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PRESENTATION

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

Good morning, everyone. This is Martin Hansen, Head of Investor Relations at ISS. I welcome -- would like -- I'd like to welcome you to this strategy update. Following the presentation, we will open for Q&A. The announcement 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'll post a transcript after the call as soon as it's ready.

I'd like to draw your attention to Slide #3 regarding forward-looking statements.

Presenting today will be Group CEO, Jeff Gravenhorst; and Group CFO, Pierre-François Riolacci.

With that, I'll hand over to Jeff.

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

Thank you, Martin, and good morning, everyone. Our strategy of The ISS Way has incorporated 2 distinct phases so far. From 2008 to 2013, we started the process of building a differentiated platform, leveraging the position created by previous acquisitions, developing integrated solutions and taking local customers national and global. From 2014 to 2018, we've become more focused, far greater selectivity around which customers we wish to prioritize, i.e. Key Accounts; which services we need to deliver, i.e. -- mainly site-based; and to some extent, in which geographies.

From 2019, The ISS Way will enter a new phase -- new growth phase. We have a clear ambition to increase our organic growth in 2019, 2020 and well beyond. We will achieve this by accelerating our transition to Key Account customers and our investments in them. We will refine our geographic footprint by exiting those countries where the Key Account opportunities are less relevant. We will complete our exit from the noncore activities and reallocate capital back to our Key Account business.

Please turn to Slide 5. Our view on the market backdrop has not changed. We operate in a fundamentally attractive FM market with an outsourced value of approximately USD 1 trillion. Underlying demand is stable and growing, but that growth is strongest with the Key Accounts, which we believe comprise approximately 40% of the market.

With regards to customer trends, one larger Key Account customers continue to move away from input-driven towards outcome-driven solutions. Outsourcing deals for these customers are increasingly national or international, and the service scope is broadening, with the integration of bundling being prevalent. Customers demand cost efficiency, but they also want risk assurance and excellence, including better workplace experience. And lastly, technology is becoming more important, with data key to driving both productivity and enhanced user experiences.

With regards to the competitor landscape, local competitors are looking to broaden their service offering, but many remain entrenched in a price-centric solution and are struggling to make required investments to fully meet customers' demands. And in addition to that, only a small handful of players are able to credibly offer national, let alone multinational solutions. We believe ISS is in a strong and leading position within this market.

Please turn to Slide 6. As mentioned, we believe the Key Account market comprises approximately 40% of the global outsourced FM market. This implies, despite being a market leader, an ISS market share of less than 2%. So we have ample room for growth in many years to come.

Please turn to Slide 7. As you know, we have already demonstrated market success with our Key Account customers. This is clearly evidenced by our track record within Global Key Accounts, where we've seen a 5-year revenue CAGR of 12%; and also within Integrated Facility Services, where we've seen a 5-year CAGR of 8%. These trends continues.

Just since Q3 results a month ago, we successfully signed, one, a new Global Key Account customer within the Business Services & IT segment; two, a 7-year extension and conversion of one of our largest Global Key Accounts, UBS, into a Global Key Account; three, a major new U.K. customer, once again, within the Business Services & IT segment; and,four, a 5-year extension and expansion of our relationship with New South Wales schools in Pacific, our largest account in Australia. The combined annual revenue from those 4 customers is around DKK 2 billion, of which new revenue represents around 1 percentage point -- 1% of group revenue.

The financial metrics of Key Accounts are also clear. They offer better win rates. They offer longer durations contract and higher retention. They offer higher potential for share of customer wallets. In turn, they offer stronger growth.

However, we also need to acknowledge the significant progress that we made in recent years has not yet come through in our overall financial performance. And there are 2 main reasons for this: one, we're not yet fully capitalizing on the growth opportunities afforded to us by Key Accounts; but more importantly, time, resource and capital has been spent fixing performance issues in parts of our business that are not part of the Key Account story. This includes a long period of these divestment activities, including significant restructuring that we need to bring to an end. We plan to address both of these factors.

Please turn to Slide 8. So what determines a Key Account? What are they looking for? And how does that impact the way we need to serve them?

For Key Accounts, the outsourcing decision is more strategic, not simply operational, the value outcomes, not merely inputs. Cost leadership is important but not at the expense of operational excellence or risk assurance.

Segment expertise is critical, and we're expected to deliver solutions that support our core business needs. These customers demand a high touch of interaction with the Key Account manager that is suitably trained and certified. To deliver against these Key Account customer needs, it is essential that we build and develop our industry segment capabilities. We must organize ourselves in a way that allows us to leverage volume, concepts and talents across customers, across countries and across regions. This is what we have done throughout our great transformation journey.

Today, we are much better informed about where the Key Account opportunities are most prevalent. We now seek to concentrate capital and resource in those areas to support compelling long-term growth and attractive returns and plays to the strengths of ISS.

Please turn to Slide 9. In order to maximize growth from our Key Account focus, we need to invest further. As such, we will undertake a 2-year program of accelerated investment. This investment will comprise project-related operating expenditure, capital expenditure and selective M&A. After 2020, operating and capital expenditure will return to normalized levels, but we'll continue to pursue M&A opportunities. Principal areas of investments will include catering services, technical services, workplace management and technology and data.

And we 3 -- and we see 3 key areas behind our investment plans: one, we wish to strengthen our service and platform capabilities, filling in white spots within the key geographies to ensure consistency and transparency of service delivery, for example, with catering and technical services; two, we seek to scale all the capabilities, accelerating the rollout and the deployment across our major Key Account customers, for example, workplace and associated technology; three, we will selectively explore and invest in new breakthrough capabilities, services that may lay outside our current offering but which complement and strengthen our value proposition and which could be readily scaled across the group. It goes without saying that we will be disciplined. We expect financial return from these investments to be compelling. Whenever we do not have sufficient confidence in the financial returns achievable, we will return surplus funds to shareholders. Pierre will come back and elaborate later on the capital allocation.

Please turn to Slide 10. ISS is changing and will continue to do so over the coming years. As this happens, our impact on working communities is becoming greater. This is consistent with our customers' needs to create engaging, environmentally friendly and efficient workspaces. From our origins as a provider of single-service, soft FM solutions, we've built a strong suite of FM services with a heavy self-delivery capability. Whilst Facility Services remain our core, it is now just part of our offering to customers. Through the acquisition of workplace management and design company, SIGNAL, our growing investment -- and our growing investment in data and technology, we've developed our workplace offering, both advisory and service solutions. In addition, we've also built a growing project management capability both in capital projects and change management projects, and we see scope for further growth. Today, our value proposition to Key Account customers covers not only their property but, more importantly, their impact on the environment and the engagement of their people.

So in terms of property, we protect and maintain buildings and the key assets inside them. A critical combination of data and insight allows us to optimize the efficient use of customers' workspace as well as the performance and maintenance of the asset that keeps those spaces functioning.

