# Strategy Update 2018

## Investor Presentation

10 December 2018

# Speakers

Strategy Update
Jeff Gravenhorst, Group CEO

Financials
Pierre-Francois Riolacci, Group CFO

Q&A

# Forward-looking statements

This presentation contains forward-looking statements, including, but not limited to, the statements and expectations contained in the "Outlook" section of this presentation. Statements herein, other than statements of historical fact, regarding future events or prospects, are forward-looking statements. The words ''may'', "will", "should", ''expect'', ''anticipate'', ''believe'', ''estimate'', ''plan'', "predict," ''intend' or variations of these words, as well as other statements regarding matters that are not historical fact or regarding future events or prospects, constitute forward-looking statements. ISS has based these forward-looking statements on its current views with respect to future events and financial performance. These views involve a number of risks and uncertainties, which could cause actual results to differ materially from those predicted in the forward-looking statements and from the past performance of ISS. Although ISS believes that the estimates and projections reflected in the forward-looking statements are reasonable, they may prove materially incorrect, and actual results may materially differ, e.g. as the result of risks related to the facility service industry in general or ISS in particular including those described in the Annual Report 2017 of ISS A/S and other information made available by ISS.

As a result, you should not rely on these forward-looking statements. ISS undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law.

The Annual Report 2017 of ISS A/S is available at the Group's website, www.issworld.com.

# The ISS Way: We have built capabilities and sharpened our focus

…now is the time to accelerate our transition and increase growth

**The ISS Way**

| 2008-13 | 2014-18 | 2019-20 |
|---|---|---|
| Build | Focus | Grow |
| **Building a differentiated platform** | **Greater selectivity** | **Increase organic growth**<br>**Accelerate transition to…**<br>**…and investment in Key Accounts** |
| IFS capabilities<br>Global Key Accounts | Customers<br>Services<br>Geographies | Sharpen geographic footprint<br>Complete exit from non-core activities<br>Reallocate capital to core |

# We are operating in a fundamentally attractive market

…that presents a significant growth opportunity for Key Account focused solutions

## Market development

- A USD 1 trillion outsourced FM market...
- …of which the Key Account market is estimated to comprise 40% (USD 400 billion)
- Key Account growth clearly above-market…
- …which is driving a ‘polarisation’ of the supply-side between large, multi-national, multi-service players and smaller, niche players

## Customer trends

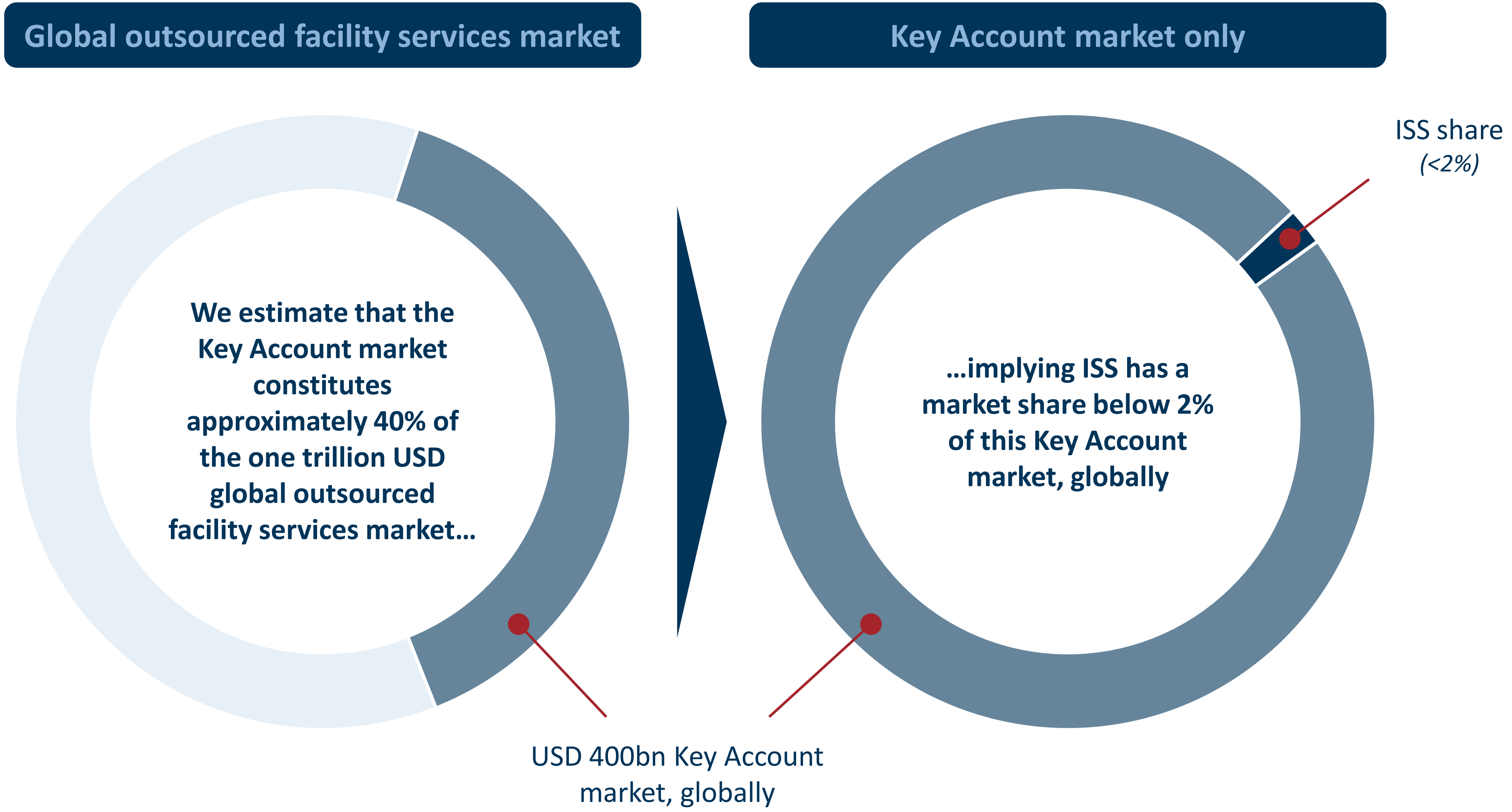
- Large customers are increasingly moving away from input based relationships to outcome focused, strategic partnerships
- Deals are becoming national or international coupled with extended service scope, focusing on consolidation, risk management and efficiency – including workplace experience
- Technological advancements offer a competitive edge, enabling productivity of buildings and enhanced user experiences

