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PRESENTATION

Martin Kjær Hansen ***ISS A/S - Head of Group IR***

Ladies and gentlemen, and this is Martin Hansen, Head of Investor Relations at ISS, and I would like to welcome you to our Q3 trading update. Please be aware that the announcement, the report as well as the slides used for this call can be found on our website. Later today, a replay will also be available and we will post the transcript of the call as soon as it's ready as well.

I'd like to draw your attention to Slide #2 regarding forward-looking statements.

With me today, I have group CEO, Jeff Gravenhorst; and group CFO, Pierre-François Riolacci. We'll open for Q&A at the end of the presentation. So with that, I'll hand over to Jeff to go through Slide 3.

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

Thank you, Martin, and good morning, everyone. First of all, apologies for moving the investor call one day forward. It is because of -- we've had to adjust the outlook for operating margin and cash flow. This comes down to a shortfall in France and 2 loss-making contracts. I'll come back to this in a moment. This is obviously very disappointing.

If we start with the organic growth. Organic growth retained or remained strong in the first 9 months of the year at 6.8% and 8.4% in the third quarter particularly driven by Key Accounts and the Deutsche Telekom, which contributed 3.8%, in line with the expectations. We continue be engaged in ongoing discussions with both Novartis and the new provider to continue service delivery beyond 2019 in a few key countries in Continental Europe.

Turning to our operating performance. Our divestment program is progressing well, with 42% in revenue now signed or completed and proceeds starting to materialize. Also the Deutsche Telekom stabilization and ramp-up is progressing and on plan as well as we -- as we all know, we are engaged in an ambition -- ambitious transformation, but we are facing some significant operational challenges in a few places. These include 2 loss-making contracts, 1 in Denmark and 1 in Hong Kong, which is not developing according to our expectations. In addition, we remain significantly behind schedule in France, which continues to weigh on our performance.

In order to particularly mitigate some -- partially mitigate some of these issues, both in terms of security and execution and easing financial performance, we'll bring forward an efficiency plan targeting DKK 400 million in cash savings. As a result, we've had to adjust our 2019 outlook to reflect these developments in operating performance, which include significant one-offs as well as adjusting for the implementation of a new stricter factoring policy. We will cover the outlook in more detail later on, but for now, please turn to Slide 5 for an update on the third quarter.

Our commercial momentum has continued to be strong throughout 2019. Whichever way you look at it, we're running well above our medium-term guidance of 46% organic growth driven by our Key Account focus. Year-to-date, total growth was 6.3%, including currency of plus 0.8% and acquisitions/divestments with a negative impact of 1.3%. Organic growth is strong both year-to-date at 6.8% and third quarter of 8.4% driven in particular by Key Accounts at 10% organic growth year-to-date.

Major contract developments contributed with 0.9 percentage points year-to-date. This includes Deutsche Telekom, which was launched in July, contributing 3.8% in the third quarter as expected. Other contract developments and the rest of the portfolio remained strong with 5.2% organic growth driven by Key Account contract wins and expansions following strong commercial momentum.

As guided in August, momentum slowed slightly from 4.9% in Q2 to 4.6% in Q3 as a result of the annualization of several large contracts launched in 2018. Projects and above-base work continued -- contributed with 0.7% year-to-date and 0 in the third quarter. As mentioned with our first half results in August, the demand for projects and, above-base work showed increased uncertainty during the second quarter. The absolute level of projects and above-base work remains relatively high and is structurally supported by our increasing Key Account focus, which tends to come with larger project spend. However, the contribution to organic growth from nonportfolio revenue was flat in the third quarter as a result of a mix of tougher comparisons from last year, combined with the slide -- the slowdown in current demand in a few countries.

Looking into the fourth quarter, we expect the contribution from Deutsche Telekom to be broadly similar to Q3 while we launch the base service delivery across all sites 1st of July. We're yet to fully ramp up on projects, which is unlikely to materialize in the full until we completed the final part of our IT migration.

With regards to other contract development, in the rest of the portfolio, we expect to continue to see a slight slowdown in organic growth, thereby continuing the trend that we've seen over the past few quarters. Other than a reduction in revenue with ICA in Sweden, we don't have any mentionable losses this year. In short, the development will continue to be driven by further annualization of a number of large contracts from 2018, which has supported growth over the last year. This includes 2 Global Key Accounts and a couple of large hospitals in Turkey, which all launched gradually during 2018, as well as a few other mentionable contracts we've launched in the third quarter or early Q4 last year.