In terms of environment, our Key Account customers want us to -- want to minimize their impact on the environment, and we help them realize that goal through our expertise and best practices. We help customers reduce their consumption of energy, carbon and water and their production of waste.

And finally, in regards to people, as said, Key Account customers are becoming more focused on the workplace and its impact on building users. ISS now plans a pivotal role -- plays a pivotal role in that process. Our knowledge, supported by data, allows us to assist customers in creating the optimal working environment. This drives engagement and well-being of people, both our customers' employees and their clients.

Please turn to Slide 11. The ISS Way has always been about choices, which customers do we serve, what service do we deliver and in which geographies. This strategy is not changing. Our focus on customers and services has been sharpening for some time.

We now plan to accelerate our focus on Key Account customers and complete the exit from noncore activities. However, we are, today, making some bolder choices on the geographies we really need to be in. We cannot justify a presence in a country unless the country supports a strong Key Account [focused showing] consistent with the strategic focus of the group.

Please turn to Slide 12. We are announcing our intention to exit 13 countries which simply don't fit with our story and don't contribute significantly to our Global Key Account delivery. In short, these local markets tend to be dominated by smaller price-centric customers. We cannot fully leverage the benefit of volume, concepts and talent. And we cannot always generate attractive and sustainable returns at a commensurate risk.

As mentioned, we will also complete the divestment of noncore services entirely consistent with our strategy of recent years. These services are not relevant for our Key Account customers, mainly are more route-based and have higher number of customers with a lower average revenue per customer.

The capital we released from these planned divestments will, as a priority, be reallocated back into our core business to support the investment program I've -- that I've outlined. This capital is our shareholders' capital, and we are duty bound to invest it in a manner that yields the strongest and most suitable returns. So once again, we will be disciplined in our approach, and surplus funds that cannot be allocated in the value-accretive manner will be returned to our shareholders.

Please turn to Slide 13. These planned actions strengthen our focus, our focus on and our investment in our Key Account strategy. However, they will also create a significantly less complex organization, and it will reduce risk. Post these actions, we'll expect to see a reduction in customers and employee numbers of 50% and 21%, respectively. The 63,000 customers of the future amounts -- future amounts to a massive reduction from the 200,000 we had at the time of our IPO. Approximately 1,000 Key Accounts will generate more or less 50% of revenue on an adjusted basis, and the share of IFS will -- is expected to increase. The new IFS growth platform will be simple, will be aligned and will be nimble.

Please turn to Slide 14. These actions have to drive an improvement in our financial performance. We see greatest opportunity coming from stronger growth. We now target growth -- an organic growth of 4% to 6% per annum, which we expect to deliver in 2019, 2020 and beyond into the medium term.

With that, I would like to hand over to Pierre-François, who would provide some more details on the financials, so please turn to Slide 16.

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

Thank you, Jeff, and good morning, everyone. Today's plan marks final large-scale portfolio adjustment. Once completed, we will be left with a stronger revenue base and also de-risked operating profit.

If we use 2017 as the most recent full year accounting numbers as a basis of comparison, we are looking to divest approximately 12% of revenues, 8% of operating profit and even less in terms of free cash flow. The bulk of the divestment impact is related to countries, and countries would be treated as discontinued operations. We will note that the adjusted organic growth, excluding the planned divestments, at 3.1%, is 0.7 percentage point higher than the reported 2.4%. The continuing business is showing a similar high performance in 2018.

Turning to the operating profit bridge, you will note that the margin of the business to be divested was below group in 2017. Our expectation has all along been for some of these countries to improve their performance somewhat going into 2019. And as such, we expect the margin differential in 2019 and 2020 to be immaterial. So you cannot adjust more than a few basis points going forward, if anything.

Through divestments, I expect it to result in proceeds in the range of DKK 2 billion to DKK 2.5 billion, net of any divestment costs and also net of any reorganization costs. As provided in several details in a few slides from now, these proceeds will be reinvested in the business to drive the pronounced uplift in organic growth that Jeff just described.

Please go to Slide 17. With the step-up in our exposure towards Key Accounts and with an even stronger focus on Key Accounts in general going ahead, I would like to just briefly highlight a few key characteristics related to Key Accounts.

First, on organic growth. Our Key Account segments have consistently delivered 4% to 5% annual organic growth during the last few years compared to non-Key Account segments at 1% to 2%. And our Key Account segments are currently delivering 5% organic growth despite the loss of the HP contracts and the international bank we also lost.

Key Accounts have a higher retention rate, 93% versus non-Key Accounts at 89% on average, and also drive more nonportfolio revenue as well. In addition, we intend to grow our individual Key Account partnerships over time not just from contract term to contract term but also during the term of the given contract as a result of both excelling and cost saving. These clients simply tend to give us more business to save more money but also to improve themselves.

Secondly, on margin. The margin profile can vary significantly depending on the structure of the contract, of course. But still, for a majority of contracts, margins typically start low and also see a short-term impact at an extension. But it typically reach the required run rate by the end of the first year as the agreed changes on efficiencies are effectively implemented and grow gently from there, supported by upselling.

We have greater margin on second- and third-generation contract is not different from the initial contract period. And to close the point, while Key Accounts are slightly more attractive from a net margin perspective today, we will, going ahead turn this upside into further competitiveness and growth.

Third point, working cap. Some larger Key Accounts, they do require significant transition and mobilization and, at times, also sign-on fees, which, in accordance with IFRS, are capitalized and amortized during the initial secured contract period. While the capitalization has been very limited in the past, it may increase a bit as a consequence of the gradual focus towards larger clients, larger contracts. As of September end, the total amount of capitalized transition and mobilization costs in the balance sheet was less than DKK 400 million, of which Deutsche Telekom makes up approximately half.

Lastly, Key Accounts sometimes demand longer payment terms. They're also -- they are usually paying on time. In cases where there is a gap between what the clients require and the payment terms which are acceptable to ISS, we may, from time to time, look towards using factoring or supply chain financing to bridge the gap. If we do, then the cost will be fully priced into the contract and, ultimately, paid by the customer.

Note that in the cases factoring is not designed and used to give us net cash benefit, it is designed to support growth in Key Accounts. It is also important for me to stress that any factoring or supply chain financing at ISS is done on a nonrecourse basis, meaning that once it has been sold, ISS holds no credit risk whatsoever. As of end of September '18, our total factoring and supply chain financing outstanding was DKK 1.1 billion, about 10% of our trade receivables. The related cash and financial expenses year-to-date is less than DKK 50 million.

We expect the use of factoring and supply chain financing to increase as we grow with large Key Accounts. Deutsche Telekom will be no exception. We analyzed that there is a market interest in packing -- our use of factoring and supply chain financing. And as such, we will follow up on this information going forward.