## Competitive landscape

- Traditional FM competitors continue to broaden service offerings and drive for integration – primarily through M&A
- FM companies face acute strategic choices – driven by technology and increased customer demand for strategic FM solutions
- FM incumbents required to adapt market focus, offerings and delivery models

# We estimate the Key Account market, globally, to be worth approximately USD 400bn[1)]

...and that ISS has a market share of below 2%




1) Outsourced market

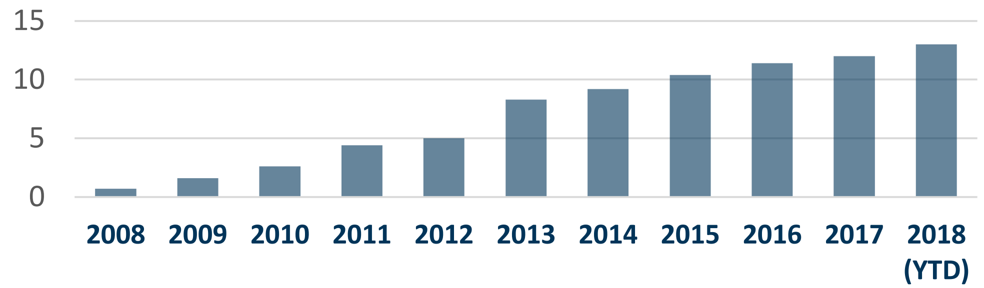
Sources: Frost & Sullivan, World Bank, ISS estimates

# ISS's Key Account focus has proven successful

…but we have significant potential to improve our commercial success

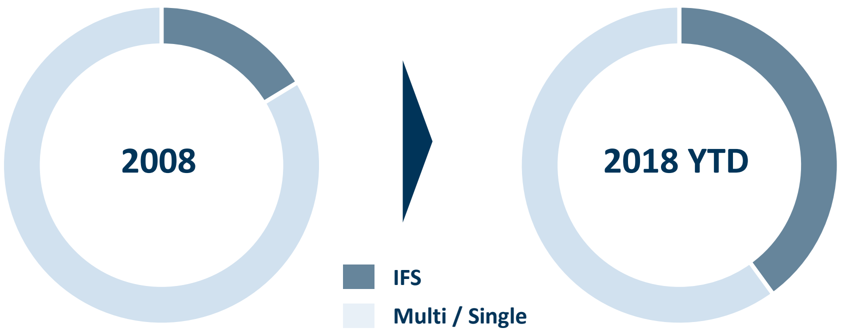
## Share of Group revenue from Global Key Accounts

*5-year Global Key Account cagr[1]: 12%*




## Share of Group revenue by delivery type

*5-year IFS cagr[1]: 8%*




- The Key Account opportunity is real and we can today announce
  - A new customer in the Business Services & IT segment (Global Key Account)
  - Extension of our partnership with UBS (Global Key Account)
  - A new UK customer in the Business Services & IT segment (Local Key Account)
  - An extension and expansion of our relationship with NSW schools in the Pacific (Local Key Account)

- With our Key Account customers, we deliver
  - Better win rates
  - Longer contracts / improved retention
  - Higher share of customer wallet
  - Stronger growth

- We have shifted our commercial focus to Key Account customers…
- …but have significant potential to improve our pipeline further

