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PRESENTATION

Operator

Good morning. Thank you for standing by and welcome to Sodexo H1 fiscal year 2026, results conference call. (Operator Instructions). I advise you that this conference is being recorded today on Friday, April 10, 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 H1 fiscal 2026 Results Call. I'm Juliette Klein, Head of Investor Relations. With me on the call today are Thierry Delaporte, our CEO; and Sebastien De Tramasure, our CFO. Thierry will start by sharing his assessment and key messages, followed by Sebastien, who will cover the financials.

After that, we will open the line for questions. As usual, we'll ask you to please limit yourself to two questions and one follow-up. If you have additional questions after the call, please don't hesitate to reach out to the IR team. With that, I'll now hand over to Thierry.

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

Thank you, Juliette. Good morning, everyone, and thank you for joining the call. This is my first earnings call as CEO of Sodexo. I'm very pleased to be speaking with you today. What I'll do is I'll share my perspective on where the company stands today, what we are already doing but also the priorities we are setting.

We are preparing a more comprehensive update for July 16. Based on our current assessment of the business and the actions we are implementing, there are also some near-term financial considerations. So I want to provide context on how this shapes our outlook for 2026.

Over the last five months, I've spent most of my time in the field with clients, with teams in operations and with our partners. I've been traveling across the US where I'm spending half of my time but also in Asia, in Europe. I joined Sodexo because I'm genuinely attracted to this business.

I know B2B, people-intensive service as well. I know how much value can be created when execution, discipline and client focus come together. Sodexo, let me tell you, is a special company.

The quality of our people, the pride the take in serving clients every day and the expertise on the ground absolutely stands out. We often operate in an environment where reliability, quality, continuity are critical. So delivering this consistently every day and that our scale is no mean feat. The group was built by Pierre Bellon on a clear entrepreneurial ambition and a strong client mindset. I fully align to these foundations.

Our priority now is to bring them back to life everywhere. At the same time, this business is different from what I have known before. It's complex in a different way. It's operational, physical highly decentralized and diversified by nature. We have thousands of sites running every day in real time.

Disciplined execution and attention to every single detail make the difference. The real challenge, therefore, is driving rigor, discipline and consistent performance at scale. It's about how we lead, organize and execute. Too often, great people are held back by layers, processes and administration instead of being fully focused on clients.

So my conviction is clear, growth is the solution and growth comes from an obsession with clients on the ground every single day. It's earned contract by contract, site-by-site, by building trusted relationships and creating value at the client level. In our model, growth is not just an outcome. It's a catalyst. It drives operating leverage to support profitability enhancement.

It basically fuels the organization with energy, talent and confidence. So let me start with a balanced picture of Sodexo today, our strengths and the realities we need to address. We operate in resilient and growing markets with strong long-term growth drivers.

Demand for outsourced services in both food and facility management continues to expand. We also have a global and highly diversified client portfolio, as I said, across geographies, segments, services.

In many cases, we are the best partner to self-deliver and integrated proposition with one governance across multiple geographies. This strengthens client relationships and gives us additional levers to grow alongside them. Another key strength is our people-led service culture. Teams who care, who show up for clients every day, and we take pride in delivering. In a people-intensive business like ours, this is fundamental.

It's a foundation we will build on as we restore execution and growth. But we also have to face the facts. And the facts are we have consistently underperformed our market and our peers. We underinvested in key capabilities that are critical to run well this business at scale and build a repeatable model. We have not been consistent enough in deploying a best-in-class offer in execution and in the predictability of our delivery and guidance.

So what has held us back? The root cause is go back a long time, and there is no single fix. First, commercial intensity. We have not shown enough appetite to be not enough hunger to fight for clients to stay close to them, to truly understand their expectations, to anticipate and even surprise them. We have not been consistent enough in the way we drive growth and retention, winning, defending, expanding key accounts always with discipline and cadence.

Being a service business, you just can't review sales momentum once in a while and expect intensity to magically appear. It requires systematic follow-up and accountability and sharper engagement with clients. That is changing. Second, enpowerment and decisiveness. Decision rights, accountability have become diluted across layers.

The heavy structure is slowing you down, creates indifference and reduces the permission to act close to the clients and the operations. And third, the prioritization and focus, past organizational doses and too many parallel initiatives wasted attention and resources.

We were not consistently putting our people and capital towards the highest value priorities. Sometimes, short-term trade-offs prevailed over long-term value creation. As a consequence, we have not invested enough in the capabilities that make execution predictable, sales effectiveness, account management, processes, systems and tools.

Now let me move to what we are doing differently starting now, and we is a clear focus. We are turning the entire organization towards growth, restoring and execution discipline and creating a real sense of accountability and urgency across the board.

The first decision I made was to take direct leadership of North America, I wanted to go deep into the business, understand what works and what doesn't and make the necessary changes at the right pace. Over the past months, we have changed around two third of the leadership team in North America. This is about bringing the right mix of experience, energy, accountability.

We combine internal talent with external hires to better serve our clients and execute more consistently across America. In parallel, we simplified the global leadership structure and we reshaped the executive committee to be more execution focused. We removed the layer with regional CEOs now reporting directly to me.