Please turn to Slide 18. At the end of the day, we expect our Key Accounts focus to give us stronger free cash flow outcome. Superior organic growth and slightly higher EBITDA margins will drive a higher and faster growing EBITDA. This will be slightly outweighed by a slight working capital drag related to growth, mobilization and payment terms, among others. While our guidance remains unchanged at more than 90% cash conversion, we are likely to average low to mid-90s going ahead on the back of significantly higher growth.

In 2019, the cash conversion is likely to be somewhat below 90% given the peak of the Deutsche Telekom mobilization and start-up, about further DKK 200 million in working cap impact expected in '19. There of course, the cash conversion will remain above 90%, Deutsche Telekom adjusted. With the finalization of GREAT, other expenses will come down to an underlying restructuring, which has historically been closer to DKK 100 million to DKK 200 million a year.

With the simplification of the business announced today, the normalized level of restructuring should be in the low end going ahead. As such, restructuring will go ahead -- going ahead, be accounted for revenue in line with this in operating profit.

Capital expenditures are expected to remain within the historical range of 1% to 1.5%; and at the high end of the range in 2019, due again to the Deutsche Telekom transition as well as investment in the business, as covered in a moment. Net, our plans will result in a stronger and faster growing free cash flow, which ultimately grows in line with the superior organic growth. In the medium term, we expect to reach a free cash flow of about DKK 3 billion despite our divestments.

With that, let's turn to capital allocation on Slide 19. Sorry for a bit busy slide, but this is absolutely key and fully consistent. We are divesting part of the business not only to simplify but also to free up capital to reallocate for hiring plans and to support growth. During the next 2 years, we expect from the business to generate a free cash flow in the area of DKK 4.5 billion to DKK 5.5 billion before any incremental M&A or investments, so based on the LSS that you know today basically. Because of recent uncertainty and timing of divestments and acquisition, but it is factored out in the range. On top of this free cash flow, we expect divestment proceeds of DKK 2 billion to DKK 2.5 billion, net of any divestment costs, net of any reorganization costs related to these divestments. It means that we will have a combined DKK 6.5 billion to DKK 8 billion net cash flow available. That will -- the upper part of the slide.

At the lower part of the slide, you see how we expect to reallocate this capital over the next 2 years. First of all, we are not selling assets to delever, the deleveraging will happen mainly through the solid growth in EBITDA. We don't change our target, we'd keep our target, but we would get closer to where we want to be through the growth of EBITDA.

Then as a start, we will be investing more in the business. Some of these investments will be direct investment in ISS to transformational projects to the tune of combined DKK 700 million, DKK 8 million -- DKK 800 million for both years, fully funded by our divestments proceeds.

We remain fully committed to our ordinary dividend target of around 50% of net profit adjusted. And through the 2 upcoming years, we plan, at the very least, to keep the dividend stable at DKK 7.7 per share, which amounts to approximately DKK 3 billion in total over 2019, 2020.

In addition, we will be returning at least 25% of the net divestment proceeds so at least DKK 0.5 billion in the form of a share buyback or extraordinary dividends. Combined, this means that we could potentially return around half of the net cash available, that is DKK 3.5 billion; in another word, about DKK 20 per share, to our shareholders over the next 2 years.

Last but not least, we will reallocate capital in the form of M&A, to have a residue of DKK 2 billion to DKK 4 billion [very distant]. I believe Jeff has already covered our appetite and rationale for acquisitions, so I would just add that we will remain as disciplined as we have been since IPO. We will operate with the healthy internal competition for capital and let the opportunities with the highest return get through. As a turning one, the hurdle rate is a free cash flow return before interest about 10% after 3 years.

Please turn to Slide 20, a closer look at our transformational projects. We are encouraged by our success with global customers all over the world and the global Key Accounts in Germany, in the U.K., in the Nordics and quite a few countries to make bigger and bolder investments in order to unleash the full potential of the strong platform we already have in place. We have identified a number of transformational projects, fully funded by our divestment proceeds. And we will be putting more resources behind them than ever before. To be a bit more specific, we will accelerate the rollout of a technology-based developed Facility Management System, which will become the backbone for all other technology and data-driven initiatives. By the end of '18, we'll have migrated Key Accounts clients generating close to 10% of our total Key Account revenue. By the end of '19, we target to be above 50%; and by 2020, more than 70%. This will come along with an ISS suite, a suite of solutions covering end-to-end processes in front office and back office.

We have also launched a Global Shared Services organization. As you know, we are coming to the end of rolling out GREAT, a standardized country structure across the group. We are now ready to start reaping further benefits from centralization, standardization and also automation. These initiatives have been kicked off in the U.K. and will accelerate in other countries on the back of the ISS suite.

Another initiative is the organic build-out of Technical and Catering Services as well as Strategic Workplace Management and Design. We are currently doing it with technical services in the Nordics and in Spain, with catering in Australia and with workplace management and design in the U.K.

There will be cases where this will even include taking over in-house facility management organization from blue-chip Key Accounts, whereby we effectively take over a company delivering to one large key account. And with it, we also take over the capabilities. We have been, in the past, successful in this sort of schemes.

Finally, it is time to invest in sales, accelerating the conversion of the G200 pipeline, which remains strong. As a reminder, the G200 covers large international corporations where ISS seized a particularly strong opportunity for growth, most of which we already have the pre-existing relationship with somewhere. Today, our market share is just 2%, with a very significant potential for growth. In total, we anticipate to spend between DKK 700 million, DKK 800 million in total over '19 and '20, following which the costs will either disappear or will be fully covered by benefits deriving from the very same initiatives.

While these investments are fully funded cash-wise by our divestment proceeds, the nature of it from an accounting perspective, is that it will become OpEx, for example, migration cost in the big IT project and CapEx or working cap. So we expect to see partly both the margin and free cash flow impact instead of simply cash outflow if it was done through acquisitions. These investments would most likely be, broadly speaking, 50-50 between OpEx on one side and CapEx and working cap on the other side.

Please turn to Slide 21. To wrap up on our capital allocation from now, I would like to briefly touch on the largest acquisition we have concluded since the IPO. In May '17, we acquired one of North America's largest contract caterers, Guckenheimer. For this acquisition, we closed our biggest white spot in the world, largest facility service market and, at the same time, enhanced our IFS offering to Key Accounts significantly. With this, ISS is now the world's fifth largest contract caterer. And through our ownership, Guckenheimer has grown 24% organically; that is 17% annualized.

In addition, we are in the process of leveraging our scale to drive cost synergies, we classify improved margin by 0.8 percentage points. Through the successful integration, we are on track to deliver on the expected 9x post-synergies EBITDA multiple and the 10% free cash flow yield on our investment after year 3.

