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EXHO.PA - Q1 2026 Sodexo SA Corporate Sales Call

EVENT DATE/TIME: JANUARY 08, 2026 / 8:00AM GMT

CORPORATE PARTICIPANTS

Juliette Klein *Sodexo SA - Head of Investor Relations*

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

CONFERENCE CALL PARTICIPANTS

Jamie Rollo *Morgan Stanley - Analyst*

Leo Carrington *Citi Infrastructure Investments LLC - Analyst*

Estelle Weingrod *JPMorgan Chase & Co - Analyst*

Simon Lechipre *Jefferies LLC - Analyst*

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

Jaafar Mestari *Exane Bnp Paribas - Analyst*

Karl Green *RBC Capital Markets Inc - Analyst*

PRESENTATION

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

Good morning everyone. Welcome to our Q1 fiscal 2026 revenue call. On the call today is Sebastien de Tramasure, our CFO, to take us through the presentation. After Sebastien's remarks, we will open the line to take your questions. (Operator Instructions) Please get back to the IR team if you have any further questions after the call. With that, I'll now hand over to Sebastien.

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

Thank you, Juliette, and good morning, everyone. I wish you all a very happy, healthy, and successful 2026. And thank you for joining us today. So I will start this call with a brief look at our first-quarter performance before I touch on our operational priorities and our outlook for the year, and then I will be happy to take your question.

So in the first quarter of fiscal '26, Sodexo delivered revenue of EUR6.3 billion and this is broadly in line with our expectation. Organic revenue growth was 1.8% while reported revenue were impacted by a negative 4% currency effect with a negligible contribution from acquisitions and disposal.

So looking now at our performance by geography. In North America, our organic growth was 1.5%. This reflects several known factors including contract exit in Education and Business and Administration last year, as well as a strong prior-year comparison for Sodexo Live! as we had exceptional event activity in the first two quarters of last fiscal year. And these effects were partially offset by contributions from the new healthcare contracts we enter into the fourth quarter of last fiscal year.

In Business and Administration, while we had anticipated a negative trend and due to the contract exit I just mentioned, sorry, it was amplified by scope changes at a few larger accounts. And to a lesser extent, by external elements linked to the US government shutdown.

Meanwhile, Sodexo Live! performed slightly better than expected as the Mariners' successful run in the playoffs provided a welcome boost with additional games at the T-Mobile Park, having a positive contribution of revenue.

In Europe, organic growth reached 2.4%. This was driven by new contracts in Business and Administration and Healthcare, which more than offset a high prior year comparable in Sodexo Live! linked to the Paralympics, as well as softer trend in Education, mainly reflecting contract exits.

In the rest of the world, organic growth was strong at just over 10%. This was driven by solid performances in Australia, supported by new contract and scope extensions, along with good momentum in India in corporate services and in Brazil and Chile.

Overall, across the dynamic markets where we operate in this region, we are making significant progress with a robust growth coming from both new wins and from healthy underlying momentum on existing contracts.

Then from a strategic and operational perspective, as you know, Thierry joined us as our new CEO in November. And as stated in the press release this morning, he's currently in an assessment phase across the business, spending a lot of time in the field with our client and with our team, sorry, and he will share his initial views at our half-year result in April. And this will be followed by a more comprehensive assessment and plan before the summer break.

In the meantime, we are not standing still. Our near-term priorities are clear, and execution is moving forward. And let me briefly update you on the initiative we outlined at our full year.

In the US, we are strengthening our sales organization. Our objective is to double the size of our North American sales team within two years. Since the beginning of this fiscal year, our sales force has increased by 20% with continued recruitment in priority segment.

For example, we have increased the number of salespeople in our Education segment by 40%. And more broadly, over half our sales team had joined in the past 18 months, bringing in new talent and fresh energy. We are also accelerating the time to productivity by strengthening onboarding and training and by embedding AI across the sales cycle from prospecting to proposal development.

On supply chain, we are redesigning how we buy food and moving to standardized ingredient level offers with common specs so we can buy at scale and strengthen compliance through our digital tools.

In the US, this new target operating model is already delivering tangible benefits in the first pilot sites. We are also rolling out our AI-based retail compliance tool. It's called Perfect Score. This is significantly improving planogram compliance. And these early results give us confidence as we scale the model across the US portfolio through fiscal year '26.