This, inevitably, short-term decision paths strengthens accountability and brings leadership much closer to clients and operations. The Executive Committee now brings together the business leaders and a very limited number of global actions.

And it has a clear mandate, enable execution across the group with discipline and urgency. We also reanchored incentives on growth to reinforce focus and accountability for the organization. In parallel, we are reinforcing sales capabilities, not only in the US but everywhere. Beyond resources, we are strengthening our commercial engine by tightening discipline and governance.

We are now consistently running a monthly review of commercial performance which was not the case, clarifying account ownership and reinforcing the role of account managers. There are key leaders in the organization, fully accountable for client development and retention. We are also accelerating investments in technology. This work has already started. You know that, but it's clear we need to move faster.

The focus is on strengthening our core systems, notably finance and HR, and scaling client-facing digital solutions. To me, these are no option. They are required to improve the productivity, speed and overall performance for our teams and for our clients.

Finally, we have reinforced a disciplined and systematic reassessment of contract and assets taking into account changes in the environment, but also the strategic choices we make. Sebastien will explain how this has translated into the numbers.

These measures for sure, have a short-term impact on margin. This is deliberate. We are choosing to fix the engine properly rather than optimize around the ages. That allow us to raise execution standards immediately, then over time to reaccelerate growth in a sustainable way. Now looking forward, our next priority are also very clear.

First, we are aligning the organization around a single execution agenda, one set of priorities and clear choices on where we play, how we operate and where we invest. Our choices grounded in one -- in our strengths, our clients' needs and market trends.

We call this program SHIFT & GROW because that is what it is about shifting the business to grow faster. Second, we are changing how we run the company. Decision-making is being pushed closer to the clients.

Operational teams are being empowered. Headquarters are refocused on supporting execution rather than adding layers. At the same time, we are restoring competitiveness across the model, starting with labor. In my view, while a lot has already been done on supply, workforce management is where we see the biggest opportunity, actively managing the workforce pyramid, improving on-site utilization better matching staffing to client demand. That's what I've done for years.

We're going to do it here. All of this supported by stronger processes and tools. And let's be clear, these actions are already in motion. Finally, we are reinforcing a strong client focus every day. I'm talking to some of our clients.

In all our leadership meetings, we start with client cases, we're keeping this focus front and center, and I want every leader to personally own the client relationship and performance. We are also strengthening our performance culture. We are developing internal talent, bringing in external capabilities where needed and raising the bar on delivery. This is about empowerment and accountability.

All of this has clear implications for how we invest, allocate capital and approach the year ahead. That brings me to the recalibrated baseline. We are setting for the fiscal year '26. Turning to H1. The numbers reflect both ongoing execution challenges and deliberate management actions to establish a more disciplined baseline.

Organic growth was plus 1.7%, consistent with what we laid out in January, but frankly, below what this business should be delivering. Looking at our commercial indicators, retention over the last 12 months was 93.4%, and development, 5.3%. That's leading to negative net new business levels that are not where they should be, reflecting both execution issues, and an insufficient quality of pipeline and win rates.

The underlying operating profit margin was 3.7%, which is down 140 basis points year-on-year. This reflects operational challenges in specific areas, for sure, and the impact of the deep review of contracts and assets we have conducted in the last few weeks and days.

As we look to the full year, weaker than net new business in the first half will obviously weigh on organic growth in the second half as well as lower volumes in an uncertain external environment. Lower operating leverage, execution issues in H1 and the actions we are taking are reflected in our outlook.

Taken together, this leads to at a recalibrated starting point for FY26 with now an organic growth expected between plus 0.5% and 1% and an underlying operating profit margin between 3.2% and 3.4%. So before I hand over to Sebastien, I want to say, I'm confident in the direction we are taking. The work is well underway.

We clearly see where the levers are for improvements. We are varying in markets that are fundamentally attractive, and we are convinced of the relevance of our model. We are already seeing tangible changes in how teams work together, how decisions are made and how we go to market. With that, I now hand over to Sebastien to walk you through the H1 performance in more detail, and we'll talk later. Thank you.

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

Thank you, Thierry, and good morning, everyone. So I will now walk you through our first half financial performance in more detail, and let me start with revenue and organic growth at group level.

So reported revenue growth in the first half was significantly impacted by foreign exchange with a negative impact of 5.3%, mainly driven by the US dollar depreciation. M&A had no material impact in the first half as the acquisition of Mediterránea was completed at the very end of February. Organic growth for the group was plus 1.7%. Pricing contributed around 2.4%.

Like-for-like volume growth was around 0.2%, supported by cross-selling, especially in health care, offset by a strong comparable in Sodexo in the first half of last year, which benefited from an exceptional level of events. Net new business was negative at around minus 0.6%, reflecting prior year contract losses mainly in Education and Business & Administration.

And finally, we had an impact of around minus 0.3% from a contract reclassification in North America Business & Administration. And this followed the renewal of a contract where the economics and contractor terms evolved, leading to revenue being recognized on a net basis rather than on a gross basis, fully in line with IFRS requirements. And as a reminder, the annualized impact of this reclassification is around 100 basis points at group level and will, therefore, weigh more in the second half of the year.