Lastly, all those uncertainty is still high. Projects and above-base works could turn slightly negative in the fourth quarter.

All in all, we expect group organic growth to slow down from the Q3 to Q4. With this, we expect to end the year to the -- close to the middle of our guidance of 6.5% to 7.5%.

Please turn to Slide 6 for a closer look at our Key Account performance.

Our organic growth continues to be driven by our Key Accounts. On average, our Key Account organic growth tends to be between 6% to 7%, even more in the last couple of years. Growth is supported by strong retention rates and higher levels of projects and above-base work. While the organic growth continues -- while the organic growth across our non portfolio accounts -- non-Key Accounts remains low digit -- low single digit, I'm actually pleased to see an improving trend over the last 3 years, especially given that our successful Key Account growth cannibalizes on the remaining business as we up-sell and cross-sell to develop new Key Accounts. In other words, we have more than offset the cannibalization effect and further grown in the internal pipeline for future Key Accounts.

This performance, combined with our gradual improving business mix, makes us confident in delivering on our midterm guidance of organic growth between 4% and 6%. We should also be within this range also in 2020 despite the loss of Novartis as a global account.

Please turn to Slide 7. Continental Europe delivered 11% organic growth year-to-date and 16% in Q3, the strongest organic growth on record. The solid growth was -- has throughout the year been supported by our strength in Key Account focus, especially the launches in Turkey, Iberia and The Netherlands, and of course, the Deutsche Telekom in July, which in isolation contributed with 3 percentage year-to-date -- 3% year-to-date and 10% in the third quarter for the region.

Price increases in Turkey on the back of high wage inflation also contributed to support organic growth. However, even adjusting for this, organic growth in Continental Europe was 9% year-to-date. The demand for projects and above-base work continued to grow year-to-date but turned negative in the third quarter. The slowdown was mainly driven by tougher comparison from the third quarter last year.

Northern Europe delivered 4% organic growth year-to-date and 3% in the third quarter. We continue to see solid growth in the U.K. and Denmark driven by the Key Account contract launches and expansions in both 2018 and '19. The demand for projects and above-base work continued to grow year-to-date, especially Norway and Finland. While growth remained positive in the third quarter, we did experience a sequential slowdown in growth driven by a few larger clients starting to hold back on their project spend.

Asia Pacific delivered 5% organic growth both year-to-date and in the third quarter. We continue to see solid growth across most countries in the region, with particularly strong growth in Australia as a result of strong commercial momentum with Key Accounts. Organic growth was also supported by up-selling and cross-selling to Key Account customers, in especially China, on the back of strengthening capabilities with workplace management and design. Price increases also added to revenue growth, especially in Indonesia. Finally, the demand for projects and above-base work was broadly stable.

Turning to the Americas. Reported organic growth was 2% year-to-date and 1% in the third quarter. Organic growth remains negatively impacted by deliberate organic exit of smaller contracts in the U.S. legacy business. Excluding these exits, the Americas would have delivered a solid 5% organic growth both year-to-date and in the third quarter, and that will be driven by new sales and up-selling on the back of strengthened capabilities within Food Services and workplace management and design, as well as a sharpening Key Account focus in general, which continues to pay off currently, especially in the aviation segment. The demand for projects and above-base work remained broadly stable in the Americas.

The Americas are tracking in the right direction. We're gradually gaining stronger foothold within our Food Services following the successful acquisition and integration of Guckenheimer, making us the 10th largest contract caterer in the U.S. With this organic growth, it is set to accelerate as our organic exits annualizes.

We have already touched upon Deutsche Telekom. We already touched about Deutsche Telekom on the previous slide, so I would just reiterate that the contract is likely to deliver similar growth in the fourth quarter and slightly more from 2020 as projects fully ramp up upon the finalization of the IT migration. All in all, the operation -- operational stabilization following launch is expected to complete in the coming month. And on that basis, our profitability expectation for Deutsche Telekom remains unchanged.