On ERP, India will go live in the second half of the year with our global finance and supply system. And in North America, deployment of the new food management system is now under way. Overall, this multi-year program remain key enablers of operational discipline and scalability.

On global business services, progress continues. We have completed our large IT outsourcing program covering run activities for applications and infrastructure. We are also expanding our shared service footprint and including the new Bogota Center which now supports North America with close to 150 FTEs.

And around 30% of North America's sales support is now delivered through global business services, giving us access to more flexible and scalable support capacity. Overall, we have now over 1,000 people working across our three shared service centers and we are accelerating the program with additional expansion to follow. So overall, we are progressing as planned on this key initiative to strengthen the underlying foundation of our business.

Turning now to our outlook and expected trading effects for fiscal year '26. We are reiterating our guidance framework with organic revenue growth expected between 1.5% and 2.5%, and our underlying operating margin expected to be slightly lower than fiscal year 2025.

In terms of revenue phasing, we expect the second quarter to be towards the lower end of the full-year guidance range, and this will be followed by a gradual improvement in the second half, mainly driven by favorable comparative and phasing of Sodexo Live!.

On margin, so we usually see some seasonality with H1 being higher than H2. This year, the season will be different with H1 and H2 margin more closely aligned. This means that H1 will show a higher year-on-year reduction in margin.

Three main factors explain this. First, the acceleration of the investment we started in the second half of last year. Second, mobilization cost on our new large healthcare contracts. And third, the impact of negative organic growth in North America with limiting operating leverage and a less favorable segment and contract mix.

For fiscal 2026, we now expect other income and expenses to be around EUR200 million compared to our initial indication of EUR160 million. This increase mainly reflects additional restructuring costs related to organizational changes, acceleration in the global business service program to push our competitiveness, and some other one-off elements.

Meanwhile, we continue to expect an M&A impact of revenue of 0.5%, net financial cost of around EUR140 million, and an effective tax rate of approximately 27%. And as usual, all the numbers are in the appendix of the slide deck.

So overall our fiscal Q1 performance is consistent with our expectation. But let me be clear here, this does not reflect the potential we aim to realize for the company. We remain focused on execution, staying close to clients, moving faster, focusing on growth, and executing with more rigor and simplicity. And together with Thierry, we will provide a more color on this in due course.

With that, we'll open the call to question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jamie Rollo, Morgan Stanley.

Jamie Rollo - *Morgan Stanley - Analyst*

Good morning. Happy New Year, everyone. Two questions please. First of all, there seems to be a little bit less disclosure than usual. I appreciate it's only the first quarter for sales only, but it would be great if you could please give us a general breakdown of organic sales growth between pricing, volumes, and net contract gains for the quarter and also, food versus facilities management.

And then secondly, Sebastien, I think you said that Q2 organic sales will be the low point. I think previously, Q1 was going to be the low point. Maybe I misunderstood that, but has anything changed at all there in the cadence of sales during the year? Thank you.

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

So thank you, Jamie, for your question. So first question on the bridge on organic growth. So 1.8% overall organic growth in Q1, pricing is slightly below 2.5%. So again, in line with our expectation.

The net new, it's a negative impact, again, around minus 1% (technical difficulty) as expected and coming mainly from the net new from last year. And the like-for-like volume is slightly positive, circa 0.5%.

And if you if you restate the impact of the Paralympics, overall, organic growth for Q1, it's 2.1% instead of 1.8%. And the impacts of volume are at 0.8% instead of 0.5%.

So on the -- yeah, on the phasing, so we are expecting Q2 again towards the low range of the guidance by the same expectation for Q1. As you know, we'll have in Q2 initial impact of the contract reclassification, the large one we have in Vienna in the US. This will impact around 60, 70 basis points in Q2.

Then we will have the offset of the annualization of last year's major B&I US losses which we are demobilized during Q2. And this will create an easier comparison base for Q2. And again, as I said, and we add in one the impact of the Paralympics.

And on your last topic on food and FM, it's true that we did not disclose that in Q1. It's more or less at par, I would say, between food and facility management, even if the food organic growth is affected obviously by the losses in university because in this segment in the US, it's mainly food.