Turning now to underlying operating profit margin, which stood at 3.7%. Year-on-year, the group's underlying profit margin declined by approximately 150 basis points in the first half, including a negative foreign exchange impact of 6 basis points. And this evolution can be explained by three main factors.

First, operations, mix and leverage representing around minus 50 basis points. This reflects mobilization cost and new contract under performance on a limited number of contracts and unfavorable portfolio mix and softer organic growth in the first half.

At the same time, we are actively addressing these execution challenges and continuing to drive efficiency and productivity across the group, especially through shared service and efficiency initiatives. Second, the acceleration of investments for around minus 20 basis points. These are deliberate investment, notably in technology, system, supply and commercial capabilities fully aligned with the execution priorities Thierry outlined earlier.

And finally, the review of contract and asset that Thierry mentioned had an impact of around minus 70 basis points. And depending on their nature, the outcome of this review affect either underlying operating profit or other operating income and expenses.

The impact at underlying operating profit level mainly reflects contract-specific provision following a detailed assessment of actual contract performance, credit risk exposure and litigation matters based on an updated assumption in the current market environment where appropriate.

This review was also about improving visibility, reducing future volatility, reflecting clear management choices to address risk earlier and establish a more robust and predictable baseline going forward. Now that we have covered the group picture on both growth and margin, let me turn to the regional view. Starting with North America. Organic growth was down 1.8%, mainly due to contract losses in Education and Business & Administration, changes in scope on certain business and administration contract and the one-off reclassification effect.

Healthcare continued to deliver strong growth driven by new contracts while Sodexo Live! softer due to a tough prior year comparison. In Europe, organic growth was 2.8%, supported by Healthcare and Seniors as well as strong activity in Sodexo Live! across airport lounges and events while education remains softer. Rest of the World delivered organic growth of 9.2%, driven by new contract ramp-ups and strong underlying dynamic across markets, especially in India, Australia and Brazil.

From a margin perspective, the decline was more pronounced in North America where the underlying operating margin decreased by around 200 basis points year-on-year and this largely reflects the execution challenges, the accelerated investment and the action referenced earlier.

In Europe and Rest of the World, margins also declined year-on-year mainly reflecting the impact of management actions related to the review of contracts and assets while underlying operational performance remain broadly stable. Now moving to the income statement.

So having covered revenue and underlying profit and before coming back to the other operating income and expenses in the next slide, let me complete the picture with financial results, tax and net profit. Net financial expense increased by EUR24 million year-on-year, mainly reflecting a higher gross cost of debt following the issuance of the US dollar bonds in May 2025 at higher coupons.

As a reminder, these bonds were issued in anticipation of the April and June 2026 debt maturities, which we intend to repay from cash reserves. The effective tax rate was 25.9% compared to 19.5% last year. Last year was impacted by one of positive items, including the update of tax risk related to the Sodexo estate tax audit. And net profit for the first half was EUR188 million.

And on an underlying basis, net profit was EUR285 million, down 37% year-on-year, reflecting lower underlying operating profit and adverse currency effect currencies. Turning to other operating income and expenses. The increase versus last year mainly reflects higher restructuring and rationalization costs linked to organizational changes, leadership adjustment and transformation project.

Amortization of purchased intangible assets was stable year-on-year, and other items mainly reflect some assets and footprint rationalization decision, including the write-off of certain production and operational assets, for example, following the rationalization of central production units where capacity has been consolidated into fewer, more efficient sites.

They also include pension-related items driven by legislative change in labor in India as well as the recognition of one-off costs related to multiemployer pension plan in the US turning now to cash flow. Operating cash flow was EUR616 million, up EUR16 million year-on-year and this reflects the fact that last year included an exceptional tax outflow related to the Sodexo estate tax audit, partially offset this year by lower operating profit.

The change in working capital was negative EUR490 million and as a reminder, the first half is a seasonal low point of our cash generation, and we expect working capital to normalize by the end of the year. Net capital expenditure increased year-on-year mainly due to one-off client investment in the context of contract renewals. Free cash flow was therefore broadly flat year-on-year at negative EUR243 million.

Net acquisition amounted to EUR256 million, mainly reflecting the acquisition of Mediterranea alongside smaller bolt-on acquisition in Europe. As a result, our net debt increased to EUR3.6 billion, corresponding to a net debt-to-EBITDA ratio of 2.7 times.

This reflects the usual seasonality of cash flow in the first half, but also lower EBITDA base than last year. And as always, we expect a seasonal improvement in net debt in the second half. That said, based on the revised full year fiscal 2026 guidance and the recalibrated baseline, it implies we now expect to end the year with a net debt-to-EBITDA ratio above our target range of 1 times to 2 times.

Let me close by coming back to our guidance for the year and giving you a bit of additional color. So Thierry outlined, this is the guidance we are providing today, reflecting our current assumption and the action we are taking. We now expect fiscal year 2026 organic growth to be between 0.5% and 1%.

So this reflects weaker-than-expected commercial performance and in particular, in retention impacting the second half as well as lower volume in an uncertain external environment. Underlying operating profit margin is now expected to be between 3.2% and 3.4%.

This reflects reduced operating leverage from a softer top line, ongoing operational execution challenges, the continued impact of our review of contract and asset over the full year and the accelerated investments we are making to strengthen execution. Let me also share a few key modeling assumptions for clarity.