Turning to Novartis. As previously announced, the contract will not be extended. However, we are -- have ongoing discussions with both Novartis and the new provider to continue service delivery beyond 2019 in a few key countries in Continental Europe. The revenue in these countries could amount to a few DKK 100 million. In this scenario, the net organic growth impact related to Novartis would be around 2% in 2020. And hence, broadly similar to the extended -- expected in-year growth from Deutsche Telekom.

Negotiations are ongoing, so it's not a done deal and we will only reach a final agreement if price and terms and conditions are solid. The first year group margin impact related to Novartis remains within the expected 0.1% to 0.2% previously communicated.

Turning briefly to other large Key Account development. I think it is fair to say that it has been a significant year in terms of amount -- of the amount of revenue up for renewal.

With the final outstanding contract now extended, we have extended all key maturities this year apart from Novartis. As you know, a central part of our organic growth strategy is to continue to grow with existing clients and a lot of these extensions also comes with additional revenue. Since first half results published in August, we have extended and expanded with an international bank in Switzerland and Brisbane Airport in Australia. In addition, we signed a new public-sector contract in Iberia with a decent size. While we have not had any large contract losses, we will see revenue reductions with the Norwegian Defence as of first quarter 2020.

As a final comment on this slide, you may also note that 2020 is a rather small year in terms of large contract up for renewal. We don't have any individual contracts worth more than 1% of revenue up for renewal before the end of 2021.

Please turn to Slide 10. As mentioned earlier, we are facing a few but significant operational issues, and while most of our downgrade today is short term in nature, I would be the first to admit that this is disappointing. We have probably been a bit too ambitious embarking on the significant transformation together with accelerating growth and completing our great transformation. As a result, we have missed on a few of our executions -- on our key executions in a couple of our -- in a couple of areas.

First, we currently have 2 onerous contracts, 1 in Denmark and 1 Hong Kong. As you may remember, we have been flagging contracts related to challenges in both countries earlier this year. Expectations for both contracts was to significantly improve during the year and through the usual ramp-ups and efficiency measures and partly through negotiations with the client. However, at this point, we no longer see this as a likely outcome.

At this point in time in Hong Kong, we see little possibility to improve further the contract profitability from operational and customer negotiations. For the Danish account, we have just secured the revalidation process, i.e., we have finalized the due diligence process, truing up what assets are available with the customers or what assets need to be maintained, what grounds, areas and of course, buildings. And this we have agreed now with the customer and although we bring operations into profit over time off the contract, we face a significant loss in year that we won't be able to recover and the likely losses for the next 2 years.

Secondly, we also, as discussed earlier in the year, the ongoing strategic transformation of the business in France has been behind the plan, whereas we previously expected to gradually catch up this year, which has not really materialized yet. We have been working on a number of smaller initiatives to help offset this short-term negative performance, but this is just not been enough. As a result of these challenges, we have detailed execution plan on the Danish account that will bring it back into profit over the contract term, and we have strengthened the management of the contract. In addition, we have changed our country leadership in both France and Hong Kong.

We will launch an efficiency plan targeting around DKK 400 million in savings across both operation -- operating expenses and CapEx. We expect this to lead to an in-year P&L and cash flow benefit of around DKK 200 million already in 2020. As a consequence, we'll have to incur further restructuring this year, taking the total restructuring in 2019 to around DKK 300 million rather than closer to the DKK 200 million as previously expected.

Additionally, in accordance with IFRS, we've had to make a provision for 2 onerous contracts to provide for the unavoidable losses for the remainder of the contract length. The total value of revenue of the remaining life of these contracts is around DKK 3 billion.

As a consequence of our performance and to free up resources to sharpen our execution, we have decided to spread the 2-year transformation investment program announced in December 2018 over an additional year. As such, our investments will continue through gradually from 2019 to '21 rather than 2019 to 2020 as previously planned.

Despite these execution issues, we see no downgrade -- downward trend in the business and no structural challenge to our strategy. Therefore, medium-term targets for operating margins of around 5.5% and reported free cash flow of around DKK 3 billion are confirmed but have been postponed until 2022.

Please turn to Slide 11 for an illustration of what this means in terms of margins during 2019 and 2020.

