John Zillmer: Well, I think I would love to be sitting here next year talking about 96% or higher again. We have very high expectations for our people. We hold them accountable. And so it's our expectation that we're going to get better, not worse. Part of that is both performance, part of it is negotiation. Part of it is continuing to find ways to extend agreements with clients and customers proactively. So this is a process we are fully engaged in all the time. And so I would love to sit here and say next year, we'd love to hit 97%. I don't know if that's possible. But we're going to be striving to that and we're going to do the best that we possibly can. And so yes, 95% should be a floor. It should never be -- it should never fall below that. And frankly, we have high expectations that we can do better. And we're raising the bar for our people all the time.

Operator: Our next question comes from Josh Chan with UBS.

Joshua Chan: On that retention point, I know that some years, it's never easy, but some years, it's easier than others to retain business just because of the cadence of what comes up for renewals. Could you just like remind us what's happening in 2026 compared to '25 in terms of what of your contracts may be rebid or have to come up for renewal?

John Zillmer: Yes. I would say it's pretty much a normal year, a normal expectation. Some of the businesses that have more cyclical contract renewals like K-12, like Corrections will have their normal cadence. And those are the ones that are really impacted and have different impact items -- or different cadences year-over-year. I would say, we're very well positioned this year from a retention perspective. Last year, going into the year, we had Arizona State was our largest Higher Education contract. It was going out for bid for the first time in over 20 years because the State of Arizona dictated that it needed to. We retained that business and grew it. So that was a very exciting result. But I would characterize '26 as kind of a normal year, really no high-impact items one way or the other. So we continue to be focused on delivering at a very high level from a retention perspective.

Joshua Chan: And then I think, Jim, you talked a little bit about the impact in Q1 from the calendar shift. I guess does Q1 not also have the Major League Baseball dynamic as well? And maybe could you just kind of put a finer point on whether that will have a material impact also on the growth rate, just so that everybody can be baselining off of the right numbers?

James Tarangelo: Josh, you're correct, there's less. You only had the Phillies advanced to less playoff games in '26 versus '25 Q1. But having said that, the overall strong retention and net new coming to the year should offset that. So I would say, more of a normal cadence aside from that. So a little downward pressure from playoffs, but offset by other areas of growth in the business. So the main factor I would say in Q1 is just simply the calendar shift.

Operator: Our next question comes from Stephanie Moore with Jefferies.

Stephanie Benjamin Moore: Maybe touching on a more of a higher-level question. I'd love to get your thoughts as you look at -- reflect back on fiscal '25 and you look towards fiscal '26. Just what you're seeing from an overall in-sourcing versus outsourcing trend, how '25 compared to maybe prior years? And then in the same vein, if you could touch on just the competitive landscape, especially given maybe some more changes with one of your competitors as of late.

John Zillmer: Yes, I would say the level of first-time outsourcing continues to be in an elevated state. And in particular, for us this year, the single biggest impact item was the Penn contract and the fact that they were moving to first-time outsourcing in a number of those operations. But we continue to see elevated outsourcing in a number of the segments, in particular, Higher Education, particularly in their sports side and university athletic departments really seriously considering outsourcing as a strategic alternative, particularly as they cope with the realities of the NIL environment and their need for funding. So I continue to see a very, very strong marketplace, a very strong opportunity set, if you will, across a range of sectors. It's not limited to just one; it's in multiple sectors where that first-time outsourcing continues. And we're enjoying very significant success. As an organization, we have grown our share this year. We've had a very significant performance against self-op and against our competitors as well. And we just focus on those opportunities one at a time. We believe we focus on the strength of our operations and on our client relationships and we sell from a position of quality and consistency and program. And we've been very successful doing that against all elements of the market. So we're very pleased with our overall results, but we are striving to do better day in and day out, and we'll continue to compete aggressively on quality and capability and client relationship. And that's how we win.

Operator: I'm not showing any further questions at this time. I'd like to turn the call back over to Mr. Zillmer for closing remarks.

John Zillmer: So again, thank you all for your support of the organization. We're very pleased with the overall performance, most especially with the net new and with retention this year. Really very strong finish to the year. We're very excited about our prospects for 2026 and the future ahead for the company and for our shareholders. Thank you.

Operator: Thank you for participating. This does conclude today's conference call. You may now disconnect, and have a wonderful day.