Operator

Leo Carrington, Citi.

Leo Carrington - *Citi Infrastructure Investments LLC - Analyst*

Two for me. Firstly, the large healthcare contracts that you referenced that are ramping up, we also saw the full outsourcing of the Penn healthcare contract. Are you seeing any acceleration in outsourcing in this sector over the last year or is this activity idiosyncratic phasing?

And then secondly, just to follow-up on those comments on organic growth acceleration. Is there anything that's happened since you last reported to give more comfort on this? Or as you say, is it mostly about the comp effects last year? Thank you.

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

Okay, So there is a good momentum on the Healthcare segment in North America, definitely, with good development last year and good also pipeline and potential for this year. So it's true that the market remains very dynamic with a positive trend of -- underlying trend in terms of outsourcing in this segment. So for me, there is no major change here in the trend but compared to prior years, but definitely, the trend is good.

And then on the acceleration of the organic growth for H2, there are two -- again, two major impacts that we need to keep in mind for the second half of the year. There is first, yes, the impact of, again, the reclassification of the last contract in Business and Administration that have a negative impact overall in the organic growth.

And in the other end, we have a strong different phasing and comparable for Sodexo Live!. Last year, we had a very strong H1 Sodexo Live!, a strong Q1 with the Paralympics, with all the concerts with Taylor Swift. Q2 was pretty good as well with the Super Bowl, so strong H1 last year.

This year, we will have a much stronger H2 compared to H1. We'll have some big events scheduled already during the second half of the year. One of them will be the World Baseball Classic tournament. Here, it's mainly ticketing and travel in its totality. As you know, this is an activity we have within Sodexo Live!.

And on top of the additional event already scheduled for H2, we also have the ramp up, a nice ramp up within Sodexo Live!, especially in the US, from new contracts we signed last year and recently. And one of them being also the Airport Lounges activity. We have also a new contract that I can mention is with the LA Music Center, and all of that will bring also more organic growth and will help for the acceleration of the organic growth in H2.

Operator

Estelle Weingrod, JPMorgan.

Estelle Weingrod - *JPMorgan Chase & Co - Analyst*

First, I have a question on Europe and France in particular. Just wanted to check on the underlying momentum. Any pressures on volumes or contract wins given the ongoing political uncertainty and macro headwinds? Basically how is it going on the ground?

The second question I have is on North America Education. Could you just give us more color on how enrollments shaped up for you at the end in the full term? And how would you -- and when would you expect this division to regain momentum following new sales hires and then so on?

And perhaps the last one on renewals for '26. I think last time, you mentioned that there will be a few larger GSA renewals in the next couple of years with almost none this year. Just wanted to check if there was anything else to flag in terms of renewal for 2026? Thank you.

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

So thank you, Estelle. So on the first question on France underlying momentum. Here in France, I mean, the trend, I would say, remain pretty stable. It's true that, again, overall, it's a tough context, I would say, but we see, again, the same trend overall in all the different segments.

We don't see any significant pressure in terms of volume. So as you know, France remains a very large important market for us, and we don't see at this stage any big change in terms of underlying trends. It's a competitive market, but nothing new in terms of volume evolution.

On your second question regarding North America and the enrollment. So the enrollment in North America higher education, it's in line with what I shared with you in October. Overall, there is a decrease when we look at our portfolio of minus 0.7%. This was really, again, in line with our expectations, and this has obviously an impact on our organic growth for the year and it's part of the explanation of the negative organic growth in education for Q1.

And then on your last question about the pipeline of retention renewal. There is no, as we mentioned, there is no very, very large contract and it's a normal renewal cycle. Even if, as you know, based on the average duration of the contract every year it's a sizable amount of renewal at stake. But nothing big, super big this year. As we already said, there is no global account in fiscal year 2026 at a rebate phase.

Operator

Simon Lechipre, Jefferies.

Simon Lechipre - *Jefferies LLC - Analyst*

Two questions please. First of all, coming back on the phasing for organic growth and the acceleration for H2. I mean, I would assume pricing will further slow in H2. Also, you have this contract reclassification, so this is probably altogether more than 100 bps to offset compared with the 2% underlying growth in Q1.