To illustrate the impact on the operating margin, a significant part of the adjustment relates to the one-off onerous contract provisions as well as the incremental restructuring. The remaining 0.5% or so relates entirely to the operation [negative] performance in France and the loss-making contracts in Denmark and Hong Kong, most of which will neutralize from 2020 as the run rate will improve as a result of future losses being provided for in 2019 and as of performance improvements.

While the expectations for 2019 are significantly impacted by today's announcement, our expectations for 2020 remains largely unchanged at a margin around 5%. The drivers to reach the 2020 guidance are built on a few key building blocks.

Firstly, we have the impact of the onerous contract provisions. This is made up of 2 elements. As we do not expect to book further onerous contracts provisions in 2020, this alone provides a year-over-year benefit. In addition, the provision will go towards offsetting the unavoidable loss from these 2 contracts, hereby effectively neutralizing the negative impacts entirely. Restructuring cost will also normalize, as previously expected, at between DKK 100 million to DKK 200 million.

Finally, the efficiency program is expected to generate in-year savings of around DKK 200 million in 2020. In addition, we see good chance for -- of other operational improvements, including the continued turnaround in the U.S. and Sweden as well as a generally lighter year in terms of contract extensions. The only factor which is currently set to partly offset these benefits is Novartis, as previously expected.

To cover the free cash flow movement, please turn to Slide 12.

The free -- the change in free cash flow guidance is impacted by 2 exceptional things. Firstly, by the cash flow impact of the reduction in operating profit linked to the updated expectations for the operational underperformance in France as well as the 2 contracts in Denmark and Hong Kong. Secondly, while the commercial and operating rationale behind our use in factoring remains the same, we now take account of clear feedback from the stock market. We are restricting the use of factoring to customers with demanding payment terms and offering compelling financing.

With this, we now expect to reduce the use of factoring by around DKK 1 billion in 2019 rather than the previously communicated DKK 100 million to DKK 300 million. This would leave us with factoring utilization close to DKK 1.5 billion for the full year of 2019. With this, we'll be fully compliant with the newly launched factoring policy by the end of the year and, as such, the short-term one-off impact is limited to 2019.

Financial income expenses in 2019 is now expected to be between DKK 660 million to DKK 680 million, including negative currency impact. Other than the 2 drivers just mentioned, margins and factoring, we are actually seeing good progress on most other free cash flow drivers discussed in August. While our day-to-days, DSOs, excluding factoring, increased in the first half, we are now catching up. It actually decreased by 1.5 day during the third quarter, and I'm quite pleased with that, especially as it includes the launch of Deutsche Telekom.

In first half, CapEx amounted to 1.3 percentage point of reported revenue and 2.2% combined if we include additions from [leased assets. Based on where we are today, we don't expect the year to be materially different despite the accelerated investment in our digital platforms provide some tailwind on the cash flow generation compared to the initial expectations.

Finally, our group-wide working capital optimization initiative focused on supplier payment terms is progressing as planned. As of today, we have reached our agreements for around DKK 300 million to come during the second half of the year. We have mentioned a few other smaller items as well, lower tax and share-based payments, and our expectations remain unchanged with clear visibility.

In summary, both these changes result in reported free cash flow for 2019 coming in at DKK 0.6 billion to DKK 1 billion reported and DKK 1.6 billion to DKK 2 billion excluding factoring. This compares to the previously DKK 1.8 billion to DKK 2.2 billion reported and the DKK 2 billion to DKK 2.4 billion excluding factoring.

As we look into 2020, we see limited impact related to factoring and expect remaining free cash flow to improve to DKK 2.1 billion to DKK 2.5 billion supported by a recovering EBITDA and the end of the transition of Deutsche Telekom.

Please turn to Slide 13. We cover the updated outlook in some details, so Slide 13 simply works as a summary. Our growth is set to end at the midpoint of around 7% and above 4% in 2020. While we can be far from satisfied with our margins and cash flow in 2019, we importantly see the negative drivers as being short term in nature. As such, our own expectations for 2020 and beyond into the medium term remain largely unaffected.