Our discipline and patience has paid off, and we will remain disciplined and patient going ahead. It is illustration of our acquisitions criteria going forward: strong Key Account focus with no big tier or small customers; multi-years contract with higher retention rates; technical services; catering services; geography-wise, North America, selected European countries; restructuring synergies; and finance-wise, strong financial case with 10% free cash flow before interest after year 3.

With this, I would like to turn to Slide 22 for a brief update on our reporting going ahead. In accordance with IFRS, any cash-generating units undergoing divestment, countries for us in ISS, discontinued countries, will be placed as discontinued operations. Business units are not separate cash-generating units and cannot be discontinued. And as such, they will remain part of the ongoing business until they are divested. Restated figures, i.e., disc op, will be provided once the divestment process has been initiated, expectedly in connection with the 2018 annual report in February. So we'll come in Q4 with a disc op treatment. The classification of countries (inaudible)

(technical difficulty)

in connection with the 2018 full year results. Of course, we also expect a number of these divestments to lead to an accounting way that it will be recognized only on closing.

Turning to restructuring. The GREAT organizational rollout, which started in 2013, is now coming to an end with France in 2019. It has been the key driver behind our high restructuring spend so far. Excluding GREAT, the remaining restructuring has been between DKK 100 million and DKK 200 million per year. And with the simplification of the business announced today, some normalized level of restructuring should be in the low end going ahead. As a result, overall restructuring account -- all restructuring charges will, from 2019, be accounted for within operating profit before other items.

In 2018, the cash metric used for short-term incentives was changed from the usual working capital-linked cash conversion to the full free cash flow conversion, including other expenses paid. From 2019, all incentive KPIs, short term but also long term, will be after restructuring.

Finally, from 2019, we will align our reporting to the international industry practice of semiannual reporting. We will publish a trading update in connection with quarter 1 and quarter 3, and the quarterly conference calls and roadshow activities will remain unchanged.

One point before we move on. We have indicated that we confirm outlook 2018, both organic growth and margin. It goes with the current disc op treatment, as it was displayed in Q3. And reporting numbers in Q4, they will be impacted by today's announced revision, but we will be 100% cost to run so that you can track numbers before the new disc op and track on the execution of our commitment.

A few words, Page -- Slide 23, on the margin profile going ahead. And I'm conscious that we have announced a few margin-related drivers today, so I would try to help you to put everything together.

You know our operating margin as it is reported today, that is prior to today's communication. And nothing has changed in our expectations on this basis. We are seeing a recovery in our margin coming through. We continue to expect to end in line with the outlook for 2018. And we expect margin to be higher in 2019, driven by run rate improvements which more than outweighed the positive one-offs that we have in '18 and that we have discussed many times.

The margin-related update today relates to transformational projects, which will be key in accelerating the Key Account agenda and, through this, the higher organic growth. It relates also to the reclassification of all restructuring above the line. And finally, it relates to the discontinuation of the countries mentioned earlier, in the presentation. Our medium-term commitment has been to deliver our margin in line with the historical range.

On that note, our 10-year average margin before other income and expenses is approximately 5.7%. As such, a difference to the new medium-term guidance of around 5.5% be driven purely by the change in accounting for restructuring above the line.

In summary, we continue to see 2018 as a low point and expect margins to move forward in 2019 and 2020, both on the old and the new basis.

With this, I would like to hand over to Jeff for the final remarks. Please turn to Slide 24.

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

Thank you, Pierre. As previously mentioned, we are convinced that the simplification and further focusing on Key Accounts, together with our value-creating investments, will enable us to deliver industry-leading organic growth of 4% to 6%; starting already from next year, the organic growth should be above 5%. We remain as committed as ever to deliver robust margins consistent with our long-term track record. Including restructuring, our margin would be around 5.5%. Finally, we target free cash flow of around DKK 3 billion in the medium term from 2021.

Please turn to Slide 25. Before we open for Q&A, I would like to round off with 4 key points that I believe are essential to today's update. First, we confirm our full year guidance for 2018, both in terms of organic growth, margin and the cash conversion. Two, from 1st of January 2019, we will shift to semiannual reporting, and all restructuring charges will be booked above the line. Three, with today's strategy update, we've confirmed our belief in The ISS Way strategy. Our belief in the Key Account customers is as strong as ever, and we will be improving our delivery capabilities even further. And four, we will be undertaking a 2-year investment and divestment program to deliver industry-leading organic growth of 4% to 6%, next year above 5%; robust margins including restructuring of 5.5%; and strong free cash flow of around DKK 3 billion from 2021. In addition, we're likely to return about DKK 3.5 billion or DKK 20 per share to our shareholders over 2019 and 2020.

And with that, I would like to open up the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Michael Vitfell-Rasmussen of ABG Sundal Collier.

Michael K. Vitfell-Rasmussen ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

I would like to start off with a couple of questions. First of all, on the organic growth guidance that you've now given us for the, yes, medium term, when we look at this for 2019 and 2020, the 4% to 6%, assuming that 200 basis points of that each year is Deutsche Telekom, then the underlying growth, the remaining growth, so to say, is at least at the low -- at the midpoint of that new guidance, dreadfully low numbers. So maybe you can talk a little about that. And then the second thing is, and I do understand, of course, that you are reinvesting back in the business, but what makes you so confident that the growth will pick up in 2021 and going forward? My second question is a little bit more on -- in terms of the divestments. I do recognize that the businesses that you have been selling in the past couple of years have been higher-margin businesses but probably more noncore for your strategy. What should we expect in terms of multiples for the new businesses? And yes, do you any ongoing negotiations already at this moment?

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

So thank you, Michael. On this organic growth for 2020 -- sorry, for 2019 and, of course, also 2020, as we say, and we're guiding 4% to 6%. Obviously, next year, the Deutsche Telekom will kick in at the midpoint of the year, so around 1st of July. And of course, we'll have an impact up to the midpoint of 2020, which is in line with what you say. And that will give around 2 percentage point per year. Then, of course, it's also part of our strategy. This is -- the Deutsche Telekom is a Key Account, so it's part of our Key Account movements. We were also impacted a little bit in the first quarter, as you would recall, still got the HP loss and also from the large international bank that hit the first quarter of 2019. So we do -- you'd have to expect that the first quarter is lower, and then it builds up during the year, so that's one of the reasons why when you make your calculation, that it seems a little bit light. if you go into the year after, obviously, it's very early to do the guidance for 2020. Having said that, if you look at the Slide 17 in the pack, you could see that the growth of Key Accounts has been 5.1%, 4.2%, 4.9%. So we're quite confident that we can continue to build on the strategy and particularly also with what we're doing now. But the guidance is 4% to 6% and is still a little bit far out on a long period to be guided in advance. But we are looking at this is as a midterm target of 4% to 6% organic. Secondly, the reinvesting, why do we believe in the -- sorry, I lost my train.