- The trend towards IFS continues

1) 2012-17

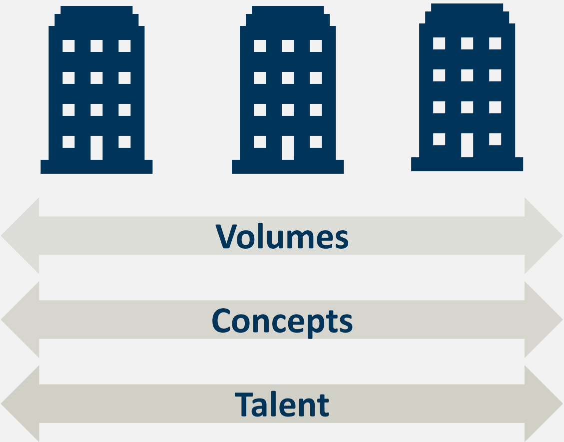
# Key Account customers demand more and we must invest further

…to deliver the level and consistency of service expected

**Key Account customers demand more than just cost savings…**


**…deep segment expertise is important…**

**…and this must be leveraged across sites, countries, regions**




**Creating a higher value outcome**

# We will accelerate our investment in Key Account customers

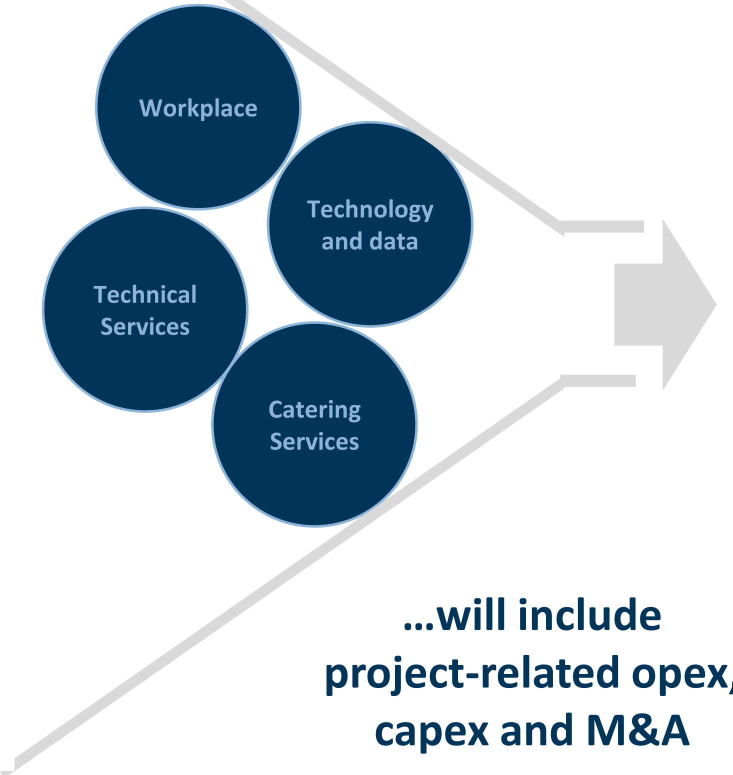
…to enhance our service offering and differentiate further versus our peers

1
- 2-year accelerated investment programme
- 2019 and 2020

2
- Strengthen
- Scale
- Breakthrough

3
- Financial returns must be compelling…
- …otherwise surplus funds will be returned to shareholders

**Our investment funnel…**




**…will include project-related opex, capex and M&A**

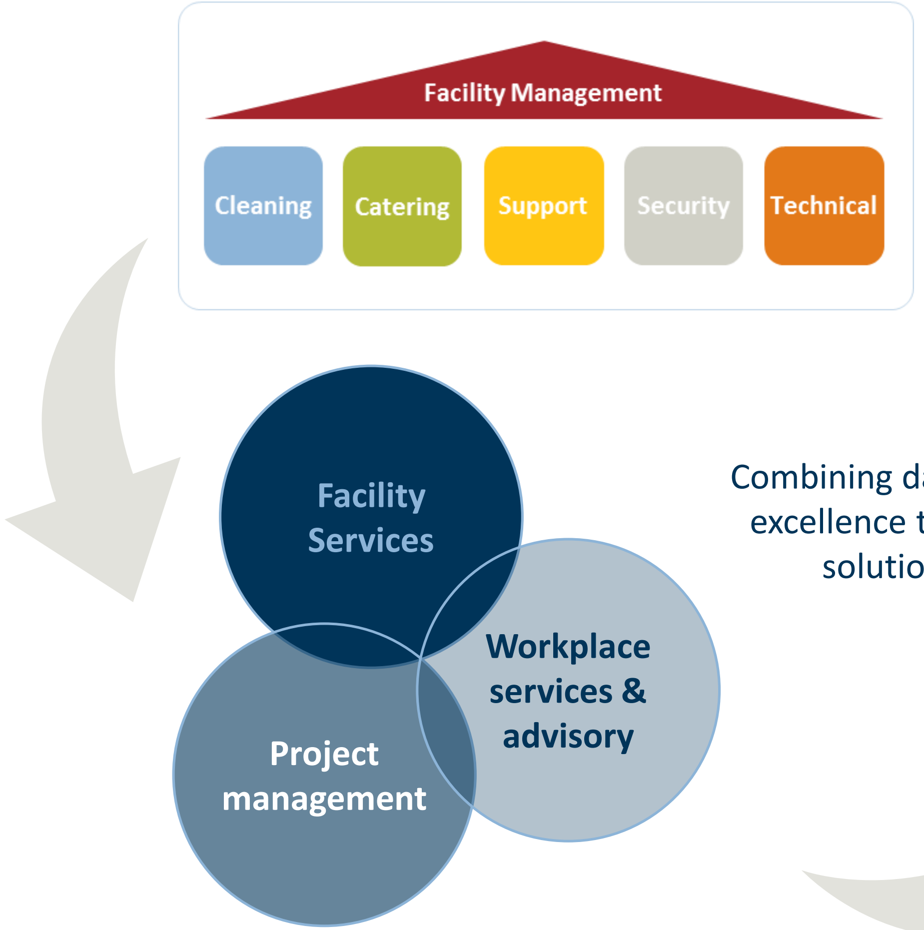
**STRENGTHEN**
- Develop our existing service and platform capabilities
- Fill geographic white spots
- Ensure consistency and transparency of service delivery