Please turn to Slide 14. As a final remark before we open for Q&A, I would just like to reiterate and confirm our capital allocation policy. We will continue to target a strong and efficient balance sheet with an investment-grade financial profile and leverage at a maximum 2.8x pro forma adjusted EBITDA. We will continue to make modest ongoing investments into the business in addition to our transformational investment program. The ordinary dividend payout remains around 50% of our adjusted net profit. Throughout the transformation, we have an addition committed to at least keeping the dividend stable at DKK 7.7 per share. We are in the process of finalizing our divestment program and now have around 40% of the program signed or completed, both in terms of revenue and proceeds. And in connection with this, year-to-date goodwill impairments in connection with divestments now sits at DKK 200 million.

Finally, any additional cash available will be returned to shareholders. As a bare minimum, in the short term, we'll return at least 25% of our net divestment proceeds and expect to consider the timing on the back of our full year results.

With this, I would like to open up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Matija Gergolet of Goldman Sachs.

Matija Gergolet ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

A couple of questions for me. Firstly on the Deutsche Telekom contract, can you comment a little bit on the current margin that you are seeing for this year for that contract? And what would you expect for next year in terms of reported margins? Is it -- are they in line with the group, below, above?

Secondly, I'd like to come back to the free cash flow, so just to understand the step-up before next year. So there's a 0.5 billion step-up in your expectations. So just in terms of building blocks, if I understand correctly, maybe DKK 200 million from organic growth. Then you have lower restructuring, that's what, DKK 100 million, DKK 200 million. I'm still kind of missing maybe DKK 100 million, DKK 200 million. Just like to understand, if you can be a bit more specific about the building blocks for the free cash growth for next year.

And then thirdly, maybe just a small thing. On the -- you mentioned that the contract in Denmark has another 2 years to go. The contract in Hong Kong, what is the residual duration of that contract if we can ask, please?

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

Okay. Thank you. Starting with [DTAG], the expectations for the margins, where we sit now and for this year and going forward is in line with the group average. So that's what we also communicated earlier. I'd also mention that as went through the script that that's what we still expect to see. Obviously, we are in the, I would say, the stabilization phase where, on this one, we had a long due diligence as you might recall. So we have all assets registered, and we know where all our works has to go and efficiency program is, of course, also being executed.

We are still working on the IT support, so the IT systems that we'll be implementing up until the end of the first half next year. So basically, in line with the margin, as we also communicated earlier.

On -- if I just take the last question first, then we go back to free cash flow with Pierre. So on the contract length in Denmark and in Hong Kong. In Hong Kong, the contract runs between 1 to 3 years longer. There is an option to prolong, and we, of course, are being cautious in the way that we are providing for this. In Denmark, the contract runs longer than 2 years, but we now have the efficiency measures that is kicking in. The reason why we have a big loss on this, this year is mainly because we have to take some restructuring measures. We are now finally -- finalized the validations and the true-up of assets on this account. It's quite a large account, spread over a large area, so it's taken longer for us to validate the assets and the levels of services site by site. That is the case.

But with this, we now have to start the efficiency program. And the efficiency program in taking cost out will take cost, and that is the reason why we see a loss this year and also into next year. And that means that we will then turn this contract into profit after that, and that's what we meant by the next 2 years. But the contract will run for the next 4 years, and we expect it to turn into profit once we're done with the optimization program.

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

On the free cash flow. Thank you for -- indeed, being very agile in the building blocks. Yes, there is a net positive on top of the organic growth and that's restructuring. But there are actually a few positive and negative. The big positive, of course, is that in 2020, we do not have any more of the start-up of Deutsche Telekom. And Deutsche Telekom in 2019 is a very significant drag on cash flow and especially when you exclude variation of factoring because not only we have to incur significant transition costs that we had, especially in the first half of the year, but also we have to ramp up the working cap in H2. There are still a lot of uncertainties about this concept of working cap in 2019 and especially with variation, with relevant level of factoring because it depends very much on the payment schedule of the customer, and that, as you can imagine, is always a bit of a commercial discussion. But for sure, we have a very significant drag on the free cash flow in 2019 that will reverse in 2020 on the back of Deutsche Telekom.

On the other hand, we have in '19 some positive one-offs, which are -- in the cash flow, which are helping us. We mentioned already on the call before and the building blocks, you remember last time, that we have some tax refund that materialized in H2. We do have also very strong action plan on the working cap both on receivables and suppliers. And while this action plan is definitely sustainable, it doesn't mean that every year we can improve our working cap by the same -- as a same amount. So this guidance is a guidance which is factoring in, as you say, the organic growth and lower restructuring, but also factoring in the reversal of [DTAG], but making the assumption that we will not be able necessarily to replicate the good things that we are doing in this H2 on the working cap again in 2020.

