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EDITED TRANSCRIPT

EXHO.PA - Full Year 2026 Sodexo SA Earnings Call

EVENT DATE/TIME: OCTOBER 23, 2026 / 7:00AM GMT

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PRESENTATION

Operator

Good morning. Thank you for standing by, and welcome to Sodexo's fiscal 2026 results conference call. (Operator Instructions) I advise you that this conference is being recorded today on Friday, October 23, 2026.

At this time, I would like to hand the conference over to the Sodexo team. Please go ahead.

Juliette Klein - *Sodexo SA - Head of Investor Relations*

Good morning, everyone, and thank you for joining us for our fiscal 2026 earnings call. I'm Juliette Klein, Head of Investor Relations. With me today are Thierry Delaporte, our CEO; and Sebastien De Tramasure, our CFO, who will take you through the presentation. After that, we will open the line for questions. (Event Instructions) If you have any additional questions after the call, please don't hesitate to reach out to the IR team.

With that, I'll hand over to Thierry.

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Thank you, Juliette, and good morning, everyone. Thank you for joining us. Before we go through the numbers. So I'd like to step back for a moment on the year we have just completed. Fiscal 2026 was a year of diagnosis and reset.

What have we done? Over the past year, I've spent significant time with our teams and clients across our businesses. This has given me a clear view of the issues we need to address, but also of Sodexo's considerable strength, the quality and the commitment of our people, the depth of our client relationships and our expertise and our global reach.

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These are absolutely powerful assets, but our performance has not consistently reflected them. And that's the point. So over the year, we worked as a leadership team to turn the diagnosis into shift and growth, a clear action plan, which is now being deployed across the group. In July, at our investor update, we presented that plan to you its first phase covering fiscal '26 and '27 is about rebuilding our foundations and restoring our competitiveness.

Concretely, that means three things: one, restoring commercial momentum and improving execution discipline; second, simplifying our organization and reducing complexity; and third, investing in critical capabilities in our people and our systems. Three months on, the work is underway across the group. And I will come back shortly to some of the first concrete changes we have made. The transformation will take time. There is no doubt, but our teams are moving with urgency and we are where we expect it to be at this stage. That's what I would say today.

Our fiscal '26 results support this. We finished the year well with organic growth ahead of expectations. And today, we confirm our outlook for fiscal '27. Our priorities are very clear, and we are focused on delivering what we committed to.

Now let me turn to fiscal '26 in detail. As you can see, revenue was EUR24 billion with organic growth of plus 2%. This was above our latest guidance, reflecting a stronger-than-expected fourth quarter. The underlying operating margin was 3.4%, here at the upper end of our expected range. We also made progress on our commercial indicators, development reached 7.7% of revenue and client retention was 94.4%.

What I would say is the direction is encouraging, although retention remains below where we want to be, and we need to sustain the improvement over time. We maintain financial discipline through the reset. Free cash flow was EUR379 million. Leverage ended the year at 2.4 times better than the level of around 2.6 times anticipated in July at the time of the investor update. Sebastien will come back to these elements in more detail.

The proposed dividend of EUR1.74 per share is in line with our capital allocation policy. Our focus now is to improve, as I said, retention, execute our new contract mobilization well and continue raising side by sideexecution standards across the group.

Moving to Shift & Grow. Shift & Grow 2030. It's been three months since our investor update, as I said, we're moving forward as planned. And Shift & Grow 2030 is now being translated into concrete actions across the group. We know what we need to do, get closer to our clients be more competitive, faster in our decisions and more consistent in our execution. None of this is conceptually complicated. We know that, but it's demanding, and it requires disciplined execution every day contract by contract and site by site.

Now let me give you one example under each priority. On growth. The new account management model that we talked about back in July is in place for our top 200 clients. Each account now has one named owner, accountable for retention, for growth and financial performance. In North America, in the US, Education segment, I have absolutely seen that change first-hand.

The new leadership team has restored a level of focus and an intensity around retention that frankly, we have lost over time. They're getting closer to every critical account, mobilizing the right people, well ahead of renewal decisions. They've done systematic fresh-eyes review on all critical accounts at an accelerated pace.

It's still early, I know that, but we are beginning to see better outcomes on renewals. On simplification now, restructuring actions are underway in every region. In the US, each segment has removed between one and three organizational layers, bringing segment CEOs closer to frontline operations and shortening decision paths. The work continues. This is not, as you can imagine, a one time initiative. Simplification remains a core discipline and will continue to remove complexity wherever it slows execution or creates distance from our operations.

Finally, on performance culture, we have acted on the leadership review. Starting in North America. We have renewed around two-third of the leadership team and the level immediately below combining internal promotions on one side, we selected external hires. We have also extended the review across all levels from operational leaders to the senior leadership team in each segment, giving us a much clearer view of where we have strong talent and where capabilities need to be strengthened.