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

In term of how do we -- the extent of this growth beyond...

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

Yes, sorry. On the midterm target for the pickup in the underlying organic growth for 2000 -- and grow beyond that, again, it's the same thing as just I said, that we can see the growth coming through on Key Accounts being above 4% over the last 3 years. And of course, would be -- have added the investments that we're doing now and the simplification of the organization, we will see more of that underlying trend as we've seen for the past 5 years come through also on the overall part. So maybe, Pierre, if you take the...

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

Yes, on the multiple, it's always a bit tricky to give a straight answer. However, we give a bit of information in our slide, as you see, that we expect note proceeds to be DKK 2 billion to DKK 2.5 billion. And we also indicate that in '17, the EBITDA related to these assets is about DKK 400 million if you add up countries and BUs to be divested. So it gives a net multiple around 6x, which is, of course, not brilliant. However, you've seen also that these assets have been underperforming the group, both on the organic growth and the margin in '17. And I indicate that also certainly '18 was more or less in line with the '17 trend. So these are not definitely -- the best efforts are there. And compared to what you've seen in the past, these noncore, nonstrategic assets are not the one delivering above-average financial performance. This has been factored in as a multiple, which again is net of any transaction cost but also any restructuring associated through these divestments. We do expect associated restructuring to be quite small on countries because when we divest the country, it's not a massive impact on the organization. There will be, of course, a few things to be done. It would be limited. On the contrary, when we divest BU within an organization, there might be a chance because we'd have to adjust the country organization. Do we have some of these deals which are already in the pipe? A few, if you are there, we chart in there, and we are moving forward. Now let's be very clear, we will communicate on this transaction as they are closed. We don't want to be under the pressure of releasing the full list of the BUs, and we need to get the value. It is very important that we make a high evaluation of these assets, which means that we need to be able to manage them in a good condition but also we need to be able to run processes which are in the range of maximum revenue to shareholders but also to the future of these assets. So we don't plan to be too precise, but yes, of course, we are already engaged in some transactions.

Michael K. Vitfell-Rasmussen ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

Can I have a bit of a follow-up question on the organic growth, Jeff? In your closing comments, I think you mentioned that 2019 organic growth was above 5%. So is that actually meaning that you're pointing to the higher end of the 4% to 6% in '19 despite the Q1 impacts? Or the...

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

As I -- it's too early -- with the guidance particularly for the year, but we're saying it's above 5%. That means that we will be above 5%. I'm not going to go any further into that, Michael.

Operator

Our next question comes from the line of Paul Checketts of Barclays Capital.

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

I've got a few questions, please. The first -- I'm just hoping to understand a bit more from a Key Account customer -- key customer account perspective, if you look at one of your existing Key Account customers, and you fast-forward 2 years post these changes, how much extra services would the things you're proposing today offer those customers? Or is it that you're just narrowing down the parts of the business where we don't have Key Accounts? That's the first one. The second one is on the margin guidance, which is, I'm paraphrasing, but essentially it's flat margins, and of course, stripping out the companies that you're divesting, you'd expect a step up. I think that in dealing in old currency, that 5.7% margin goes to something like 5.9% when you take those out, simplistically speaking. I know that some of that will be standard cost, et cetera, but is the message that there is actually going to be a slight step down on the remaining Key Account work? And from a longer-term message perspective, should we be taking out any margin improvement from our models?

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

Yes, thank you, Paul. On the Key Account perspective on what we expect from extra works. No, I actually believe that what we're doing now on -- one, focusing, of course, on Key Accounts. You will see more of the above base coming through as a natural progression of Key Accounts increasing. From an individual account, and I assume this is your question on an existing account, there will be, of course, more services that we deliver to current accounts also going forward. That means more capital project works, but also more work like, experiences work. So as you might recognize what we can work with, how do we create new workspaces that gives better engagement, better environmentally friendly buildings and high utilization off the buildings. That is an advisory part, which we'll be coming stronger at -- particularly also since our purchase of the -- acquisition of the SIGNAL business. So that we are expanding. As we mentioned last time, I think it was Q3, we also showed that we have now expanded the location of SIGNAL, also incidentally the biggest of our markets within the U.K. market, where we already have some traction on that expansion. So percentage-wise, it's always hard to say exactly how much that is, but we'll expect to see increasing above-based sales for existing clients and of course, as we get more clients on board, that will also enhance on our organic growth going forward, and that's, of course, part of the reason why we believe in that the 4% to 6% organic growth will come through on the top line in this period. And Pierre?

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

Yes, thanks for those very good question. I mean, yes, it's tempting to add up -- to open to margin dilution that we have in these activities and businesses that we are divesting. However, please bear in mind that these businesses have been underperforming indeed in '17 and '18, not necessarily forever. And when you are actually anticipating in '19 going forward, a recovery on our margins for good reasons. We are also factoring in the recovery of these businesses. So going forward, it's a bit of a risk to adjust to 5.7% from the 0.2% because they have not been underperforming all these many years, and that's when we mentioned divesting our operating profit. It's also that we want to take away some of the volatility that is implied by operating these businesses. So I would not advise that you just adjust the 0.2%, and I hope I've been clear on mentioning this. Now I fully agree that we need also to recover some views on the margin development. And on the Slide 23, we try to give you some indication. And you can see that going from '17 to '18, you see clearly a dip in our margins. You know where is the margin today in the conferences and each of you, you have different view on that, and I would not comment. But you know that these margins are coming down. Also with a big impact of restructuring, so we are at the low point in '18. Also, we expect '19 to improve, where you are in '18, we expect '19 to improve on the back of lower restructuring that will help, and that's no secret, but also on the back of margin improvement driven by run rate. Despite the one-off, we expect, of course, '19 to improve. Then going forward in 2020, we expect less headwind from the transformational project that would be expensed in the P&L, so that will smooth, and we try to give some color so that you can work that out in your numbers. And also, we would benefit from the stabilization of restructuring at what would be the lower end of historical range or, let's say, DKK 100 million or slightly over DKK 100 million, so that will help us and of course, we expect some margin improvement out of this. Now when we look forward, we've increased exposure to Key Accounts. To be very candid, yes, margins tend to improve, but we want to reinvest part of this margin into the business. I mean, you had a really good question about the organic growth of 5%, and this organic growth means that we are on our toes investing in our services, investing in technologies, to generate this growth and of course, it requires some investment which is also in the P&L through higher -- a bit higher depreciation, and that's why we hint that EBITDA margin would tend to increase, where EBITDA margin would stabilize in the range that we have mentioned. I hope it gives you some colors to work out the numbers.

Operator

Our next question comes from the line of Klaus Kehl of Nykredit Markets.

Klaus Kehl

You have this target of reaching free cash flow of around DKK 3 billion in 2021. And just to be perfectly clear, does that include net financials?