So based on current spot rates, we assume a full year 2026 currency impact of around minus 3% on reported revenue. We also assume a positive M&A impact of around 0.5% on revenue, mainly from the acquisition of Mediterránea offset by a few small disposals.

On other operating income and expenses, reflecting the level already recorded in the first half, we now expect the full year amount in fiscal 2026 to be around minus EUR300 million, of which roughly half is restructuring.

Net financial expenses are still expected to be around minus EUR140 million and our effective tax rate to be around 26%. So to conclude, the first half reflects a demanding environment, but also clear and decisive management action on contract assets organization and investment now reflected in today's guidance.

As Thierry outlined earlier, this action weighed on the near term but are necessary to reset a realistic baseline and strengthen execution, competitiveness and sustainable performance over the time. With that, Thierry and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Jamie Rollo, Morgan Stanley.

Jamie Rollo - *Morgan Stanley - Analyst*

Thanks. Good morning, everyone. Good morning, Thierry. Thank you very much for that. So two questions. The first one is just on the margin guidance, 3.2% to 3.4%. That's obviously a very helpful clear range, but there's a lot of numbers in that. And you've given us a helpful bridge for the first half, it would be quite helpful to get that bridge for the full year margin, particularly to quantify the contract asset write-down because obviously, that's a one-off and that suggests that 2027 margin should increase naturally. But then again, Thierry, maybe your July review will lead to another step-up in investment next year.

So any sort of flavor for what the real underlying base margin might be would be very helpful. And then the second question was just on the leverage as you say, well above the target. I appreciate you've got no covenants, you're pretty well all fixed debt. But what sort of constraints might this have on CapEx spend or bolt-on M&A going forward? Thank you.

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

Jamie, thank you. So what I'll do is I'll take the first part of your question and give a little bit of context, and then I'll take the second one on the leverage. And then I'll ask Sebastien to add a lot more details and probably on the bridge you're asking for H2.

What we've done, Jamie, is clear. We've done -- as we said, clearly, the objective and that's why it's my task for Sebastien and the team to do a comprehensive review of contracts, assets, risk by the end of the quarter.

So literally in the last few weeks and you know that we do, at Sodexo things are going to change. But until now, there is one single process or forecast per quarter. This is changing to a monthly process now. So what we've done is a very deep reviews of the risks in the contracts and really assess the situation and provision we appropriate. This is not a one-off this is really looking at the existence of risk that we have and the level of provision we have against that.

For sure, given this is a disciplined risk review embedded into our processes going forward at each closing, but this review we've done is a pretty extensive work for sure. Objective? Simple, improve visibility, reduce the volatility and limit the surprise which has been the issue of Sodexo for the last quarters, okay? So let's be honest, what we've done is create a more solid earnings floor and a stronger base for growth.

So that's the philosophy. Now to your point on the guidance and the bridge for H2, you want to cover it, and then I'll come back on the leverage target, connection, okay?

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

So thank you, Jamie. So if you look at the bridge, we shared with you for H1, 3 drivers. So when we look at the full year reach drivers are broadly the same as the one in the first half. I would say that the impact of the operation mix and leverage, we are not expecting any change between H1 in H2. Then we will accelerate investments.

So we mean that the investment rate will be a little bit more on the full year and in H2. And the review of the contract and asset will be lower in the second half of the year.

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

You asked for '27, as well, Jamie. So for sure, we're not guiding for '27. All I can say is I think you can consider '26, guidance as a floor. Now to your second point, leverage, right? You're absolutely right.

The capital allocation framework is the result of a strategy. It's not -- and right now, the strategy is to regain performance, let's be clear, okay?

So it's a special year. You can see that -- and it wouldn't make much sense to, I would say, give detailed capital allocation messages without first setting a clear direction of travel. So that's what we will do in July.

So if you can hold on this one for two months, three months, we'll tell more. Until then, priority is execution and performance recovery. Everything else follows from that. The leverage fully aware, maybe temporarily above our historical range, you know that reflecting lower margins during the reset phase and the investments we are making to stabilize the execution but also rebuild the business. But this -- and that's an important point as well to me, this does not limit our flexibility or block any of our actions.

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

And if I may, just we remain a strong cash-generative business, and we will keep and retain a good access to funding. And again, this temporary effect on average are clearly not structural.

Jamie Rollo - *Morgan Stanley - Analyst*

Okay, thank you. So just to clarify then, we'll hear more about the capital allocation in July. And also in July, you're going to be giving, I assume, some medium-term targets and framework. Anything else we should be expecting in July?

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

So the investor update in July will give for sure, greater visibility on FY27. And in the, yes, medium-term financial ambition. What we'll do there, Jamie, is we will articulate where we want to position the group versus the best-in-class benchmarks.

That's our ambition for sure, including a clear ambition to narrow the growth gap, okay, versus the strongest players in the market. We will also, for sure, present a detailed action plan, underpinning that ambition with you will see clear strategic priorities and financial levers over the medium term, right? So that's what you should expect.

Jamie Rollo - *Morgan Stanley - Analyst*

Thank you very much.

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

You're welcome.