**SCALE**
- Accelerate the deployment of concepts, innovation and excellence across our major Key Account customers

**BREAKTHROUGH**
- Explore new capabilities which
  - compliment today's solutions
  - enhance our value proposition
  - are scalable

# Our impact on working communities is becoming greater

...ISS cares for people, property and the environment




Combining data, insight and service excellence to deliver outstanding solutions for customers

# The ISS Way has increased our focus and alignment

…through stricter choices of customers, services and geographies

**The ISS Way**

| Customers | Services | Geographies |
| --- | --- | --- |
| Key Accounts | Integrated, site-based, outcome-driven solutions | Countries where we can grow a profitable Key Account business |

# We will now be bolder and refine our geographic footprint

…creating a simpler and more focused business in the process

**We will divest 13 countries and conclude our divestment of non-core services**


## Countries to be exited

- Local market dominated by smaller, price-centric customers
- We are unable to fully leverage volumes, concepts and talent
- We cannot always generate attractive and sustainable returns at a commensurate risk

## Divestment of non-core services

- Entirely consistent with The ISS Way Strategy of recent years
- Concludes this process

# A streamlined organisation will increase our focus even further

...whilst reducing complexity and risk

| | Change | 2017 (reported) | 2017 (adjusted)[1] | 2014 |
|---|---|---|---|---|
| Customers | ↓ 50% ✓ | c. 125,000<br>c. 1,000 Key Accounts | c. 63,000<br>c. 1,000 Key Accounts | c. 200,000 |
| Employees | ↓ c. 20% ✓ | c. 490,000 | c. 390,000 | 510,968 |
| Countries | ↓ 13 ✓ | 44 | 31 | 48 |
| Key Accounts | ↑ 8pp ✓ | 52% | 60% | N/A |
| IFS | ↑ 3pp ✓ | 38% | 41% | 31% |

1) Adjusted for countries and business units in the divestment pipeline (i.e. excludes acquisitions and divestments completed prior to 30 September 2018)

# Medium term organic growth

***"Our focused Key Account approach will deliver industry leading medium term organic growth of 4-6% - starting in 2019"***

