

Aramark Reports Third Quarter Earnings



SUMMARY

- **Strong cash flow management and liquidity**
 - Disciplined business actions led to Cash provided by operating activities of \$17 million and minimal Free Cash Flow use of \$37 million in the third quarter
 - Positive cash flow since bond issuance in late April
 - Over \$2.5 billion cash availability at quarter-end
- **Sequential monthly revenue improvement in the third quarter**
 - Revenue (46.3%); Organic Revenue (45.3%)
 - Increasing activity particularly in Uniforms, International, Education and Leisure
- **EPS of \$(1.01); Adjusted EPS of \$(0.69)**
 - GAAP EPS included \$125 million severance charges related to organizational realignment
 - AOI drop-through consistent with Company's expectations
- **Launched EverSafe™ proprietary platform**
 - Provides reopening solution for clients that maintains superior hygienic standards
 - Developed in partnership with Jefferson Health in accordance with leading global health organizations

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PHILADELPHIA--([BUSINESS WIRE](#))--Aramark (NYSE: ARMK) today reported third quarter fiscal 2020 results.

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“I am encouraged by how well the Company continues to navigate the complexities and challenges of the current environment. Our balance sheet and new business pipeline remain strong, and we have taken strategic actions to fortify Aramark for the future,” said John Zillmer, Aramark’s Chief Executive Officer. “I am also proud of how our team members have remained focused on serving our client partners and communities in the face of significant adversity.”

THIRD QUARTER RESULTS*

Consolidated Revenue was \$2.2 billion in the quarter, down 46.3% year-over-year from the impact of COVID-19 that more than offset modest underlying growth in the overall business. Revenue improved sequentially through each fiscal month with April reflecting the lowest performance in the quarter. Organic Revenue, which adjusts for currency impact, declined 45.3% in the quarter.

- FSS United States continued to experience business interruption, particularly in Sports and Business & Industry with Education and Leisure improving at the end of the quarter due to USDA-sponsored meal programs in K-12 and the reopening of National Parks. Facilities, Healthcare and Corrections remained relatively stable.
- FSS International managed through various stages of recovery based on geography. China significantly improved, driving double-digit organic revenue growth in the quarter, and continued to win new clients resulting from the team's frontline response. Europe and Canada exhibited increased activity during the quarter while balancing country-specific government mandates. South America was affected by the delayed COVID-19 impact compared to other regions.
- Uniform & Career Apparel demonstrated a more modest decline as the business continued to offer a solution-oriented service focused on safety and hygiene that included heightened demand for Personal Protective Equipment (PPE) materials.

	Revenue				
	Q3 '20	Q3 '19	Change (\$)	Change (%)	Organic Revenue Change (%)
FSS United States	\$1,068M	\$2,414M	(\$1,346M)	(55.8)%	(55.7)%
FSS International	517	950	(433)	(45.6)%	(41.3)%
Uniform & Career Apparel	568	647	(80)	(12.3)%	(12.1)%
Total Company	\$2,152M	\$4,011M	(\$1,859M)	(46.3)%	(45.3)%

Difference between GAAP Revenue Change and Organic Revenue Change reflects the elimination of currency translation.

Operating Loss of \$328 million was primarily due to the impact of COVID-19 and included \$125 million in severance charges related to organizational realignment. Adjusted Operating Loss was \$144 million, largely from the effect of COVID-19 on business operations. Adjusted Operating

Income (AOI) drop-through was managed to 20% of the corresponding revenue decline led by cost mitigation efforts and the Company's flexible operating model.

- FSS United States was impacted by COVID-19 — especially in Education, Sports and Business & Industry — partially offset by labor and product cost reduction, SG&A cost management and the outcome of client contract renegotiations.
- FSS International was affected by government-imposed shutdowns as well as higher labor costs that tend to be less variable in the near-term due to country-specific labor laws and regulations.
- Uniform & Career Apparel generated income from strong demand for hygienic products, including PPE offerings, that somewhat offset the impact of COVID-19 and higher fixed costs.
- Corporate reflected a reduction in personnel costs and equity-based compensation expectations resulting from the impact of COVID-19.

	Operating Income (Loss)			Adjusted Operating Income (Loss)			
	Q3 '20	Q3 '19	Change (%)	Q3 '20	Q3 '19	Change (\$)	Constant-Currency Change (%)
FSS United States	(\$194M)	\$128M	(252)%	(\$78M)	\$156M	(\$234M)	(150)%
FSS International	(138)	40	(444)%	(62)	43	(104)	(255)%
Uniform & Career Apparel	22	54	(59)%	17	67	(50)	(75)%
Corporate	(17)	(33)	47%	(21)	(29)	8	28%
Total Company	(\$328M)	\$189M	(273)%	(\$144M)	\$237M	(\$381M)	(163)%

* May not total due to rounding.