Operator

Jaafar Mestari, BNP Paribas.

Jaafar Mestari - *Exane Bnp Paribas - Analyst*

Hi, good morning. I have two questions, please. The first one is just an open-ended question on the review of contracts and assets. Can you give us more concrete examples of what you're reviewing and changes you're making? It was interesting. You mentioned some central kitchens are being consolidated into a smaller number of sites, for example.

Just keen to hear more on those, what sort of measures you're taking? It seems pretty broad ranging. And I'm really mostly interested in the ones that fall into adjusted profits, not on the stuff that is exceptional, please? And then secondly, on management compensation. there was an undisclosed margin target for full year '26, in your cash bonus for this year.

You never said what it was because it was commercially sensitive. Can I ask you if you're basically accepting that you're not getting paid on this part of the targets because you've ended up lower? Or would you expect the Board to adjust these compensation targets because of the voluntary nature of some of the measures you're taking?

And related to that, can you remind us fractionally what's the policy on stock option awards. If I'm correct, Mr. Delaporte, you still have not been awarded your performance shares for this year and understand why the Board did this after disappointing full year results, but if you were awarded them immediately after today's announcement, you would also look perhaps like you're not exactly in the same boat as investors yet. Thank you very much.

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

So, Jeff, I'll try to take the point, and I hope -- you tell me if I don't cover well all the points, okay? Or the first one about the contracts and assets. What's so sure is that when we look at contracts, the operational performance on contracts, fortunately, most of them are performing well and delivering results for the client and for ourselves. In cases, there are delivery issues, how do we provide for it? How do we make sure that we are investing into addressing those concerns?

And therefore, how does it change the financial profile of this deal. When we are in financial distress on an account, how do we handle it? Are we renegotiating with clients? Are we improving the way we are delivering?

Or are we exiting the contracts? All these questions have been addressed and covered in the way we were looking at the contracts. And you're right regarding assets, I'll let Sebastien, but the point was, again, to look at assets we have. And are they long-term investments for us or not? Does it require decisions to be made? Over to you, Sebastien.

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

So on the impact of the review of the contract and assets, the impact on underlying operating profit, so one part is really the assessment and the reassessment of the credit risk around 25%. And when we look at also contracts and contract litigation related claims, so we have also covered all of that. It's again around 25% of the impact in terms of [UPO].

And then also, we have looked at the performance of the contract, and that impacted also for additional provision and then on the write-off of assets, this is really the part impacting the other income and expenses below the line. And here, yes, we look at the footprint of our off-site production. And we took in some geographies, a very deliberate decision to consolidate part of that and this implies some write-offs and impairment in our balance sheet.

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

Okay. Thanks. On the second point, management compensation, if you're talking about leadership compensation and are mine. So let's cover both, if you want. So what I've done is for the leadership team is we have made sure that while they are committed to delivering the forecast of the budget of the year, we are refocusing in H2 more part of their incentive on the growth because this is what we need now to get ready for FY27.

And so I didn't want us to wait another 6 months and really push on the accelerator now. As for my compensation, I think, honestly, this is not me to comment them on. It's a bold decision that will have to be approved by the general assembly. All I can tell you is that it includes certain financial KPIs about growth and profitability.

So I'm not immune for sure as for LTI plan, the LTI plan will be launched in the next weeks. It is not related with the communication today. It's -- I think last year was the same timing in the year. So I think it's just followed the same logic. But also, we are changing the scheme for our people to make it more a performance-based LTI as opposed to presence-based LTI. So that's the philosophy.

Jaafar Mestari - *Exane Bnp Paribas - Analyst*

Thank you. And just on the contract we use and just to be very clear, should we expect that you formalize a revenue figure for contracts that you'll be exiting? Or is it less explicit than that?

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

Yeah. Again, at that time, when we look at this review of contracts and assets, it's really linked to its case by case. And there is not linked to exiting a large portfolio of activities or even any specific contract. We have booked some provisions for onerous contracts in that case because the contract was not performing at the right level.

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

And let's be clear, we have done what we had to do. It's just normal practice. Probably I'm injecting my way of drive a certain level of prudence in the way we are looking at risk, for sure.

Jaafar Mestari - *Exane Bnp Paribas - Analyst*

Thank you.

Operator

Estelle Weingrod, JPMorgan.

Estelle Weingrod - *JPMorgan Chase & Co - Analyst*

Good morning and thanks for taking my question. You mentioned lower retention and volumes impacting the remainder of the year. Can you just provide -- I may have missed it, but can you provide details on the new contract process and who you lose them to? And what volumes you are budgeting for H2? Are they going to be in negative territory? Thank you.

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

Thank you, Estelle. So yes, when you look at our annual guidance between 0.5% and 1%, if you take the midpoint, it implies a negative organic growth in the second half of the year. If we look at the different drivers, pricing was 2.4% in H1, we are expecting something very similar for the second half of the year. And then you have the net new contributions, minus 0.6% in H1 and same here, we are expecting something very similar to the -- for the second half of the year.

Then we need to -- you need to keep in mind, sorry, is that we also have the impact of the contract reclassification and then we will have a full semester impact on organic growth for around 100 basis points. And then the remaining part is linked to volume.