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

Yes, it does. It does include an interest cash out, and of course, the DKK 3 billion is usual one that we have been discussing, which will -- in the range of DKK 2.8 billion, DKK 2.9 billion for the previous years. And that's where we expect to be at DKK 3 billion after everything. So it's after all restructuring, CapEx, interest, working cap variation and, of course, including the impact of the divested assets where we are losing a bit of cash flow, but we expect to recover that from our top line growth, which would help EBITDA.

Operator

Our next question comes from the line of James Winckler of Jefferies.

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

I was wondering if -- I think you touched on it briefly but firstly, just if there's any context to the time line of divestments in terms of how we -- you said those would announce as they come up, which is also the kind of 1 quarter of it, which would be business exits. Is that -- should we just -- is that immediate or is that kind of spread thinly throughout the remainder of the year and starting now? And then also just wondering if there's any sort of additional other income expenses associated with the global rollout of the Global Shared Services program incrementally based on what you've previously guided to or if that's baked into the DKK 100-plus million range that you've just referenced as of now in terms of update?

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

Thank you. On the time line of divestments, we expect to complete most, if not all divestments early 2020. It will not be all back ended, of course, so we expect that it will go through the full 2019 up to the beginning of 2020. That's where we are. And we are not going to put ourself in a corner on commenting on amounts on quarters and that sort of things. We need now to execute this transaction in a good way again, and we do expect this to be completed throughout 2019 and possibly going a bit further in 2020, and we will, of course, tell you as we do. On the -- in terms of restructuring, I mean we have mentioned these projects-related costs, and of course, it does cover the cost of implementing solutions and this number that I have mentioned, whether they are in projects, whether they are in the normal restructuring, they do account for everything we have to do throughout all the solutions, and that is precisely the reason why we want to be very clear about this amount of transformational projects we have to roll out.

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

Okay. So it does -- the DKK 100-plus million that you're guiding to for other income expenses moving forward does include the expected cost of that rollout?

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

It is all in. It is all in.

Operator

Our next question comes from the line of Bilal Aziz of UBS.

Bilal Aziz ***UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst***

Just three questions from me, please. And firstly, just on the use of the securitization, and I know you suggested an increase in the use of those facilities going forward I guess for late commercial use. Do you have any upper limit on these facilities pertaining to the potential receivables or any other metric? And the second question, related to 2019, I appreciate you're not guiding today, but you have announced assuming more contracts today as well, some detail around those -- with regards to 1-day ramp up would be helpful, please. And lastly, I appreciate you have changed around some of your management KPIs with regards to free cash flow and restructuring now above the line. Is the percentage of the incentives with regards to what associates organic growth or margin performance changing as well or is that still the same?

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

Yes. On the securitization, yes, we do have upper limit. You need to know that all factoring and supply chain financing has to be approved centrally. So this is something that we do in our treasury teams here, of course, it's executed in countries, but this is something which is premonitored centrally, and we do have an upper limit, which is to be very calmly at about 25% of a -- above total receivables. We are pretty far away on that upper limit. Of course, if we do it with Deutsche Telekom, and we will keep you again very much -- we'll be very concerned on that because, again, this is linked to the growth of our Key Accounts and we'll be quite open about it. But again, centrally determined and we have the upper limit. On the 2019 guidance, I think that Jeff already alluded to the ramp up. It's clear that the first half of the year will be on the low single-digit side. Of course, in continuation with our H2, you know that in Q1, we have this still some contracts going out. We have also a good basis of comparison because we had some [crude] impacts still in Q1 '18, so that explain why we have a bit of a soft start going forward in '19. And then we expect these contracts actually to kick in. Some of them they are kicking in Q2. And then, of course, we have the big one, so which means that H2 will be a high single-digit growth, as you can imagine, taking us north of 5% overall. And that's it. And then the percentage of incentives are intensifying those -- all of the KPIs that were mentioned towards is going to be the same for the incentives, so they are short and long term whether they are the LTIP program or the short-term programs, they will be, of course, also after restructuring, so all of these KPIs are aligned to those incentive programs.

Operator

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

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

Two for me, please. I know we've spoken a fair bit about the time line for divestments. Could we maybe speak about the time line for acquisitions as well? Do you have an active pipeline? How active are they? So the quantum and maybe the geographies where you think this could be most relevant in the near term. And then my second question, I think on the call, really just to clarify, you mentioned you're able to pass through some of these factoring facilities onto the client in terms of increasing the price. Is it fair to say that, therefore, we'll see an improvement in the margin as this facility -- or potentially see an improvement in the margin as this facility grows with the actual factoring cost falling below and into the interest charge line? Just to get my head around the dynamics of that, please.

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

Okay, on the divestment, the active pipeline. Well, yes, of course, we do have an active pipeline and we do have active targets. We don't really comment on the individuals or the sum of them. But the key points of our interest is technical investments and technical services. North America, Europe, very important part and to continue to build up. As you noticed over the last quarters, we are organically building up our technical capabilities in Europe, of course, which has caused some organic investments, of course. But we are looking for technical investments in Europe. We will do technical investments in North America. Catering continues to be an area that we're building, and so that will also be predominantly in Europe, but it could also be in Pacific for that matter or parts of Asia. Apart from that, we are looking for workplace experiences, companies, they are -- tend to be smaller in nature but more competence-driven. So at the end of the day, all of the acquisitions we are looking for are competence-enhancing acquisitions, they're not really to bring in volume. You would say U.S., we still need some volume, but in the West, we are going to say it's mainly about getting competencies in technical, competency in catering and of course, competency additional within the workspace experiences part. So that's all we can say about the divestment and the acquisition pipeline. So yes, there are companies in there, and we would come back in due course. On the other part?

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

Yes. So the way it works is that when we look at the business case at the time of a tender, we will, of course, build our cash flow projections together with the P&L, and then we will look at the amount of working cap which is required to run as a contract. We will calculate the cost on that, that will be pretty transparent with the customers, and of course, we need to get remuneration on that cost, which is not the cost of debt because this is our balance sheet -- has to be the work. This is, as you can imagine, a tough discussion with the customer, we may have -- which may have a different view. And then the discussion and danger, okay, if you ask us to go for 90 days, what sort of financing are you ready to offer us? What sort of supply chain financing are you ready to offer us? And then the cost will be discussed and factored in the contract. And that's the way we actually incorporate into the business case the cost of this working cap. Just giving shade, I would like to remind that the year-to-date cost is 50 -- less than DKK 15 million. So we are talking about very small amounts, so you may argue, yes, but because interest rates are low, true, that's a fact. But you can show -- you can see also that we -- the decision that we make on countries, our exposure to low interest rate areas is increasing further. It's clear that we'll be mainly in -- of course, in the euro or pegged euro zone. So with an exposure for countries where cost of fund is low, and we are actually exiting some countries where, as you can imagine, interest rates are quite higher than that. So it's clearly, in our view, even if -- it's clear in our views, the way to control the cost is discussed being included, of course, in the business case that we deal with our customers. Going forward, to be very candid, it would not move the needle. I mean, this is not something that would move the needle, at least in the current rate environment. And of course, when we have supply chain financing, there is a discussion of rates, which is also part of the provision that you would expect in a contract with the mature customers, that if there was a massive shift in the interest rate, then you have to discuss the impact on the economics of the contract. Again, that's a good thing with this big Key Accounts, they are mature enough to understand that we will work not on cost of fund, but we need an adjustment in accruals on the cost and that I think is a good thing to be in that spot.