Operator

Our next question from the line of Morten Eismark of ABG.

Morten Raunholt Eismark ***ABG Sundal Collier Holding ASA, Research Division - Research Analyst***

Just 2 questions on my part. I note on your front page, you say the impact from factoring is from a stricter factoring policy. Is that something that was updated during the quarter? Or is it connected to say underlying business flows?

The second part is if there's any news on the proceeds from divestments. I note that you moved from 29% signed to 42% versus Q2 and Q3. In August, you said you would share some significant news when they occurred. Would you expect to put that out press releases or company announcements when these bigger lumps occur? Or should we read it on a quarterly basis as you report?

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

On the factoring policy, yes, there has been one change, which is that we have capped the payment terms contract which are eligible to factoring to 45 days. So now we have this hard threshold which has been defined, which is that if the payment terms under the contract are below 45 days, then the contract will not be eligible to factoring, which means that it decreased indeed the amount of invoices that would be eligible for factoring or supply chain financing from our customers.

So this is -- we were not as strict last year. We have re-enforced such criteria, which is 100% in line with the indication that we gave at the end of '18, which is that factoring is there to support contracts, which are very demanding payment terms. Now it's 45 days, black-and-white. And also contracts with customers, we have such a credit that we can come with compelling financing conditions using the program, i.e., being more competitive that are own existing financing conditions.

On the disposal plan, I think that, indeed, we are making some progress. So we had our first significant closing in Q3. So it starts now to kick in. A bit more than 10% of the expected proceed now is closed. We do expect indeed some closing in Q4. Our plan is to comment on the signed and close transaction at the time we release the quarter when possible. It happens sometimes that for transaction reasons because a buyer wants to mention it or for commercial reasons because we need to tell the customers, we may have to go out and it happened already and it may happen again, but that will be more driven by commercial/transaction reasons.

Morten Raunholt Eismark ***ABG Sundal Collier Holding ASA, Research Division - Research Analyst***

Okay. Very clear. And just a follow-up on the latter. So the period -- the time period of these divestments, is that prolonged? I guess you were looking into -- come quite a long way during '19. I can't remember if it would go into 2020. Has that period of complete divestment of the countries, has that also increased?

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

We still expect to complete. And when I say complete, it means close most of these transactions by the end of quarter -- the first quarter in 2020. So that's where we stand. There might be some closing that go further than that in a couple of small countries where we have actually extensive carve-out restructuring to execute, and that's what we have been working on all through the year, so which means that the transaction phase is therefore starting at year-end. And that these transaction, which are not significant in terms of value, they could actually slip beyond the first quarter. But we would expect to complete most of the program by the end of Q1.

Operator

Our next question comes from the line of Daniel Hobden of Crédit Suisse.

Daniel James Hobden ***Crédit Suisse AG, Research Division - Research Analyst***

Just 2 for me, please, guys. I think when you mentioned about the efficiency plans, I think there was some mention there around the DKK 400 million savings around CapEx, so was just wondering what sort of change to the CapEx were you looking to make as part of that efficiency? And then the second question maybe a bit of a broader one. Obviously, as you say, you have mentioned some challenges to these contracts over time and -- but we're now the start of November and this is when we've to take the big change and the big hit for Denmark and for Hong Kong. I was just wondering, are there are any other major contracts that you have where maybe you're expecting a bit more of an aggressive recovery, where maybe there's some risk attributed to that. So as we enter the end of the year or start next year, are there any other contracts that maybe are at risk of a write-down or another onerous contract?

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

Yes, maybe on the efficiency plan, we target indeed the DKK 400 million cash savings. We would expect the majority of the savings to come from operating expenses. Let's say, 75% plus should come from OpEx. But we do have indeed the view that some would come from capital expenditures, let's say, DKK 100 million. That's ballpark numbers and please don't take that as a precise guidance, but that's a sort of sharing that we expect. Of course, the CapEx savings, they will at some point hit the P&L, but it will be through lower [deflation] going forward.