And it's true that we are taking a more cautious stance regarding volume. This is clearly linked to the overall environment, macro, geopolitics as well. And we know also that we have some volatility in our revenues to volume what we decided to include.

Estelle Weingrod - *JPMorgan Chase & Co - Analyst*

And your more cautious stance on volumes? Is it driven by a specific region? Like is it more North America? Or is it broad-based?

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

It's broad-based.

Estelle Weingrod - *JPMorgan Chase & Co - Analyst*

Okay, thank you.

Operator

Simon Lechipre, Jefferies.

Simon Lechipre - *Jefferies LLC - Analyst*

Yes, good morning. Three questions, please. First of all, a follow-up on the margin bridge for H2. Could you be a bit more specific in terms of the investment, I mean should we expect this going to double in H2 relative to H1? And should we expect some incremental investment in 2027 as well?

Second thing is in terms of top line going forward and looking at the last 12 months net new, it was minus 1.3%. You expect net new minus [2.5%] in H2. Should we expect net so to still be negative in the first part of '27? And more broadly speaking, how do you think about the path in terms of top line acceleration?

And when do you expect to see the benefit of the actions you have taken, and you are currently implementing and lastly, in terms of the US and the management team, I mean what's the road map? Are you actively looking for someone? Do you intend to still remain CEO for the region as of now? Thank you.

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

Yes, So Simon, thank you. So taking your questions in no particular order, if you don't mind. The first one on the US management team. So I joined under the 10, literally first days appear to me that I needed to make something change in America.

It's America is our greatest market, the biggest, and it's a strategic market for us. I was coming from a different industry, it was critical for me to dive into the operations. America was my priority. I looked into it.

I took it over. It's basically what I decided, and I'm very pleased with that because it allows me to really spend time in America, as I said, 50% of it. I've spent 20 years in America. So I know well this market and shaping the team is absolutely key. We have great talent in America.

We have great accounts, great team as well, and I have wonderful leaders. We had significant weaknesses as well. And so we had to fix it. I've been working on it. I've made a lot of changes in the leadership team over the last weeks and months and reinjecting energy and ambition in America.

The timing the team is great, is well mobilized. In the meantime, I'm looking for talent to take over the North American role for me and it's -- I'm not supposed to do not consider that I stay in this role forever. But I'm not in a hurry because I feel that being very close to the operations is a great year of full for me and for the operations. But yes, for sure, there will be a leader of America at some point in time. On the point number one, that is the margin -- also margin bridge for H2, we'll let you say it.

But one thing I can tell you, because you were -- a question around the investment for FY27. So for sure, we are doing investments now. We couldn't wait in the situation where we need to inject accelerate fuel, if you like, into our growth, it's the time to grow to invest. And so we have started to invest now. And we know them well that this is impacting our margin in H2.

And for sure, we will not stop the investment on December 30 actually on August 31. So for sure, it will continue in FY27. The objective for sure is that as we progress steadily, the growth will come back and pick up to supported by the investments we are making now. That's the whole logic. You know more about the sequence in the next interactions. Over to you, Sebastien.

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

So on the margin, as I said, if you look at again at the bridge H1, H2 full year, the part related to operation and leverage remains the same, around minus 50 basis points, then you will have more impact on investment of the acceleration of the investment in the second half of the year. So with a higher weight of that on the bridge, and we will have lower impact coming from the review of contracts and assets for the second half of the year.

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

Thank you.

Operator

Kate Xiao, Bank of America.

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

Good morning. Thank you very much for taking my questions.

First, I want to follow up on -- I still want to ask a couple of questions on contract assessment and provisions. Has this process affected your retention rate and development numbers because both of these 2 numbers are down compared to FY25 and as of last quarter?

And would there be -- I understand that this is an ongoing process, would there be a scope for reversal for some of the provisions if contracts actually turned out to be better than expected? My second question -- sorry and my second question is around just look, simple one.

When you mentioned, Thierry, that there's early positive signals. Can you talk to us a little bit more about these signals? Thank you.

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

Yes, correct. Okay. So Kate, on the first one, contract assessment. It has been occasionally that indeed, but I don't think it's a huge impact on the retention, honestly.

So those are two different things. For the scope for potential reversal of provision, for sure, that's the objective. I mean, we are covering the risk, but we are not giving up on it. We are fighting, but we are in a logic where when there is risk, we provide for it and then we try to mitigate the risk as opposed to we have a risk, and we hope it doesn't materialize and when it materializes, it blows up and we are surprised. So that's the change in philosophy.

Last early positive signals, sales performance intensity in the market. There are several deals. I know for a fact, several deals that we were about to lose that we haven't lost. And the energy in the system, the mobilization from the team is really great. So a lot of good signals, honestly, okay. It's still early. I'm not going to tell you other than that.

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

Can I just quickly follow up on retention rate, if there's not a big impact from the reassessment of contracts? What has led to the lower rate at 93.4% now versus 94%? was there more contract losses that you can kind of tell us a bit more about? And would you see this as a trust?

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

Well, let me tell you one thing first, Kate, on the assessment of retention rate. For us where it stands is a signal for sure. Every I consider that every time we lose a contract, it's dramatic, okay? So we have to stop accepting the fact that we are losing contracts. So it's in us, and we are very active on that.