And then when looking at the comps, it's not -- it doesn't look massively easier in H2. So what should drive the organic growth acceleration? Is it mainly a function of the annualization of the losses? Or is it the expectation of an acceleration in new business wins?

And yeah, and secondly and relating to this, how is the pipeline of new contract has evolved since October? Does it give you more confidence that new business wins should accelerate through the year? Thank you.

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

Okay. So coming back to the phasing, so what I said is that we have two major impacts in H2. The first one, as you mentioned, is really the impact of the reclassification of the large B&I contract. So this is a negative impact.

And this impact is offset by the phasing and the much more favorable H2 for Sodexo Live! as I mentioned before. Then you are right also to explain the slight improvement of the organic growth over the year. There is other items.

I mean, the first one is the annualization of the losses. As you said, the losses, some of them B&I, I mentioned it that we demobilized in Q2 last year. So this will have, I would say, a positive impact in H2.

There is also, I mentioned it, the good momentum in Healthcare. So we continue to see a ramp up of new contracts in Healthcare during the second half of the year. And also, in the second half of the year, we have a more favorable segment mix with a lower weight of Education.

So then on the pipeline, the pipeline remains solid and, again, in line with what we are expecting. And what I can tell you on the pipeline and on the development is that with the arrival of Thierry, we are really pushing the team on much more commercial intensity.

We are pushing the team on deal execution. There is a clear momentum here on winning more and being more aggressive on the market to capture more and more sales and more development at this stage.

Operator

Kate Xiao, Bank of America.

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

Good morning and Happy New Year. Thank you for taking my questions. The first one is on retention rate. Can you confirm whether the forward-looking retention rate is still stable at around 94%, or is there more recent contract losses that we should be aware of that could drive this a bit lower?

My second question is on World Cup, which is a big event for Sodexo Live! in H2. I guess, I understand that a number of players in the field are bidding for the contracts, including you guys. What is your understanding of the timeline there? And what do you think is the total market opportunity there? And within that, what kind of level is the, I guess, amount of contracts that Sodexo is bidding for? Thank you.

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

So first, on retention, so when we look at our forward-looking retention rate, it's broadly in line, again, with expectation at this stage of the year. So no big surprise in Q1. We had a few disappointments, nothing material in the context of the group. We also had a very encouraging outcome. We managed to secure also sizable contract during Q1. So overall, again, plus and minus, broadly in line with expectation.

And then it's a bit too early when we look at what we want to achieve during the year. Focus on retention is, again, key priority. We all know that this is really the first pillar for organic growth, but it's said to be too early to draw a clear conclusion for the full fiscal year 2026. But as I said for this year, but not the case last year and two years ago, it's a more normal renewal cycle and there is no major global account at stake for this year.

Then on your second question on the pipeline. Yes, so the pipeline for Sodexo Live!, it's good and there is some already secured events. The one I mentioned already, the World Baseball Classic Tournament, this ticketing is for sure is there. There is more. It's still in a tender and RFP process, but it's a lot of opportunity here. We are quite confident.

We also know that we'll have also the FIFA World Cup in the second half of the year. Again, all the tender are underway, but we need to keep in mind that we are involved in two stadiums that we already operate. One is the Hard Rock Stadium in Miami. The other one is the BC Place in Vancouver.

So we are in a good place there. But again, we get the result of those RFP in the coming months, but it's definitely a very good opportunity for us. But it's a bit too early to comment on the financial impact.

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

Just a quick follow-up if you don't mind. Are you also bidding for a new stadium in the World Cup bidding stage? Thank you.

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

Again, talking about ongoing commercial negotiation and I cannot get into the detail. What I can tell you is that, yes, this is clearly a good opportunity for us and we are clearly working and working on it.

Operator

Jaafar Mestari, BNP Paribas.

Jaafar Mestari - *Exane Bnp Paribas - Analyst*

I have two questions if that's okay. Firstly, just on group margins in H1, just wanted to clarify, you said H1 and H2 margins will be more or less aligned this year. Normally there's at least 80 basis points difference between your H1 and your H2. Is that the order of magnitude of margin deterioration you're expecting in H1? I mean, unless you think margins improve year-on-year in H2.