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I have been clear with our leaders, performance must be differentiated and decisions on roles, progression and reward must reflect results. Technology supports all three priorities in fiscal '26, our focus was on making the right choices before scaling investments. We introduced much stricter go/no-go discipline and concentrated resources on the core systems and data capabilities that matter most to our competitiveness. Deployment will accelerate from fiscal '27, in line with the road map presented in July. What matters now, of course, is to keep the pace and make these changes stick across every business. This is a real transformation of the company, and it requires a lot of work.

Now fiscal '27 remains the second year of the rebuilding it's own logistics fleet phase. We'll continue to strengthen capabilities simplify the organization and raise execution standards. The benefits should build progressively with a more visible acceleration from fiscal '28. The actions I just described are the core of Shift & Grow. We are complementing them with targeted portfolio moves, each with a clear strategic rationale. For Entegra, the objective is to build greater procurement scale and expertise.

This is an important engine of competitiveness and profitability for our own operations as well as a growth platform with third-party clients. Cadhi and prestige purchasing strengthened that platform in Europe. In Food services, Europe is a region where Sodexo has deep roots but where our positions are uneven. So Menu 2000 is a great example of the type of bolt-on we are looking for.

Germany is a priority market, where we want to regain ground and particularly in the Corporate segment. Menu 2000 brings an established position with SMEs as well as a proven operating model built around the central production unit, it's all logistics fleet and strong culinary expertise. Menu 2000 will retain its independent structure. That's for sure. We will preserve the local expertise and the client proximity behind its success. But we'll use Sodexo scale selectively where it creates value. This limits complexity and management distraction.

We are also actively managing the other side of the portfolio. In July, we sold active global in Asia, the remaining part of our former home care activities which we decided to exit in '23, if you remember, as it was not core to Sodexo.

Now let me be clear, M&A is not an objective in itself now. We already have a significant transformation underway. So we want to be careful about adding complexity. Our focus is on bolt-ons that support the organic plan and are manageable for the business. Any further transaction will need to meet that test and deliver the right returns.

Now I'll hand over to Sebastien to take you through the financial performance. Over to you, Sebastien.

Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

Thank you, Thierry, and good morning, everyone. So revenuewas close to EUR24 billion. Organic growth was 2% with a stronger fourth quarter at 2.6%. Looking at the full bridge -- full year bridge, pricing contributed approximately 2.4%, like-for-like volumes around 0.6%, and net new business was around minus 0.3%. And the North American contract reclassification reduced group growth by around 70 basis points over the year.

The stronger fourth quarter reflected strong activity at Sodexo Live! in Australia and Latin America and additional client projects in Europe. Some of the downside risks, included in our forecast also did not materialize. So it was a better finish to the year, but this is not the starting run rate for fiscal year '27. In the first quarter, we will face the timing of contract exits and openings.

Meta is also still ramping up. We'll also continue to carry headwinds of around 100 basis points from the North American contract reclassification, broadly in line with Q4. And this impact will drop out in January. We, therefore, expect growth to start below the full year range of our guidance and build progressively through the year.

Turning to margin. Underlying operating profit was EUR810 million, and the margin was 3.4%, down 130 basis points. The bridge had three main components. First, around 50 basis points related to the review of the contracts and assets, these covered areas such as bad debt, litigation on onerous contracts and decisions to rationalize certain assets and facilities. The review was largely completed in the first half

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when most of the contract related provisions were recognized. The second half impact was more limited with no new broad category of risk identified.

Our fiscal '27 outlook does not assume a repeat of the charge, although we'll continue to assess contracts and risk with the same level of rigor. Second, higher operating expenses for commercial capabilities, supply chain and technology, reduced the margin by around 30 basis points. The impact was broadly evenly split across the three areas. And as planned, spending increased in the second half as deployments accelerated. On commercial capabilities, we said in July that the investment will represent around EUR100 million of incremental annual operating costs, once fully deployed.

Fiscal '26 included only a partial impact as hiring took place progressively during the year. Spending will build further in fiscal '27 as these hires annualize and the remaining roles are filed. Technology programs were also still at an early stage and the EUR500 million to EUR600 million planned for technology and data is a cumulative investment through fiscal 2030, and most of it remains to be deployed. Investment will accelerate from fiscal '27, in line with the phasing presented in July.

The third and final component around 50 basis points came from operations. This reflects underperformance across parts of the portfolio, it also includes a tougher comparison in the second half as the prior year period benefited from a nonrecurring indirect tax item in rest of the world. And improving operational performance is our major priority as we become more competitive commercially rigorous execution is critical to protect contract economics.

Let me briefly close the operating review with the regional performance. In North America, organic growth was minus 1% for the year, with a trend that improved in the second half as the impact of prior contract exits started to fade. Organic growth was broadly flat in the second half, including a headwind of around 220 basis points from the contract reclassification. And for fiscal '27, we expect North America to return to positive organic growth. Europe grew organically by 2.1%, while Rest of the World delivered a particularly strong 9.7% organic growth.