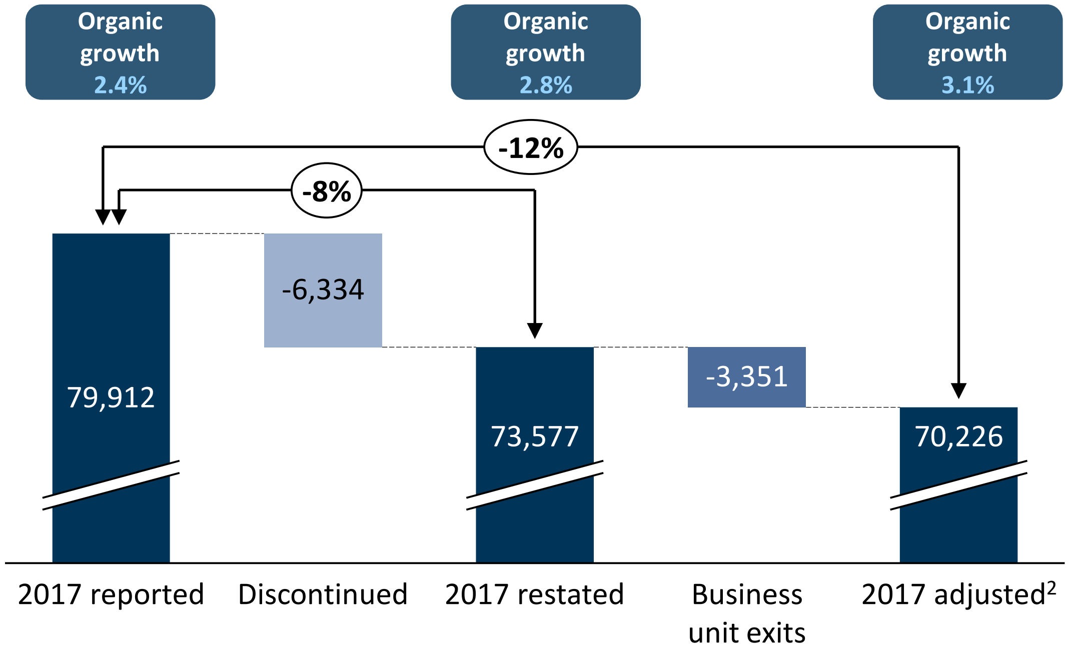
# Financials

## Pierre-Francois Riolacci, Group CFO

# A stronger revenue base from which to accelerate organic growth…

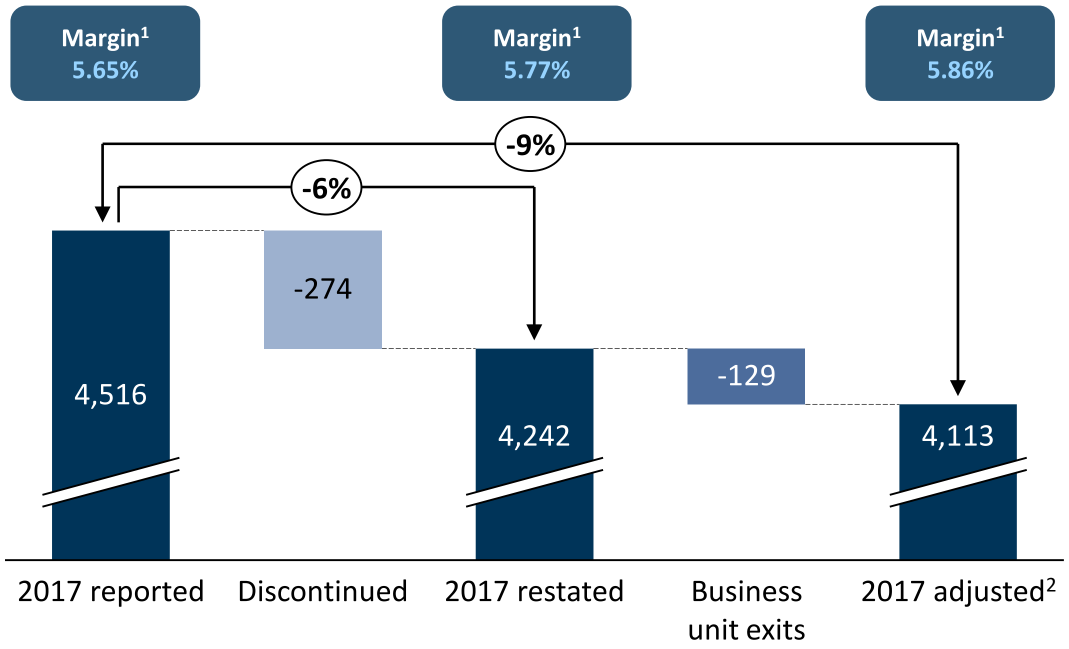
2017 restatements

## Higher quality revenue base…




**Revenue (DKKm)**

## …with a de-risked operating profit




**Operating profit[1] (DKKm)**

**Divestment program expected to be completed during 2019-2020 with net divestment proceeds in the range of DKK 2.0-2.5 billion[3]**

1) Before other income and expenses
2) Adjusted for countries and business units in the divestment pipeline (i.e. excludes acquisitions and divestments completed prior to 30 September 2018)
3) Divestment proceeds net of divestment costs and related reorganisation



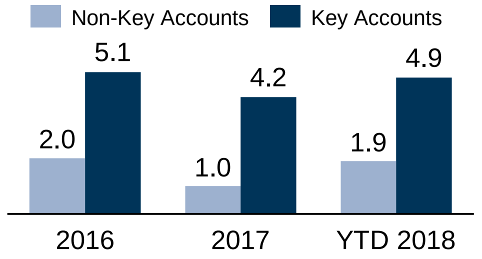
Based on preliminary unaudited figures

# … supported by Key Accounts

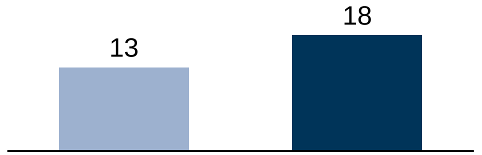
## Key Account characteristics

### Organic growth[1]

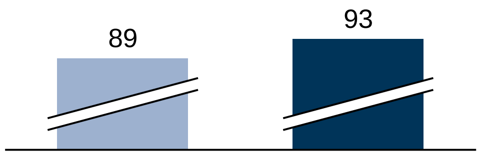
#### Organic growth (%)