And then on North America B&I, you said you expected it to turn negative, but it was trending 4% organic in the last six months. Now it's minus 7.5%. It's a huge deterioration. I know there's a government shutdown which may be transitory, but on the rest, on the scope changes that you flagged, can you explain, really, behaviorally what's happening?

What are clients saying? Are they giving services away to other providers? Are they just cutting services? I guess, in all cases is that here to stay for the next 12 months before it starts to annualize or is there anything that's calendar that's one-off in Q1?

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

Okay. Thank you, Jaafar. Yeah, on the margin, as I said, this year, we are expecting to have H1 and H2 margin more closely aligned and we'll see a reduction in terms of margin on a year-on-year compared H1 this year to last year. And you are right on, overall, on your number. And here, it's really -- you understand the drivers here of the explanation of the reduction. Again, as I said, it's really the acceleration of the investment.

It's a mobilization cost for healthcare and also the fact that we don't have this leverage in terms of in terms of decline and North America, especially in North America. North America being a region with the highest profitability. And the impact also in Education, knowing that Education is also one of the segments with a pretty good margin. Obviously, the change in the mix is impacting our margin for H1.

And then on the B&I organic growth for Q1, so it's a mix. I mean, the impact of the net neutral, this what I mentioned, it was clearly anticipated, super clear for us. Then there is also always a little bit of volatility on the facility management part.

You could have some reduction of scope. This is clearly a decision from the client. You also have some volatility in terms of project. In this case, it's impacting negatively North America in Q1. We're not expecting exactly the same trend for the coming quarters. It should improve there.

And again, coming back on the volatility. Here, it's true that it's a negative impact in North America for B&I, but we had also a very positive impact in the rest of the world, for instance, with a very strong activity in Q1. And part of that is also due to more project work coming from our IFM contract, especially in energy and resources.

Jaafar Mestari - *Exane Bnp Paribas - Analyst*

Thank you. So H1 margins -- I mean H2 margins were 4.2% last year. Is that the right order of magnitude for H1 margins this year?

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

But we are expecting margin. You have the guidance for the year. There is a market consensus. We are expecting margin to be align between H1 and H2, so that gives you your number.

Operator

Karl Green, RBC.

Karl Green - *RBC Capital Markets Inc - Analyst*

Yeah, just one residual question for me, please. Just wanted to clarify your comments about the ambition to double the size of the sales team. Can I just check whether that was North America or globally?

And I think you also mentioned around half of the sales team has joined in the last 18 months. Could you just give a little bit more detail about the kind of hiring criteria for those sales individuals, the backgrounds, levels of experience, et cetera? Thank you.

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

Okay. Thank you. So yeah, so the number I share with you in terms of the increase of the sales team is really for the US. On this objective, we have to double the size of our sales team. It's for North America. We have a clear priority here.

One of them is really higher education. We spoke about that. We need to strengthen the team in this segment with strong potential. It's also on account management as well where we really need to strengthen the team as well. So this is really part of the play -- part of the plan, sorry, to really strengthen this activity there.

And then in terms of background, in terms of sales people, well, here, again, it's true that 50% of our existing sales team is coming from external. I think it's important for us to bring also new talent within the company to have also fresh eyes and new level of energy. It's exactly what we want to do.

Then doing that, we also need to work on the onboarding, on the training. So it's true that -- then it takes a little bit more time to see a tangible results. So we will not improve development there next quarter, but what is super important is that we are really preparing this acceleration of the development of the growth with bringing this new talent and the new sales team within the organization.

Karl Green - *RBC Capital Markets Inc - Analyst*

Okay. That's helpful. Thank you very much. And if I can be cheeky, could you give us an approximate indication of how many sales people, sales and marketing people you now have in the US, please?

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

So what we said, again, for a competitive reason why I'm not sharing the absolute number in terms of sales team. But what I can tell you, again, is really that we need to increase the team and it's clear in terms of objective with doubling the size and we have been progressing well in this objective.

Operator

Gentlemen, there are no more questions registered at this time.

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

Okay. So thank you for joining us today. Again, looking forward to speaking with all of you again for the half-year result in April. And as I said, Thierry will be with us for the H1 results. So thank you again and have a great day.