On margin, North America recorded the largest decline and reflecting the three factors I've just discussed. And in Europe, the decrease mainly reflected charges from the contract and asset review. And in the Rest of the World, the decline was more pronounced in the second half and this largely reflected a tougher comparison, as I just mentioned, together with accelerated transformation investment including the ERP pilot in India. And you will find the detailed Q4 performance and the full breakdown by segment and region in the appendix. So that covers the operating performance.

Moving below underlying operating profit. Other operating income and expenses represented a net expense of EUR290 million, the largest component was EUR216 million of restructuring costs linked to organizational simplification, workforce transformation and the expansion of shared services. And these costs were partly offset by the disposal gain on Active Global. The restructuring charge was higher than discussed in July, mainly because of the provisions related to the reorganization project announced in France this summer were recognized earlier than initially expected. This changes the timing of recognition, but not the overall size of the program.

For fiscal '27, we expect other operating income and expenses to represent a net expense of around EUR240 million including approximately EUR190 million of restructuring costs. And together with EUR216 million recognized in fiscal '26, this keeps the cumulative restructuring charges in line with the EUR400 million envelope we announced in July. The cash profile of restructuring cost is more gradual. Cash outflows were around EUR100 million in fiscal '26. And at this stage, we expect most of the remaining cash impact in fiscal '27 with a residual amount in fiscal '28.

Net financial expense increased from EUR88 million to EUR137 million. This is mainly due to the full year impact of the US dollar bond issued in May 2025. And for fiscal '27, we expect around EUR190 million, reflecting the EUR1.1 billion bond issuance completed in September and fewer favorable one-off financial items compared to fiscal '26. The effective tax rate was 23.4%, below the level of around 26% we had expected. Mainly due to the geographic profit mix, including the active global disposal gain in Singapore. And group net profit was EUR304 million, and underlying net profit was EUR508 million.

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Now turning to cash. Operating cash flow was EUR1.1 billion, and free cash flow was positive at EUR379 million. Working capital contributed EUR75 million, supported by strong collections together with favorable timing and one-off effects. On a more normalized basis, we continue to expect working capital to be broadly neutral. Net capital expenditure was EUR604 million or 2.5% of revenue reflecting higher investment in contract renewal and new business. And across the cycle, we continue to expect capital expenditure of between 2.5% and 3% of revenue mainly driven by contract-related investment at site, at client sites and to a lesser extent, technology.

Net debt ended the year at EUR2.9 billion and leverage was 2.4 times. This was slightly better than the level of around 2.6 times discussed in July. Reflecting the stronger EBITDA outcome and better working capital and the disposal of Active Global. And for fiscal '27, we continue to expect leverage of between 2.6 and 2.8 times reflecting continued investment in the business and higher restructuring cash outflows before deleveraging from fiscal 2028.

Thierry, back to you for the outlook.

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Thank you, Sebastien. So for fiscal '27, we continue to expect organic growth of between plus 2% and plus 3% and underlying operating margin broadly in line with 3.4% achieved in fiscal '26. Fiscal '27, as we said, is the second year of our rebuilding phase. As Sebastien explained very well. We expect growth to start below the full year range and then improve progressively. Our priorities are to improve retention convert the pipeline that is building up and execute the ramp-up of meta, but also our other new contracts.

On margin, the new recurrence of the -- the nonrecurrence, sorry, of the review charges and the first benefits from workforce, but also procurement actions will provide support. This will be broadly offset by the further step-up in commercial, in technology and supply chain operating expenses, together with start-up costs on new contracts. This is why we expect the margin to remain broadly stable in fiscal '27.

Now regarding our fiscal 2030 ambitions, they remain unchanged. And organic growth above 5%, net new business above 3% and underlying operating margin above 5%. What I'd say to conclude is this is a demanding transformation but the levers are largely within our control, and we have strong assets to build on. So confidence will come from results. Our job now is to continue to execute with discipline and deliver tangible progress quarter-after-quarter.

With that, Sebastien and I are now happy to take your questions. Over to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Leo Carrington, Citi.

Leo Carrington - *Citi Infrastructure Investments LLC - Analyst*

Firstly, could I just ask on retention delivered, I think, 94.4% this year. Is this something you can build further on in FY27 will be initiatives you've mentioned around retention come to fruition already this year?

And then secondly, I guess, adjacent comment, but could you elaborate on the comments about your improvements in the Education segment in North America? How is the turnaround going in some of the other historically more challenged areas of the business like North America health care. And together, Education and Health care is FY27 too early to see an improvement in these segments.

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Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Okay. So I'll take it, Leo. Thank you for those two questions. I'll try to cover them.

So first, on the retention, 94.4% if you look back -- two comments on retention at 94.4%. On one hand, it's an improvement from the previous year. It's slightly an improvement from the previous year. It's actually -- if you go back 10 years in time it's actually 15 years in time, it's the third best performance. So it's actually from that standpoint in Sodexo, it's a reasonably encouraging result. If you are comparing with our competitors, it's significantly below.