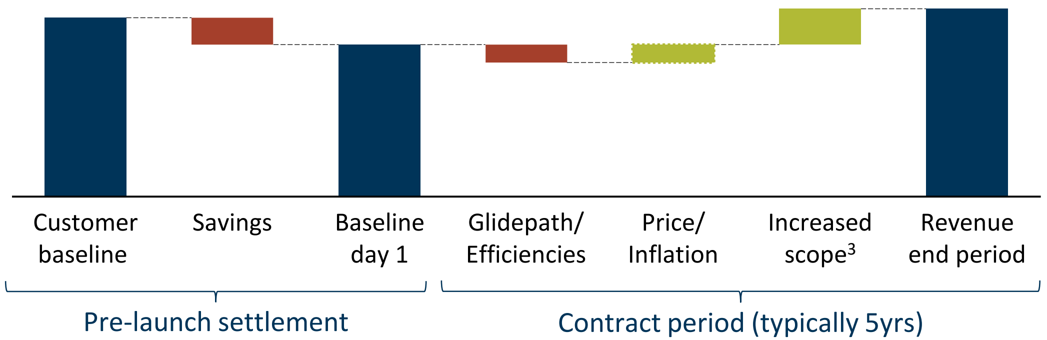

#### Non-portfolio revenue[2] (%)



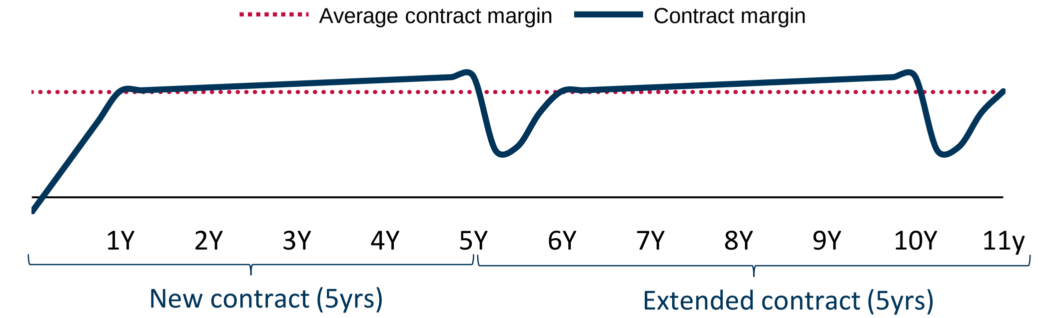

#### Retention rates[2] (%)




### Revenue profile[4]




### Margin profile[4]




### Working Capital

#### Transition and mobilisation

- Transition and mobilisation costs on selected large Key Accounts are capitalised and amortised over the initial secured contract period
- Sign-on fees, if any, on some large Key Accounts are capitalised and amortised as a reduction in revenue over the initial secured contract period
- ISS does not capitalise any bid-related costs

#### Payment terms

- Key Accounts generally demand somewhat longer payment terms but also have better payment discipline
- Factoring and Supply Chain Financing (SCF) among others used commercially and costs are priced into the contracts
- ISS carries no credit risk as any factoring is carried out on a non-recourse basis
- Total amount of factoring and SCF of approx. 10-20% of Trade Receivables (c. 10% in Q3 2018)

1) Based on reported figures on the GREAT organisational structure reporting
2) 3-year average (FY2016 to 9M 2018)
3) Increased scope includes above base revenue, project work and cross sales
4) For illustrative purposes only



Based on preliminary unaudited figures

# Our Key Account focus will drive stronger and faster growing Free Cash Flow

## Cash Flow dynamics

| Operating profit | Comments |
|---|---|
| **EBITDA** | Our Key Account focus will drive stronger organic growth and a slightly higher EBITDA margin |
| **EBITA** | Controlled reinvestment of profit to drive higher organic growth at broadly stable EBITA margins (slightly higher depreciation) in line with medium term guidance |

| Cash Flow | Comments |
|---|---|
| **EBITDA** | |
| **Changes in working capital** | Impacted by industry leading growth, larger transition/mobilization and longer payment terms. Cash conversion target >90% unchanged |
| **Other expenses paid** | Our transition will result in an easier to manage and more focused business with less need for restructuring |
| **Other CF from operations lines** | No particular impact |
| **CAPEX** | 1.0-1.5% of revenue (in line with the historical range) |
| **Free Cash Flow[1]** | **Stronger and faster growing Free Cash Flow (medium term around DKK 3 billion)** |

1) Cash flow from operations + Cash flow from investments – Cash flow from acquisitions/divestments, net



Based on preliminary unaudited figures

# Capital reallocation

## Freeing up capital to invest for higher returns

Fully funded by divestment proceeds

**2019 and 2020**

| | |
|---|---|
| Free Cash Flow[1] | 4.5-5.5 DKKbn |
| Divestment proceeds, net[2] | 2.0-2.5 DKKbn |
| **Net Cash Flow available** | **6.5-8.0 DKKbn** |