GAAP SUMMARY

Third quarter fiscal 2020 GAAP results across all metrics were affected by the impact of COVID-19. On a GAAP basis, revenue was \$2.2 billion, operating loss was \$327.6 million, net loss attributable to Aramark stockholders was \$256.4 million, and diluted loss per share were \$(1.01). For the third quarter of 2019, on a GAAP basis, revenue was \$4.0 billion, operating income was \$188.8 million, net income attributable to Aramark stockholders was \$83.0 million and diluted earnings per share were \$0.33. A reconciliation of GAAP to Non-GAAP measures is included in the Appendix.

GAAP metrics for operating income (loss), net income (loss) attributable to Aramark stockholders, and diluted loss per share included pre-tax charges of \$125 million associated with actions taken to restructure and realign resources within the Company. The majority of these charges, or \$75 million, were within FSS International that reflected labor law requirements in certain countries.

CURRENCY

A stronger U.S. dollar decreased revenue by approximately \$42.1 million and resulted in a \$4.2 million favorable impact on adjusted operating loss during the quarter. Currency had a \$0.01 favorable effect on adjusted loss per share.

CASH FLOW

Net Cash (used in) provided by operating activities was \$(74.8) million in the nine month period compared to \$208.2 million in the prior year. Through nine months, Free Cash Flow was \$(334.2) million compared to \$(121.2) million in the prior year period. The year-over-year decrease was largely due to lower net income from the impact of COVID-19 on operational performance, partially offset by favorable working capital.

In the third quarter Cash provided by operating activities was \$17 million and Free Cash Flow was a use of \$37 million in the third quarter as a result of the Company's disciplined capital expenditure activity.

Since the bond issuance in late April, the Company generated positive cash flow due to actions taken to normalize collection trends toward traditional levels as well as purposeful cash management strategies to maintain financial flexibility.

CAPITAL STRUCTURE

Aramark continued to operate with a strong balance sheet and remained disciplined in its capital allocation priorities. As previously announced, the Company took proactive actions to increase cash availability and amend its credit facility to suspend the secured debt ratio covenant requirement for four quarters — from the September 2020 quarter to the June 2021 quarter.

At quarter-end, the Company had \$2.5 billion in cash availability with particular focus on prudent management of working capital and capital expenditures, while still pursuing long-term growth opportunities. The majority of Aramark's capital expenditures are discretionary or can be deferred, as appropriate.

DIVIDEND DECLARATION

The Company's Board of Directors approved a quarterly dividend of 11 cents per share of common stock. The dividend will be payable on September 2, 2020 to stockholders of record at the close of business on August 19, 2020.

BUSINESS UPDATE

Aramark's actions in the third quarter to adapt to the current environment resulted in:

- Improved client retention trends and new business wins;
- Increased agility in managing cost structure that led to an AOI drop-through at 20% of the corresponding revenue decline; and
- Enhanced financial flexibility to promptly scale services to meet changing client needs.

The Company has been providing meals, food, supplies and PPE for local communities as well as offering safe and hygienic solutions for employees, clients and customers.

Recognizing the critical need for health and safety, Aramark developed EverSafe™ — a comprehensive offering committed to the safe reopening and sustainable management of client locations. The EverSafe proprietary platform was created in partnership with Jefferson Health and in accordance with the recommendations of the CDC, WHO and other leading health organizations. In addition, the EverSafe OS web-based service and mobile app was introduced as a solution designed for small and medium-sized businesses, such as restaurants and retailers, where reopening safely is a critical concern and additional guidance to do so is needed.

Aramark's portfolio is exhibiting early signs of recovery with client activity at various stages of reopening based on geography and sector, particularly Education. The Company currently anticipates sequential top-line improvement in the fourth quarter compared to the third quarter. Aramark is focused on effectively managing costs and Free Cash Flow while operating the business with a long-term perspective that includes pursuing strategies to win new business, retain clients or extend contracts by providing exceptional service.

Aramark believes it will be a key enabler in the broader recovery with expectations that there will be increased demand and favorable outsourcing trends for prominent service providers with deep experience in safety and hygiene solutions.

“Our priority in this ever-changing environment is to ensure the health and well-being of our employees and everyone we serve through an unwavering commitment to provide safe, hygienic dining, facilities and uniform services,” Zillmer said. “Given the considerable opportunities ahead of us, I am confident in Aramark’s ability to create significant, sustainable value for our stakeholders.”