So what I mean by that is two things. One, it's an absolute priority or focus for us. And second, it would be foolish to assume that can be easily fixed. It's a structural and deep challenge for us, okay? So that's the starting point. If I look at '26 itself, there has been a pattern, okay? So I would say in some -- first, in some of the countries, the retention has been good. So it's not across the board. We have some who are not doing as well as others. So we know where to focus our attention.

One, for example, was you mentioned it, and we mentioned it as well is education in America. We've seen also a pattern in the way we've slowly improved over the year retention. But again, retention is -- I think we're very clear on what we need to do on how we will improve the retention. Now we are being careful, I guess, in the way we are setting objectives for ourselves quarter after quarter because this is a long-term trend that we are looking for here more than anything else. So expectation for '27 ambition, obviously, is to do better.

Now we'll see, okay? So far, so good. It's only the beginning of the year. It's a time of mobilization. On the Education itself. So what have we done? The team has done an incredible -- so first of all, most of the leadership of the education team is being renewed over the last 12 months. We have great leaders that have joined they broaden talent with them. We have also promoted talent from within to reinject energy and client attention and focus.

It's all about being present with clients every day. It's all about being visiting them. There has been a fabulous, I must say, fabulous mobilization from the leadership and the team in a kind of I do not want to use the word war anymore in this context. But retention mobilization, if you like, very specially in education where it's been about going to clients, accelerating massively the pace of the fresh eyes report. I don't know how much you know it. But typically, what we are doing is we are driving regular in-depth interviews of a lot of the stakeholders and our clients seeking feedback on which we have to act on.

So in a lot of the -- in most of the segments in America, this process was largely discontinued over the last years. So we have relaunched it and with fast pace so that we know where to focus our attention and immediately act on the actions. Because what's key Leo for us in retention is: One, get the feedback from the clients, step one; second, understand and turn it into an action for us and then execute, and that is obviously, not something -- so it's not like you need to do it only three months before the renewal. It's throughout the life of a contract with our client.

So trust me, mobilization everywhere in the world, highly intense in America and in particular, I took the example of Education. But I know that it's the case as well in health care and in corporate across the board.

Leo Carrington - *Citi Infrastructure Investments LLC - Analyst*

That's very helpful. Could I just ask a follow-up? I mean extra detail. In terms of the leadership for North America at a high level, how close to appointing a permanent leader or are you now finding it very helpful to extend the current arrangement?

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

I'm very happy with the way it works today. This is, I repeat, this is a business where each of the leaders today in America manage a business of EUR2 billion to EUR4 billion, which is the size of the other regions we manage around the world. So I'm very happy with the way it works.

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I myself spent 50% of my time in America, supporting them the most I can and certainly driving alignment across the board, but they run their business. And they don't need additional layer. That's the way I feel today. Things may change, and I'll keep you posted on whenever it is the case. But that's how it works today and it's working great.

Operator

Jamie Rollo, Morgan Stanley.

Jamie Rollo - *Morgan Stanley - Analyst*

Yeah, two questions. First of all, on the better development of 7.7% and retention 94.4% that obviously implies net new of around 2% at a full annualized run rate. I'm really wondering what you're embedding in the 2027, 2% to 3% organic sales growth guidance on net new and also your pricing and volume assumptions within that?

And then secondly, just back on the phasing of organic sales. You've obviously reminded us about the 100 basis points accounting headwind continuing through Q1. And it sounds like net new will be skewed to the second half. Except for those 2 points, do you see a similar profile during the year on OSG? And are you seeing anything at the moment from the protests in France?

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

So I'll make a couple of points, and Sebastien will provide more details on the sequencing pricing and volume. Okay. So a couple of points, Jamie. One, development and retention. First, keep in mind that in 7.7% developement, there is a significant ramp-up between Q1 and Q4 of '26, okay? And even excluding Meta, we've seen an acceleration of our development in the second half of the year, and that's the encouraging part. It's not only an increase of the pipeline. It's also an increase of the contract signed. The retention, I covered it, so I think I don't need to get back to that.

I'll let Sebastien reflect on it. What I would say is on the philosophy of the way we've built our guidance for '27 is that, we continue to push hard on development, and we are expecting retention to improve. But at the same time, we know that I'm being personally in the way we are looking at the projection with Sebastien, we always take a little bit of care with the way we look at retention because, as I said in my previous point, although nothing lead us to believe that, that could go worse, it's something that you need to win every single day. So a little bit of caution here. Just before I let you -- you want to cover the phasing first and then I'll go back to the process in France? You -- go ahead.

Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

So to your question, Jamie, on the guidance for fiscal year '27, what's embedded in the 2% to 3% guidance. So we factor a minimum price increase of 2%. Then in terms of net new, we are expecting a contribution between 0.5% and 1%. And this will be largely driven by Meta. For the like-for-like volume, it's I would say, neutral, neutral to maybe slightly positive.