Leverage below 2.5x EBITDA[3]

| | Disciplined investments in the business | | Shareholder returns | |
|---|---|---|---|---|
| | **Transformational projects** | **Acquisitions** | **Ordinary dividend** | **Additional returns** |
| **2019 2020** | Incremental investments (700-800 DKKm in total) to support further acceleration in organic growth fully funded by divestments *(slide 20)* | We intend to strengthen capabilities and build scale through disciplined and selective acquisitions | Payout ratio of c. 50% of Net Profit (adjusted) and at least equal to the DKK 7.70 per share paid in 2018 | We intend to allocate at least 25% of net divestment proceeds to share buy-backs or extraordinary dividends |
| **2021+** | No net impact | | Payout ratio of c. 50% of Net Profit (adjusted) | Extraordinary dividends or share buy-backs |

1) Free Cash Flow as is - before divestments, acquisitions and other incremental investments in transformational projects (OPEX and CAPEX/Working Capital)
2) Divestment proceeds net of divestment costs and restructuring
3) Leverage below 2.5x pro forma adjusted EBITDA, taking seasonality into account. Pro forma adjusted EBITDA calculated as EBITDA before other items as if all acquisitions and divestments had occurred on 1 January of the respective year



Based on preliminary unaudited figures

# Investing in both Commercial and Operations

Accelerated investment spend in 2019 and 2020 to drive stronger growth

## Focus on Key Account delivery capabilities

| | Establish | Strengthen | Scale |
|---|---|---|---|
| **Technical and Catering Services** | | | |
| **Workplace** | | | |
| **Technology and data** | | | |

## Selected initiatives

- **Accelerated roll-out of a new Facility Management System** (FMS@ISS) which will become the back-bone for all other technology and data driven initiatives – including **performance benchmarking, IoT, AI, robotics, sensors, workforce optimisation** etc.
- **Accelerated global migration** to Group standard operating systems (e.g. ERP, Procure-to-Pay, CRM, People Management)
- **Launch of a Global Shared Services organization** to drive centralization, standardization and automation across ISS
- **Organic build-out of Technical and Catering Services** including taking over in-house Facility Management organisations from blue-chip Key Accounts
- **Organic build-out of Strategic Workplace Management and Design** capabilities by leveraging our Global Centre of Excellence established on the basis of acquiring SIGNAL in 2017
- Targeted investments in **accelerating the conversion of the G200**[1]

**Potential investment 2019-20**
*(fully funded by divestment proceeds)*

**DKK 700-800m**
**in total**

*Indicative split*
**Operating Expenditure (c. 50%)**
**Capital Expenditure / Working Capital (c.50%)**

1) 200 existing or potential customers where ISS sees a particularly strong opportunity for growth

# Successful allocation of capital since IPO

## Guckenheimer case study

Guckenheimer NOURISHING INSPIRATION

| Business case |
| --- |
| 1. Improve our platform in the US ✓ |
| 2. Enhance IFS offering to Key Accounts ✓ |
| 3. Realise significant revenue synergies ✓ |
| 4. Leverage scale to drive cost synergies ✓ |

### Progress

**Organic growth**

**24%** [1]

**+10%** insourcing
**+14%** upselling / new business

**EBITA margin**

**4.9%** [2]

**4.1%** Pre-acquisition[3]

### Acquisition multiples

**EBITA-multiples**

**15.9x**

EBITA pre-synergy[3]

**9x** ✓

EBITA post synergy[4]

**FCF-yield**

**10%** [5] ✓

**We will remain disciplined in our approach to acquisitions**

1) Accumulated organic growth since acquisition (1 May 2017 – 31 Oct 2018)
2) LTM as per 31 Oct 2018
3) Based on EBITA FY2016
4) Based on estimated synergies end-2018 (in line with our acquisition expectations communicated in April 2017)
5) Based on a normalised Free Cash Flow pre interest (2018 positively impacted by acquisition related cash flow impacts)

ISS



**Based on preliminary unaudited figures**

# Reporting going forward

## Restated figures

- Restated figures will be provided in connection with the 2018 Annual Report (22 February 2019)
- In accordance with IFRS any single Cash Generating Unit undergoing divestment will have to be placed as Discontinued. Business units cannot be Discontinued and as such will remain part of the ongoing business until divested.
- The classification of countries and business units as held-for sale is expected to result in fair value adjustments around DKK 1 billion in connection with 2018 Full Year results published in February 2019.