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

On the contract side, I'll just comment on the 2 ones first. If you take in Denmark, this is related to -- that this has taken a long time to get sort of the true-up done. So this is where you have all assets registered, all buildings, all areas, ground areas and so forth on a massive contract, which is the first of its kind. So it's taken a long time to true it up and that's why it's also late. At the same, they have restricted the number of above-base projects on that account, which can happen.

And those 2 things combined, which means that we now can execute on an optimization plan, which will cost us money to actually execute. And then, of course, the run rate is not quite where it should be, but it will take us a while to get it there, it will get there.

On Hong Kong, it's a little bit different but there, of course, we're impacted by the turmoil in the Hong Kong environmental or macroeconomics, political environment. So there, we'd be prudent to say, we probably can't get it better. And then, it will run for the next year and potentially up to 3 years.

On other contracts, no, we don't see other contracts. As you know, we have a -- it's not uncommon that we start with lower margins and then, we work them up into profitability. And on the other contracts that we work with, we have actually followed the plan, so we don't see any need for that or expect that to happen in the foreseeable future.

Operator

And our next question comes from the line of Allen Wells at Exane.

Allen David Wells ***Exane BNP Paribas, Research Division - Research Analyst***

Apologies, I was also doing another set of results. I may have missed this, but first question could -- did you give the size of the total revenues of your French business and also maybe the size of the contracts in Denmark and Hong Kong that have been impacting revenue size? Secondly, can you quantify the total [OCP] taken on those contracts as well? And then, third question, given the updated fiscal year '20 guidance, would you expect FY '20 consensus to change today as well?

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

With France, the total revenue of the French business is DKK 4.7 billion. That does include the H&P business, which is around DKK 900 million. So you take that out, it's about -- the DKK 3.8 billion thereabouts, Danish kronor. That's France. And the second question was how big the contracts were. That was up against -- it's around DKK 600 million, DKK 700 million -- DKK 700 million a year for the 2 combined, but the future revenue from those is DKK 3 billion. So in year, DKK 700 million, but the future revenue would be around DKK 3 billion, that this onerous provisions have been taken up against.

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

And on the level of provision, I mean we need to be a bit careful. I mean what we are sharing with you is our anticipation that there will be an announced contract provision. And there will be. Now what is the final amount needs to be fine-tuned based on the business plan as it is at year-end. We are talking about a couple hundred as a whole, that's what we are around. So take it as an indicative number. That's the sort of number that we would be targeting based on our account knowledge. And of course, as you can imagine, we don't plan to come back with bad news.

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

Just to make sure -- a follow-up in the question on France. Obviously, what is left in France in the DKK 3.9 billion is the cleaning business, but also the logistic product and production which is a Key Account division and the Integrated Facility Service division, and both of those organizations are doing quite well and the margin's in line with the group. So the challenge is in the cleaning division only.

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

I'm not sure what was your last question.

Allen David Wells ***Exane BNP Paribas, Research Division - Research Analyst***

Sorry, it was just thinking about the slight change to guidance, so I guess reiterating the organic growth outlook for next year but trimming, arguably trimming the margins a little bit where consensus is. I just wonder whether you'd expect consensus numbers to come down in FY '20 as well. Is that your expectation?

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

I guess the consensus for 2020 is a bit higher already, around 5, it must be around 5.1. So yes, I would expect that the 5.1 would come around the 5. And when it comes to the free cash flow, it looks like the market was not crediting us of the full benefit of all the actions. So I think that the indication, which is not yet a guidance, but let's say the indication we have on 2020 should be in line with what the market is expecting. Actually, yes, and when it comes to the organic growth, I think the market is at a bit below 4, and we expect now to be above 4. So that should be slightly positive.

Operator

And our next question comes from the line of James Winckler at Jefferies.

James Peter Winckler ***Jefferies LLC, Research Division - Equity Analyst***

And actually, my questions were answered in these last couple ones.

Operator

(Operator Instructions) We have one final question coming through at this time. That's from the line of Paul Checketts at Barclays.