And the remaining impact is the impact of the reclassification of the large contracts. This will impact. If you look at the fiscal 27-year around 30 to 35 basis points for the year, but it will impact 100 basis points for Q1. And then if we look at the trend over the year, we do expect a slow start in Q1 and organic growth are expected -- is expected below the range. and then this will progressively improve over the year with the ramp-up of the impact of the net new.

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Then on the -- so thanks, Sebastien. On the protest in France, so first of all, one, obviously, as you can imagine, we are we are paying attention to it. We keep an eye on it. We are headquartered in France. And so the sooner the situation stabilize the better. Now having said

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that, first, for us, France, it's 12% of our business, okay? So it's not more than that. Second, our business in the high schools and where the protest are when it's not in the street is a, I would say, a modest size of our business. So it's not a significant at group level.

What I would say, overall, Jamie, is that, we're not seeing, I would say, material impact. We are a global group. We have presence around the world. We are obviously, looking at everything happening in one place and another in the third, and we know that we are in a world where it's not always stable everywhere. But so far, so good. Now of course, indirectly it's never good for an economy. But so far, no visible impact in terms of performance, Jamie.

Jamie Rollo - *Morgan Stanley - Analyst*

Can I just come back on the pricing, 2% looks very conservative, given you did 2.4% last year and inflation is going up, not down. And also the net new half to 1%, doesn't that feel a bit light given your sort of KPI suggests more like 2%?

Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

So to your second question or second remark. So clearly, what we said that there is a phasing impact between the impact of the demobilization and the ramp-up of the new contract. And if you look at the retention from fiscal year '26, especially in Education in North America, in Europe, this will start impacting from September, beginning of Q1, while again, mobilization and openings will be more progressive over the year.

And on pricing, as you know, our pricing is a blended rate, first of all, between food cost and labor as well. Also, we are managing our internal inflation and our internal inflation in food is better, I would say, it's lower than the external inflation. So -- but on that, even if we do expect some inflationary pressure during the year, more in the second half than in the first half of the year. And because of this combination, again, of procurement mitigation and pricing on that basis, I still confirm our guidance above 2% pricing impact for the year. This remains an appropriate assumption at this stage.

Operator

Simon LeChipre, Jefferies.

Simon Lechipre - *Jefferies LLC - Analyst*

First of all, coming back on Q1 --

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Simon, we don't hear you too well.

Juliette Klein - *Sodexo SA - Head of Investor Relations*

Can you speak louder? We can't hear you well.

Simon Lechipre - *Jefferies LLC - Analyst*

Can you hear me better now?

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Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Yeah, much better.

Simon Lechipre - *Jefferies LLC - Analyst*

Sorry. So two questions and the first one coming back on the Q1 organic growth outlook. So it seems that you expect net new wins to be negative in the quarter. So when do you expect net new in the period to turn positive? And do you expect, what do you expect for volume in Q1?

And secondly, in terms of the margin outlook, any phasing to expect between H1 and H2?

Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

So coming back to the forecast for Q1 organic growth -- as I said, we are expecting the ramp-up of net new during the year. Simon, so what we need to keep in mind is that the business mix between Q1 fiscal year '27 compared to Q4, it's very different because the weight of education is much stronger, and we do expect a negative organic growth in Q1 in education at the opposite the weight of Sodexo Live! is lower in Q1 versus very strong performance and strong rate in Q4, and we don't expect Sodexo Live! remain at a double-digit organic growth at the start of the year. So this is clearly also explain why when we look out number for Q1, we are expecting an organic growth to the start of the year, slightly below the overall range of our guidance for fiscal year '27.

And then on your second question is on the margin outlook, phasing between H1 and H2. So clearly here, what we see overall is that it should be -- if you look at the year-over-year, it should be broadly in line in terms of evolution comparison from fiscal year '27 and fiscal year '26, even if H1 margin could be slightly softer than fiscal year 2026. And H2 margin for fiscal year '27 might be slightly stronger because we start really getting the benefit of all the actions, especially the restructuring on the workforce.

Simon Lechipre - *Jefferies LLC - Analyst*

Okay. So a very quick follow-up on -- coming back on net new, do you expect net new in the quarter -- in the period to turn positive as of Q2 or only as of Q3?

Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

Honestly, Will not give answer on really the bridge of each driver by quarter. But I think what's very important is we do expect this improvement of the net new impact over the year.

Operator

Estelle Weingrod, JPMorgan.

Estelle Weingrod - *JPMorgan Chase & Co. - Analyst*

Two questions. The first one is on the GPO Entegra. I mean it's a big part of the equation in the turnaround story. You presented the situation at the CMD in July and what needs to be done. My question is how will we be able to assess progress what are the key KPIs to track and will you present them to us.

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And just another question for you, Thierry. I mean now that you've been here for a year as a year what is one major initiative or change that is facing more friction than you initially anticipated?