Now it's -- in a given quarter, you might have more or less contract to retain. And so just looking at this ratio just for one quarter or two is not necessarily enough to draw conclusion. Except that, our ambition is to be closer to 95%, 96%. I think today, 95%, but the objective is to continue to improve and we have some work to do. And that's what we are working on at the moment. Sebastien, you want to say more?

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

No.

Operator

Pravin Gondhale, Barclays.

Pravin Gondhale - *Barclays Services Corp - Equity Analyst*

Hello. Good morning. Thanks for taking my questions. Firstly, on the incentives aligned to growth that you talked about. Sorry, if I'm being nuanced. But could you please clarify, are these incentives linked to gross growth or net growth, i.e. incentives for both gross development and retention or just the gross development here?

And then secondly, on the review of contracts. Is this all done and then fully captured in your H2 guide annualizing in H1 next year? Or is there any tell left to review further down the line? Thank you.

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

So Pravin, thanks. I'll take the first one. On the incentive. First, KPIs have been reset for my direct report in H2 to really get the target the growth target for H2, and that's revised growth target. What does it entail?

It's what we call commercial growth, net commercial growth, which basically takes net development, I mean, new development plus retention plus cross-sell, okay?

So that's the combination of all, all right? And then after when you look at the organization, it depends, those who are focused on retention, those who are working on closing new deals, for sure, they have different set of KPIs. The objective here is to set clear accountability, but also drive focus across the organization. Okay.

Now just to be clear, even if you haven't asked, gross incentives do not mean volume at any cost. We continue to keep an eye for sure on the level of profitability expected from the deals, for sure. Review of contract, is it all down? Well, first of all, we've done a very good job, I think, to review the contract in a very short time frame. And I think the team has done a great job.

So I'm pleased about that. Will it be a continuation? I mean the fact that we will review contract and assess the risk is of discipline. We will do it every single quarter. So this will not change are we expecting further impact going forward? I mean our objective is precisely to have done the job.

Pravin Gondhale - *Barclays Services Corp - Equity Analyst*

Thank you. This is clear.

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

Thank you.

Operator

Neil Tyler, Rothschild & Co Redburn.

Neil Tyler - *Redburn Partners LLP - Analyst*

Yeah, good morning. Thank you. Two questions, please. Firstly, on the contract review, I wonder if you could share any sort of insights that you drew from those contracts that you've had to provide against, whether there's any commonalities emerging from the contracts either in terms of regions duration or sort of start point, those that needed to be reassessed.

And then secondly, on the -- back to the incentive program, has the altered incentives been or will they reach further into the organization than they have done in the past in order to alter the selling behavior sort of deeper into the organization rather than just at the management level. Thank you.

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

You tell me if I do not address maybe I do not really understand your question, Neil, on incentives. But my point is we have implemented a new set of KPIs across the organization. It's not only for managers, it's across the organization for okay? On the contract reviews, insights, you want to take this one, Sebastien?

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

I can tell -- yes, I can take this one. So in terms of framework, I can tell you that we apply this framework across all regions. Okay, all segments. Around 50% of the adjustment adding to the review related to Europe, one third is North America and the remaining part is the Rest of the World. And when we look at the framework, again, was done really case by case on track by contract asset by asset and on the commonalities, again, as I mentioned, it was linked to the credit risk, credit exposure, again, across a portfolio of contract.

It was also linked to legal risk litigation, again, across all regions, and then we look at the performance of some of the contracts, as I said, and we apply again a new calculation again on the potential adjustment needed in terms of onerous provision. So it's really the same framework across the globe on a contract basis and the case-by-case basis approach.

Neil Tyler - *Redburn Partners LLP - Analyst*

Thank you. That's helpful. And can I just ask, within that, was there any difference between food service and facilities management contracts in terms of how those materialize?

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

Type of risk may differ, but again, the methodology and the framework, but exactly the same.

Neil Tyler - *Redburn Partners LLP - Analyst*

Okay. Thank you very much.

Operator

Andre Juillard, Deutsche Bank.

Andre Juillard - *Deutsche Bank AG - Analyst*

Good morning and thank you for taking my question. First one is about CapEx. Could you give us some more color about what you plan to do considering that historically, Sodexo had a lower level compared to its main peers?

And I wanted to understand if you have a clear view on what we could expect on that side. Second one, about dividend. We know that historically, the dividend has been important for Sodexo and for its main shareholder. So do you have a view on what you could do on that side? Thank you.

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

Alright, thank you for the two questions. My answer is going to be quite similar on both we'll meet at the Capital Markets Day. CapEx considers that, as I said, I said -- I covered it for me, right now, our strategy is to regain performance, focus on the performance, we'll discuss the capital allocation messages when we are together in July16. On dividend, same thing. Too early to tell. We are very aware of this. We will certainly discuss at the Board as well. So we'll get back to you, not now.

Andre Juillard - *Deutsche Bank AG - Analyst*

Okay. Thank you.

Operator

Julien Richer, Kepler Cheuvreux.