Paul Daniel Alasdair Checketts ***Barclays Bank PLC, Research Division - Director***

I just missed the start of the call, so I hope I don't keep something that's been asked already, but can I just ask you a few. The first one, where do you think the net debt will be at the end of the year in terms of leverage? The second is, are you happy with the level of dividend in terms of absolute payment? Are you comfortable with where that is in terms of consensus?

And then, the next one, which may be asking you to repeat yourself, but can you just run us through what's happened in France, why it's been delayed and how are you going to turn that around? And you can pass on that if you already answered it. And then the last one is, can I clarify on the onerous contract provision? So you talked about Denmark being loss-making this year and next year but then be profitable. But I presume you're saying that actually, that will be neutralized in the income statement because the onerous contract provision will effectively do that for the full year period. I just wanted to clarify that.

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

Maybe I'll take your first question on the debt and the dividend, and thank you very much actually for raising the point. So it allows me to give a few indication on that. For sure, we have a significant miss on our operating profit. And as you know, not everything is cash because the provision is not cash, but there is indeed embedded a decrease in EBITDA compared to expectation of DKK 300 million, DKK 400 million. And of course, there will be also an increase on the net debt on the back of the decreased used of factoring, which means that our debt cover ratio target of 2.8 will be challenged and we expect to be probably slightly above this 2.8 at year-end. Of course, it depends a bit on the closing of the divestments and some may help. So that's something to factor in. And I think that you're alluding to that point.

Indeed, we expect that year-end could be around 3 versus 2.8. It doesn't change in any way our view that we are managing this 2.8 as a target, and we want to get there. We never said that we'd be there at 2019, but we want to get there, and we will manage our operations and our performance, our investments and our capital allocation accordingly to get there through time.

There is another ratio which is important of course, it's Moody's gross debt ratio. I would say the same comment. We are delayed by a year, so we'll have the discussion with Moody's. The final outcome of those is that clearly, our flexibility for future acquisition is probably a bit less today than it was before we adjust.

Now this is where we are and I know that there may be all sorts of stories coming up on the back of this, and I would like you to remember that we have no covenants in our financial documentation whether related to rating or related to debt coverage ratio. There is no disruptive covenants in our documentation.

I would like you also to point that we plan a strong improvement of free cash flow, excluding variation of factoring year-on-year. And with the guidance, it means that this free cash flow, excluding variation of factoring, is actually covering the ordinary dividend. So that gives you also some ground to assess the sustainability of the dividend, and there is a clear path to improvement. And I think that when we have this question on the building blocks, you can see just with the [DTAG] reversal that there is good ground to believe that cash flow will improve further in 2020.

You've seen also that we have sticked to our commitment on the dividend, ordinary dividend, but also on the allocation of the net divestment proceed, so we feel very strongly that the free cash generation of the company is not hurt. We are for sure delayed by this -- on this DKK 400 million that I mentioned in EBITDA by the year, but the story untouched.

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

On France, over the last few years, we've actually made a lot of organizational structure changes, as you probably remember, and we've gone from 35 branches down to 9 and that has been implemented and actually is in place today. The big issue here is that in connection with this, we have actually had some efficiency losses in restructuring the business in France, and a big part of it is that we have a centralized back office, which is still being supported also in the branches, the 9 branches, so we have a little bit of double cost. And that double cost needs to come out and that's why it's a completely different situation than before.

We still need to optimize somewhat on our contracts because there are a little bit too many hours used by contracts, but that we are operationally reducing. Main point is we need to now reduce the overhead structure that is double at the moment between the regions and the centralized function. So an easier thing to deal with than what we've seen before in France. We have not lost Key Accounts. We have slightly negative growth in this part of the business, but we're quite confident that they can be turned around. We don't -- do need though to have more urgency, more execution power behind it, and that's why we've also changed the team as you saw. That's the key driver behind it, also with local management capabilities.

On the onerous contracts, yes, you're quite right that this is expected to be neutralized by the provision, of course. There is an expectancy to be a slight -- a positive part of this over the time, but we're being prudent on what we can see that right now we need to turnaround. But we do expect this to turn into profit, all of this taking to account with the onerous part, but we think we're on the prudent side of that.

Operator

Thank you. As there are no further questions at this time, we'll hand back to our speakers for the closing comments.

Martin Kjær Hansen ***ISS A/S - Head of Group IR***

Thank you. That concludes today's investor call. Thank you for participating.