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

I'm reflecting on your question to what I can tell you is still on the question -- I'll come back to the question one. But on the point number two is one thing that I found very interesting is that in fact, across the organization, everybody wants to win. And so the fact that we have mobilized Sodexo through Shift & Grow in a growth mindset. People love it. So I think the to drive the energy that is being pulled through by everybody, the mobilization, the alignment around the strategy is working well.

The -- but we know that we will never win on strategy. We know that we will win on execution. And so it's all about execution every single day, Estelle. So it's not -- there's no specific friction and at the same time, a normal attention to execution every day, which is tough. It's demanding and everywhere, people are working hard. So that's what I would tell you, honestly. For the rest, Shift & Grow is well understood. People are aware. They know it, they embrace it, they're aligned. Leaders are mobilized. And so I'm positively I'm positive about the situation where we stand.

On your first question, which is the Entegra, you're right. It's a very important, it's a strategic part of our business. I've had the opportunity to say it first of all, we've presented the plan around Entegra and supply and the way we were aligning both Entegra and supply to really build an ambitious GPO serving the market but also Sodexo, leveraging scale on both sides, as being presented to the investor update has been, obviously, we have an action plan, and it's executing in the field every day. It takes a bit of time to roll it out because it's -- there's some it's a real transformation for the organization itself, but I think it's going well.

Sebastien, my neighbor here and I, we are doing reviews of the Entegra supply integration program every month, obviously, to track the performance, but also what the program we call convergence, right, that we've actually reviewed literally a few days ago, and we have a set of KPIs.

Now I'm not going to tell you, Estelle, we're not going to share all KPIs, but certainly we do. And at some point in time, we'll provide you with some update on how things are progressing. It's a strong engine. I'm pretty happy with the way it's progressing. The second thing I would say, Estelle, is that we have developed a program, transformation program called TOM, which defines our operating model and align our supply machine to this operating model.

And that is also with savings associated with it, which are reflected in Shift & Grow projection. And let's face it. we will need the deliverables of Entegra to deliver our ambition for Shift & Grow 2030. It's on track so far so good. We'll keep you posted sometimes.

Operator

Pravin Gondhale, Barclays.

Pravin Gondhale - *Barclays Services Corp - Equity Analyst*

Firstly, on FY27 margin guidance, similar to slide number 10 in the presentation deck. Could you please quantify the bridge to the broadly flat margin year on year? So between the operational recovery recurring investments and the other buckets on the slide.

And then secondly, on the leverage. Leverage ended at FY26 slightly better than what you had anticipated previously. Does that -- does the additional headroom change your priorities between reinvestment, bolt-on M&A and further deleveraging?

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Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

I think that's for you, Sebastien.

Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

Yeah. So on the first topic on the first question on the margin. So clearly, guidance is to have a fiscal year '27 margin broadly in line with '26. It means around 3.4% for fiscal year '27. And then if you look at the different buckets, so we are not expecting any large review and contract assets done already, okay? So we will continue again what we said that we'll continue to apply our framework, our rigorous framework looking at contract and assets, but we do not expect any significant impact on this bucket.

Then as we said, we'll have clearly the impact of the acceleration of the investment. So clearly, this impacts the margin, fiscal year 2027 will be a year of investment with deployment on the commercial investment on technology and on supply. And then you will have the positive impact because we are not expecting any way a negative impact coming from the review of contracts and assets, but we get the positive impact because. So this will neutralize the impact of the investment.

And on the operation, on the last bucket, we will have a combination of different impact. We'll have some early benefit of the initiative. But also, we'll have also the impact of the new contract mobilization. We have some initial cost on the mobilization. And also we had the impact of our commercial aggressiveness, I would say, price to win that impacts also the margin in fiscal year '27.

And then on to your second question on the leverage. So as I said in July, so we do expect leverage between 2.6x and 2.8x (corrected by company after the call). And there is no -- at this stage, there is no expected change regarding our M&As. I mean we are talking really about modest transactions, bold-on M&A, as Thierry said. And we're also working on the asset disposal and some arbitrage when we look at our portfolio of assets.

Operator

Neil Tyler, Rothschild & Co Redburn.

Neil Tyler - *Redburn Partners LLP - Analyst*

I just wanted to come back to the delayering and ask for a bit more of your insights on how you're ensuring that you don't lose expertise or damage client relationships. I'm sure you've thought about this very carefully, but I wonder if you could sort of share your thoughts and experience on that particular topic?

And then Secondly, can you help us understand maybe in terms of either organic growth or net new, the different dynamics over the next 12 and 24 months between Food and FM, please?

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Okay. Thanks, Neil. So I'll take the first. It's a good question. For sure, you're absolutely right. The delayering sounds like a great idea, but you need to make sure that you're not losing talent. And certainly, what's our obsession the right connect with our clients, okay?

So what mean -- what has driven the work has been A couple of points. One is the -- what we call the spans of control okay. So typically, first, what did we do is, first, we looked at how many layers exist between the youngest member of the team. and the CEO of a business, right? And we just build up the tree all the way back up and say, okay, John reports to Susan and Susan reports to -- and that's how we did that. And then we started to look at okay.