Julien Richer - *Kepler Cheuvreux SA - Analyst*

Yes, good morning. A quick follow-up on growth and strategy. We recently had some comments from the French government about the structural decline in the number of kids that's called due to the demographic situation in the country, and this is not only the case of France, I suppose. How do you see your education division going forward? Any view on this point? Thank you.

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

So for sure, this is a we are -- obviously, as you can imagine, as we are working on our strategy and refining it -- they are and we spend more time on it at the Capital Market Day. They are time focused on looking at for each of the segments we operate in where there is more growth to expect. Sometimes, you have different elements that have an implication. The market growth itself. There's the level of outsourced, right?

So in some cases, you may have markets where the growth is not necessarily significant, but there's a wave of outsourcing that we can trigger to drive new type of clients, and they are, for sure, a prioritization on those investments.

So without being specific, we are very aware of those declined head count or population decline in schools in France or in the next few years. It's elements that we are considering for our for the way we are investing into our segments and again, we do it by country and within segments, we look at the services that are more relevant, the ones that are a little less. But to be clear, education is one of our big segments, and we'll continue to invest in education for sure.

Operator

Sabrina Blanc, Bernstein.

Sabrina Blanc - *Sanford C Bernstein & Co LLC - Analyst*

Good morning, everybody. I have two questions from my part. The first one is regarding the review of the contract. And just to understand if you have a schedule potentially to exit some contracts or potential to exit some assets. For example, we know already that the number of countries has been reduced. But do you intend to go further?

And my second question I can perhaps answer directly that I should expect a Capital Market Day, but could we have visibility on free cash flow and potentially and conversion rate?

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

Okay. So thank you, Sabrina. Our first question. So the review of contracts. So again, we are taking decisions. We have taken decisions on some situations when there is -- if you do not -- if you are a situation where you do not foresee opportunities to be profitable, this exit is one scenario.

So I'll keep this freedom going forward. It may happen at times that -- and good decision sometimes is to recognize the fact that it's just not working. So we feel we have done the job and -- but we'll keep an eye on it and make sure that when we are signing contracts. We are signing good contracts and that it doesn't end up being an issue for the client for ourselves.

Exiting countries, no, we have no plans of exiting more countries. In fact, if I can tell you I believe it's the strength of Sodexo to offer a lot of our global clients a global presence, and we want to build on this. As for free cash flow, over to you, Sebastien.

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

Thank you, Thierry. So on the free cash flow, as I said, we remain a generative business. So we'll keep a strong focus on that, and we are expecting again to have an underlying conversion rate mean for this year that will be in line with and consistent with prior years on the underlying part and on the future, as you say, Sabrina, we'll come back to that during the Capital Market Day.

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

Do we have someone?

Operator

Ivar Billfalk-Kelly, UBS.

Ivar Billfalk-Kelly - *UBS AG - Analyst*

Good morning, everyone. Thank you for the presentation, And welcome to the company, I suppose. I want to talk a little bit more about the market as a whole. I mean you mentioned commercial momentum being slightly weaker than expected. But is that an indication of any slowdown in the market itself? Or is it simply your execution? So in other words, I mean are we still seeing the amount of new business in the market as a whole being strong or have recent development had an impact on that?

And secondly, I mean, this might be slightly minutia to a certain extent, but you mentioned your refinancing costs associated with debt this year isn't going to be an issue, but you still have an awful lot of debt to refinance over coming years, which was issued at very, very low coupons. So as and when that gets refinanced, how is that actually going to be able to impact your ability to compete with peers who might not have the same level of pressure on that front.

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

Ivar, thank you. On the first question, the commercial momentum, it's a good question. And I've spent time to review that with the team. The conviction we have is that the market is actually a rather good market, okay? So we do not we are not taking this on the back of any kind of slowdown.

Yes, for sure, moments like what sees happening in Middle East are elements of potential slowdown, although it has limited impact for us in terms of size, but the market continues to be good. I'm convinced that the answer is with us so addressing our own structural and operational challenges will just make us stronger and able to win more.

One argument for that supporting this is the fact that the pipeline is not going down. Actually, if we look at the pipeline, it's actually going slightly up. Still not big enough, okay? But again, it's the same point going back to the same point, our intensity in the market and to grab opportunities and go after it. Sebastien?

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

Yeah, and on the cost of the financing, it's true that if we look at where we are today, the average interest rate on the bond is around -- we are around [2.7]. I told you about the cost, financial accounts for fiscal year '26 would be circa EUR140 million. And then it's true that for the coming years, we are expecting also an increase of the financial cost linked to the renewal and the refinancing of the bond in 2027.

So yes, the cost of financing will increase again in the next three, four years, around EUR30 million. We would be around EUR170 million, EUR90 million in terms of annual costs in three, four years. And this will be an average cost of 4%, 5% in. It will depend obviously on the market rates.

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

That's great. All right.

Operator

Sodexo team, we have no more questions registered at this time.

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

All right. Thank you for your questions. Thank you for the compensation today and for the time. We are very aware of where we need to improve, and we are fully focused on execution and getting the basics right, again. So we'll have the opportunity, as we discussed to go into our plan and ambitions in July, and I'm looking forward to continuing the dialogue with you. Thank you very much for joining us today.

Operator

Ladies and gentlemen, thank you for joining. The conference is now over. You may disconnect your telephone.