Operator

Our next question comes from the line of Allen Wells of Exane.

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

A couple for me, please. Firstly, just try to understand the moving parts on the investment plan, the CapEx side. I mean from previous comments, you sounded like we were only expecting the -- of the range, the 1.1% to 1.4% CapEx to sales. Now you're saying 1% to 1.5% at the top end of the range. What's -- if they can actually change that, but it doesn't sit for like, despite the comments around additional investment, the more CapEx fund that needs to move up that much. So what am I missing there? Secondly, just on the growth, just sort of coming back to one of the previous questions, it's obviously -- investment is required to drive the new higher 4% to 6% guidance. Consensus has over 5% it seems like for '19 and '20 in that already. So it doesn't sound like there's much upside over the next couple of years. So I'm just trying to understand, is this investment really sort of for beyond 2020 to drive upside? And then a third question, just on the restructuring. It sounds like there's no additional restructuring charges coming from the quite significant divestments. I just wondered if you can sort of comment how that's the case, I mean the context of historic divestments, which previously seen some additional costs there, so that seems a little bit strange. And then sorry, a fourth one, just very quickly, just on the factoring. Of that DKK 3 billion long-term 2021 free cash flow target number, what is the expected factoring in there, i.e., you guided 10% to 20%, that could be an additional DKK 1 billion I'm guessing if you get to 20% from the current 10%. What's expected in getting to DKK 3 billion by 2021?

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

Well, let's start with the CapEx first. I think the key point here is that we just need to get used to that. It takes -- we will have more investments going forward in the Key Account sector in terms of technology. In terms of also the robotics that will come into these things, so we'll, of course, replace some labor hours with more automation. And we just expect that we'll be at the higher end 1% to 1.5%. Whether that is going to happen quite like that, we don't quite know yet, but I know we've been running around 1%. We've always said that this business could require 1% to 1.5%. As we see right now, we're going to invest more in technology, as we just said. On the TRIRIGA platform, the people that are on ISS platform, that will require some higher CapEx. We do believe that the Key Account point should allow us to make more CapEx investments and, thereby become a little bit lower on the labor intensive doing this type of business going forward. That also is the driver for when we look forward on the 4% to 6% organic growth. Clearly Deutsche Telekom has some impact on both the 2 next coming years. We also see good growth coming through from our Key Accounts underneath, and this -- these investments are to give us a sustainable 4% to 6% organic growth, making sure that we focus early on the Key Account side. But that is the change. So we are not depending on this 1 big ticket of the [changing tech] also after 2020. So it will be more on the normal Key Account growth, as you can also see, from the last -- past 3 years, that they will come through on the top line as well. On the restructuring?

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

Yes, on the restructuring. First, the restructuring cost associated with this divestment, they are, as I explained, mainly focused on the BUs because on the country side, indeed the restructuring cost associated will be low because when you divest a country, we don't have a lot of restructuring to do. And again, you see that it's a chunky part of the divestment, which actually is related to countries. That explains one thing. The other thing is that the restructuring that we have to do mainly associated to be used, will be funded from the divestments proceeds, which means that the number that you get is net of restructuring, therefore, you will not see any impact actually of restructuring in these cash flows because it is financed through the divestment. And I hope that you get it, and I hope that it will give you some -- also some credibility in our restructuring going forward because we finance the restructuring that's divested -- lead to the divestment through the divestment proceeds. And the free cash flow of DKK 3 billion going forward on the factoring. Yes, we do expect factoring to go up. It was about DKK 700 million at the end of '17. We expect it to go up in '19, and we'll expect it to grow in '19 especially on the back of Deutsche Telekom. Now I'm not in a position to give you a number for the midterm. I think I gave you an indication of what would be the cap anyway, and unless we see something different in the market, we intend to speak to that position. So you could expect increase in '18, increase in '19. Going forward, it depends very much on the nature of the contracts that will fuel the growth. It may -- goes up slightly. It's not going to anywhere -- go above the sky.

Operator

Our next question comes from the line of Matija Gergolet of Goldman Sachs.

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

Two questions from my side. The first one is going back to say to the medium-term margin guidance. You already mentioned -- I think there was already a question about -- okay, if you made the disposal below margin businesses, why there's no improvement? But also for more conceptual basis, I think we always thought that the Key Accounts are a little bit, let's say, higher margins compared to, say, the rest of the group. And so you're now going to get more growth from, say, Key Accounts. If you do that over time leads to slightly higher margins over time, but this seem to be guiding for a margin which is relatively in line with the historical range. That's the one point. The second point is, just for a little bit more, say, maybe color or, say, precision around this -- around DKK 3 billion. I think in the past, you quite -- you have given us now several times some range, like the margin for this year, plus/minus 10 bps. On this DKK 3 billion, how should we interpret it? Can you give us a range plus/minus, say, how much do you expect around the DKK 3 billion for 2021 of free cash flow?

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

Yes. So quite rightful that. We actually see that the Key Account business is a higher margin business than the single service business that we've had, and we talked about it over the last many years that we'll continue to see, and we also see that we have good long-term possibilities of investing into contracts, which is in a good, stable upside and then performs by contract. But we're also saying quite clearly that we want to create a growth organization and, thereby, also investing into commercial activities but also investing into capabilities. But just make sure that we have a sustainable organic growth of 4% to 6% also going beyond the 2020. So right now, we're guiding around an improved margin but a stable margin, solid around the 5.5% after restructuring, and then we are investing into our sales machine of insuring 4% to 6% organic growth year-after-year also going beyond 2020. That is what you need to hear and that means, of course, we expect still to see better margins from the contract-by-contract, but also investing more in the commercial and capabilities to ensure the growth going forward. Okay, Pierre.