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What's everyone's role here, right? So one is connected with the client, engage with the client and work on delivering services to the client than above, what are the roles versus layers of aggregation. And that's how we started to define the roles that matter versus the one that we feel are being just aggregation and that can be simplified because then span of control comes into play.

If you are a manager and you're managing to individuals, then maybe you should run more than two individuals if you're a good manager. And that's where we started to rationalize organizations, unit-by-unit and started to remove layers. The efficiency of such decision is incredibly important, not only in terms of cost but also in terms of operational, yes, efficiency and productivity, ability to make decisions about ability to get messages across all of that is dependent on the number of layers. So that's how we drove it for sure to make sure that we are not losing expertise.

Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

And to your second question on the organic growth. So if we look at fiscal year 2026, the organic growth in Facility Management was higher than in the Food. We ended the year at 2.9% organic growth in Facility Management and 1.6% in Food. And if we look forward next 12 months, we do expect higher -- I would say, higher organic growth in Food, mainly driven by the ramp-up of the contract of Meta. And then the overall also will depend on volume and on the commercial activities. But definitely, Meta will be a key driver of the organic growth of this.

Operator

Jaafar Mestari, BNP Paribas.

Jaafar Mestari - *Exane Bnp Paribas - Analyst*

I have two, please. So firstly, on the contracts and assets review now that you've completed it. I think the total noncash charges have reached EUR120 million. Could you confirm that it's mostly complete? And are you able to tell us now what's the total revenue attached to these contracts for which you've had to take provisions?

And then secondly, on assessing the organic growth from here and you make very fair points that 2.6%, which is the Q4 exit rate, if you want, it really shouldn't be the starting point because of the mix. I've done exactly that. I've taken your organic growth by segment in Q4 and I've re-weighted it for the revenue business mix of a normal Q1 and what it spits out is 1.5%.

So is that the starting point for Q1? That's still with slightly positive net new business in the last month of the year. You seem to be saying this more losses that will incrementally hit us before some of the wins start ramping up. So really trying to zero it on Q1. Is it 1.5% with downside, please?

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Yeah. Okay. So I'll take at the beginning, Jaafar. I think on the first point, your -- the contract and asset review. As we said, the best part of the work was done back in April, was it April? -- in March -- back in March, I guess, back in March a couple of adjustments, but I would say this is -- now we are back to business as usual, okay?

It's not the same. There was a need for this review. Now it's just ongoing process where we review the level of risks every quarter and take actions based on this. But this is not in a context of a discontinued process, if you know. It's just back to no more disciplined in the process. The total revenue related to these contracts, I cannot tell you the amount, but it's not significant.

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Interestingly enough, Jaafar, those risks were not coming from the largest account or the largest contract necessarily. Sometimes those are the ones that are smaller in size where we've had not enough attention to it. So all I can tell you is this is possibly less of the total revenue that's what you would have in mind, I guess.

For the second one, you take it, Sebastien?

Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

Yeah. So again, as I said, I don't think that really the performance of Q4 is really a good proxy for the forecast of Q1. Probably better to look at Q3 and the mix by segment. So we -- for Q1, we do -- we don't especially expect a negative net new contribution in Q1. As I mentioned before, it would be a progressive ramp up during the year. And as I mentioned, you have the phasing of the openings and the closings.

That means thisphasing is less supportive than in Q4. And Q4 benefited by, again, as we said, some events in Live. But overall, if you look at the trend, again, by region, by segment, as I said, we should be Q1 organic growth should be slightly below the range of the year.

Operator

Kate Xiao, Bank of America.

Kate Xiao - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

First, I wanted to clarify on net financial expenses. Obviously, you've guided that to go up a bit in '27. If you look at a slide 21 of your deck, there is EUR800 million of bonds maturing in April 2027. I just want to confirm if the maturity and refinancing of these is already part of the guide?

Second question on capital allocation, Thierry, on slide 7. You mentioned deals you've done. There's a couple that was completed in early '27. I just wonder whether you could give a bit of color of what's in the pipeline? What are you looking at in terms of M&A in '27 and some of these deals?

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Okay. So all I can say -- maybe I can take the one on M&A?

Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

And then we'll tell you one on the financing.

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Okay. So on M&A, I don't think you should expect anything material, as we said. We are doing bolt-ons within the budget that we give ourselves in a given year. We are being consciously carefully the way we are going after M&A not by condition, but more just by the fact that this is part of the way we've structured Shift & Grow 2030, where we are saying '26, '27 is about structural transformation and therefore, more focusing on our back-to-basics and on our improvements and discipline. So M&As, specific bolt-on tuck-ins when justified in a given market but nothing of material to be expected for the foreseeable future.

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Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

Okay. And to your first question, yes, as we raised EUR1.1 billion in September. And this was really the anticipation of the repayment of the EUR800 million bond that will mature in April. So the cost of that is fully embedded in our guidance of EUR190 million in terms of financial expense for fiscal year '27.