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

Yes, and maybe I know it's an important question. Let me try to give you some colors about how you could see this free cash flow developing over the next 3 year -- 3, 4 years. The first driver, the most important one, of course, is the top line growth. So you will adjust your 2019 numbers to account for this drop and then on the -- on top of this amount, you will build the growth according to your own forecast, but let's say, mid guidance at 5% a year. Then I think that we have discussed a bit about the EBITDA margin, we give you some indication about how it's going to shape in '19, '20, and with this information that I just share, so I guess that you can work out which sort of EBITDA margin you are waiting for -- expecting, sorry. Then depreciation. Depreciation has to go in your model for sure because we are increasing the level of capital expenditures and even if it will come down at -- after 2020, you would expect the depreciation is increasing. If you can take DKK 51 million a year, so you put it up and of course, you would end up in '21, '22 with a depreciation rate, which should be north of 1%, 1.1%, 1.2% depends on your model. But for sure you need to reflect the impact of depreciation, which means that the EBITDA is actually growing faster than EBITA. I think I have been very clear about that and that does reflect the potential for Key Accounts starting as well. Then you have the working cap. On the working cap, we also guide you a bit -- be closer to the 90s. We know that we have a strong track record of delivering close to 100% cash conversion. I think this is not sustainable with a growth of 5%, so clearly, we guide you, say, hey guys, be careful, don't take 100% market share run rate we have been delivering. Please make sure that you are below 95%. I'm not telling you it's 90%, but I'm just telling you be careful not to be above 95%, and make sure you decrease your cash conversion in the model, so that -- you see that we are in this streak to onward come out in our working cap depending on groups. Restructuring, I think we have been very clear. It's -- you need to take that down from '19 compared to '18, and you -- we have also already indicated some numbers, around 0.3% of the revenues, then it will go down further. On the tax side, we don't expect a revelation, you know what is our cash tax rate. So I guess that you can use something maybe a bit more conservative to make sure that -- you know that we are being overperforming our P&L, tax rate and cash, probably it's not sustainable in the long term, but we do have a cash tax rate, which is actually a bit lower than P&L. And we don't see a drastic change in these rates. Capital expenditures, we have already given you some colors, so I think what you have more or less, what you need to build your own model because if I go further, I would be building your model, and I would stop there. But I think that it's pretty easy to understand. So it means that '19, '20, of course, free cash flow will -- would show -- has impact of the projects that we are mentioning which is around DKK 700 million, DKK 800 million that's adjusted from these projects. You will see that '19 is hit by Deutsche Telekom again a bit. But that still has 2020. We get in a much better shape and '21, '22 are definitely years where we believe we can achieve this DKK 3 billion range that we have mentioned. I hope it helps.

Operator

(Operator Instructions) We have one further question so far, that's from Aymeric Poulain of Kepler Cheuvreux.

Aymeric Poulain ***Kepler Cheuvreux, Research Division - Head of Support Services Research***

Two series of questions, if I may. The first one is on the sensitivity of your assumption to economic cycles and risk, in particular. I understand the U.K. is the biggest block of economic sensitivity here. And what kind of a scenario have you got for Brexit, for example, on that, that would be helping just assessing the sensitivity to the economic cycle? And secondly, on capital allocation. You gave I think another rate of 10% on your investment. What will be your WACC? And generally speaking, when you have to make an arbitrage between growth and M&A versus buyback, how do you approach that? That would be helpful. And more generally on M&A, how big would the potential target be and what kind of net debt to EBITDA ratio you will be able to get to if you found an attractive, larger type of acquisitions?

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

Yes. So on the sensitivities and the assumption on the cycles. I think we all know of impact. We expect, of course, the world over the next couple of years to be a little bit of a standstill and maybe even go a little bit back. Plus, I think the key point here is that the Key Account sector that we're focusing on is a sector which is in the need of an improved property strategy, property delivery and that means, of course, also engagement. There is still a lot of competition on talents out there that means that we can support on better working places, work experiences, which is an area that not a lot of competitors can compete in. So we believe that with this focus, the investments we're doing into Key Account, we can continue to grow in the 4% to 6% range even with the environment as we see right now, which is not -- we don't expect to grow further, but probably be a little bit of standstill and maybe over the next couple of years, go a little backwards. We don't see a disaster from a world macroeconomics perspective either. I think when we look at the U.K., we have the -- we do expect that U.K. will have some issues over the next few years. We've said this a number of times. When the banks move out of the U.K. to other countries, we have, of course, the global approach, that means we can pick up the business somewhere else. Then it depends on where they go. If they go to Frankfurt, then of course, we pick it up in Frankfurt, which is, to a certain extent, the same sort of wage, if not higher. If we move through -- sort of through India or some of the other hops then, of course, it's a little bit lower. But at the end of the day, we have the capability to follow our clients around. In the U.K. itself, we still have a very strong position there. We just had the Facility Management Branding Survey coming out, and once again, we are topping the range. So we have a very strong position, which is also proven by the -- some of the wins that announced earlier also in this call today. No matter how Brexit pans out, yes, there will be some impact on the domestic need, and that, of course, is adverse declines that will hurt us. We expect some of that headwind in this, but we also expect that because of our strong position in the U.K., we can continue to win market share.

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

Yes, maybe one thing on that one is, the main uncertainty for us is the ForEx. It's not that we are exposing transactions. And we have demonstrated that in the fact that we are exposed to conversion. And even after this disposal, we still have significant cash flows, which are exposed in the U.K., in the U.S., and of course, the main uncertainty on the DKK 3 billion numbers in my book would be definitely correlated to the foreign currencies. It is always very difficult to forecast what it will be in 2 years, 3 years time. And this number that we have discussed, of course, they need to be understood under the current price environment. It's not that, of course, we cannot have 2%, 3%, 4%, 5%, but if there is a big shift in currencies, for sure it can help, but it can also be a headwind. On our WACC -- but I guess that many of you have your own views on that. You know that we are a very stable business, so you would expect the WACC, which is rather in the region of 6%. So it's clear that this 10% free cash generation difference is giving us a strong potential of value creation. For further reason why it is that high is because we need also a buffer on execution and even if we are being very successful in Guckenheimer and we are delivering, you also know that the acquisitions are not a walk in the park, there is always a risk. So you need to start with a big case and sign a big case, which is giving you some sort of buffer, and we believe that growing at 6% will not be enough. We need to create more values than that for acquisitions. And that does compare, of course, to sending back some money to shareholders, where, for sure the execution risk in terms of value creation is much lower, and that's -- I think the good way -- is a good way to look at it. Now in terms of allocating acquisition versus sending the money back to shareholders, it is about financials, it is about valuation, it is also about strategy. If we believe there is -- really is a good asset that we have been looking for, for a while, then we clearly make the choice of the business. I think we have been critical over the last few years, and we stick to that. We want to cover our blind spot. They are not that not many, but we want to cover them and if we see a good opportunity, we make the call, prior to that, we have a strong business case.

Operator

And there are no further questions at this time, so I'll hand back to our speakers.

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

Thank you all for participating. With this, we would -- we will conclude the conference call. Thanks.