Operator

Jarrod Castle, UBS.

Jarrod Castle - *UBS AG - Analyst*

Just the first question, I mean you spoke about 0.5% to 1% net new of which META a big chunk of it. I'm just wondering, when you're looking at your pipeline on a gross level, which industry segments are healthy, which industry segments in terms of bids may be less healthy or are you less focused on?

And then second question, Thierry, you spoke about kind of employees being very motivated, et cetera. Have you done any internal surveys in terms of the employee mood, especially at the head office given restructuring and any points you'd like to pull out if you have in terms of culture, motivation, et cetera?

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

So Jarrod, thanks for the two questions. So the first one, so the pipeline, right? Your first question is around the pipeline. We have a, I believe, today, I'm scanning through my head. I believe pretty much every single of our segments are showing pipeline increase, okay? By virtue of extreme focus on building it up being proactive. I think we've seen it, now what are the ones that are the strongest? We have an increased volume of pipeline from large accounts in the corporate world, okay? We have a strong pipeline building up in the health care world.

And I would say also strong in the sports and leisure world. So I think it's, frankly, looking at the pipeline opportunities are here significant acceleration. But again, you will notice my caution. It's great pipeline, you want to turn it into deals. That's what we are working on. The point number two, which is about the question of the motivation of the employees and surveys and so on. For sure, we are doing survey, we are doing survey regularly, for example, in the context of Shift and Growth to make sure that our managers understand and feel part of Shift & Grow but also just to make sure that they are aligned and are completely on board with what we are doing.

Now, in a few hours from now, I will have a call with our -- this is a forum of several hundred leaders across the organization where I will share with them everything we discuss now. And we do that regularly. So we have constant interaction. We have also surveys and feedback for sure. We are very aware that whenever we have difficult discussions or moments that are not easy to handle, like some restructuring activities going on in some countries.

And we are handling it with the best care and the best attention to most sense of respect for sure, and that's the Sodexo way of handling things. But I feel that the level of motivation is certainly high and the energy and the confidence in the future is really comforting at the moment at Sodexo.

Operator

Johanna Jourdain, ODDO BHF.

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Johanna Jourdain - *Oddo BHF SCA - Analyst*

So regarding the Meta contract ramp-up given its size and the fact that it's relatively new area. Have you identified any specific execution risk in delivering the required services quality? And when should the contract reach normalized margin?

And the second question, and more generally, could you please share any comments on your pipeline in the data center space?

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Okay. So the first one is Meta. We started, I believe, the transition sometimes in June time frame, I believe. I need a transition that takes several weeks and months. So we are still in the middle of it. It involves many, many, many little projects, if you like. We have 130 sites across 30 countries. So there's thousands and thousands of people involved every day. We obviously, as you can imagine, we have a I would say, SteerCo at group level, and we're exchanging with the Meta team regularly to stay focused and aware of where we are.

And we have the direct connection with the with the executive of Meta as well to make sure that whenever there is a need, they can reach out to us and my cell phone in particular. So far, so good. We are progressing well. it's still early stage, but it's progressing, frankly, well. So I would say, positive when contracts should normalize margin, Sebastien?

Sebastien de Tramasure - *Sodexo SA - Group Chief Financial Officer, Member of the Executive Committee*

During the second half of the year, yes.

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

And then for the -- or the question on the pipeline in data centers. Yes, we have -- so what we've done on this -- in this field. So first of all, data centers, we already work with some of our clients around data centers in several of our countries, in particular in America, for sure. There is a growing pipeline, that's for sure. And we have also built our own offering around data center or solution, it's called Sodexo H that we are deploying around the world. What we are doing here, Johanna, is that we are leveraging two things.

One, our very, very deep expertise in the remote site management, right? The fact that we are managing and we've been managing for decades remote sites, whether it's in the mining, in the oil industries. And they are very much relevant in the phase of construction of the data centers. And of course, we are leveraging our second asset, which is the strength of our portfolio of clients in the tech industry. Obviously, one client, you know the name.

We just mentioned it. There's others with whom we are working. So we are expanding. We've built a specific team to go after this market of data centers. We today operate north of 100 data centers, but the potential of growth is significant. So we own it. We'll keep you posted as we grow as well.

Operator

Gentlemen, that was the last question. I turn the conference back to you for any closing remarks.

Thierry Delaporte - *Sodexo SA - Group Chief Executive Officer, President, North America, Member of the Executive Committee*

Of course, Okay. Thank you. So thank you, everyone, for your questions. We have -- as you have seen, we have a clear plan. We have -- the actions are underway across the group. What really matters and believe me, this is an absolute paranoid obsession on our side, focused

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on disciplined execution and turning these actions into results. That's our focus for fiscal '27 for sure. And we look forward to updating you as the year progresses. Thank you for joining us. Have a great day.

Operator

Thank you, ladies and gentlemen. Thank you for joining the conference is now over, and you may disconnect your telephones.

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