**Including business units held for sale**

Continental Europe | Northern Europe | Asia & Pacific | Americas

= Total before Discontinued Operations (Basis for 2019 outlook) + Discontinued Operations (country exits) = Total reported

## Restructuring

- Since 2013 the GREAT organizational roll-out has resulted in an abnormal level of restructuring. The roll-out ends with France in 2019.
- The simplification of the business announced today is also expected to reduced the need for restructuring going ahead.
- As a result, all restructuring charges will from 2019 be accounted for within 'Operating profit before other items'.
- From 2019 all incentive KPIs – short and long term – will be after restructuring

## Semi-annual reporting

- From 2019 ISS will, in-line with industry practice, shift to semi-annual reporting. A trading statement will be published in connection with Q1 and Q3.
- Quarterly conference calls and road show activity unchanged



Based on preliminary unaudited figures

# Margin profile going ahead

We expect the operating margin profile to remain robust

| | | 2017 | 2018 | 2019 | 2020 | Medium term |
|---|---|---|---|---|---|---|
| Unchanged | **Operating margin**[1] (prior to todays communication) | **5.7%** | ↘ | ↗ | ↗ | **'In line with the historical range'** (average c. 5.7%) |
| News communicated today | Transformational projects[2] | | | c. -0.3% | c. -0.1% | |
| | Reclassification of restructuring above the line | -0.3% | c. -0.7% | c. -0.3% | -0.1 to -0.2% | -0.1 to -0.2% |
| | Exclusion of discontinued operations | +0.1% | | | | |
| | **Operating margin** (as reported going ahead) | **5.5%** | ↘ | ↗ | ↗ | **'Around 5.5%'** |

1) Before 'Other Income and Expenses, net'. From 2019 restructuring will be accounted for above the line.
2) Around DKK 700-800 million in combined incremental project related OPEX (c. 50%) and CAPEX/Working Capital (c.50%) during 2019-2020 – fully funded by divestment proceeds (slide 20)



Based on preliminary unaudited figures

# Medium term financial targets

We expect an acceleration of The ISS Way Strategy to yield stronger financial results

## Organic growth

**4-6%**
*(from 2019 onwards)*

- Industry leading organic growth delivered through…
- …sharper focus…
- …further strengthened commercial capabilities and…
- …value creating investments

## Operating margin[1]

**Around 5.5% (incl. restructuring)**
*(equivalent to 'around 5.7%' excl. restructuring)*

- Robust operating margins in-line with the historical range
- Margin upside generated through an improving business mix (IFS and Key Account)…
- …will be reinvested in further competitiveness and growth

## Free Cash Flow[2]

**Around 3.0 DKKbn[3]**
*(by 2021)*

- Our transition will lead to a stronger and more stable Free Cash Flow…
- … which grows in-line with revenue

1) Operating margin before other items
2) Cash flow from operations + Cash flow from investments – Cash flow from acquisitions/divestments, net
3) Around DKK 3 billion in constant currency



**Based on preliminary unaudited figures**

# ISS at a glance

ISS will remain a leading global provider of facility services delivering industry leading organic growth

| Industry leadership | Industry leading growth | Robust margins | Strong cash flow |
| --- | --- | --- | --- |
| Leading and differentiated global facility services provider | Industry leading organic growth of 4-6% | Robust operating margins around 5.5%[1] | Strong cash flow enabling both solid returns as well as reinvestments in the business |

1) Operating margin before other items (but incl. restructuring reclassified above the line from 2019)



Based on preliminary unaudited figures

# Q&A

# Appendix

# Income statement – 2017 restated[1]

## Adjusted for discontinued operations and with restructuring booked within operating expenses

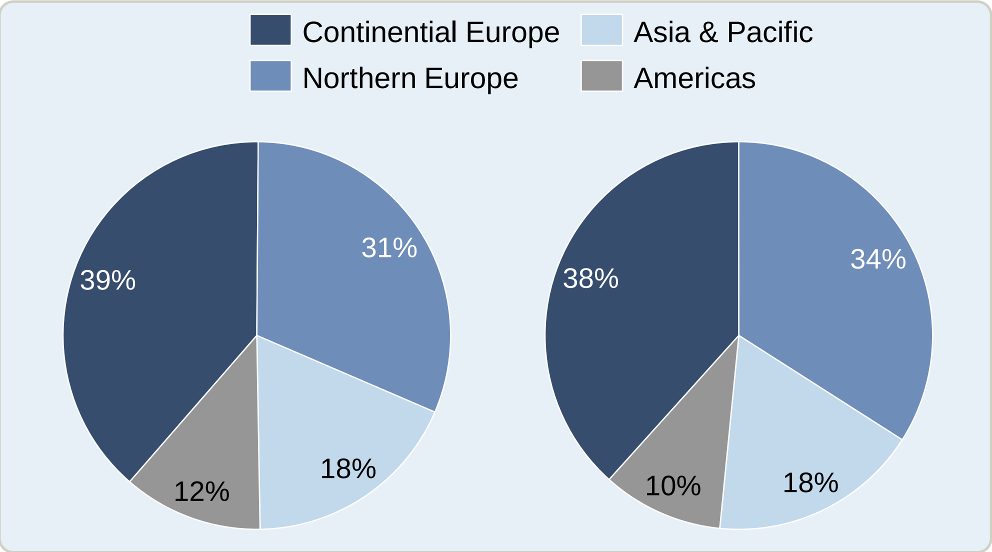
| *DKK million* | 2017 reported | 2017 Restated | Change |
|---|---|---|---|
| **Revenue** | **79,912** | **73,577** | **(6,334)** |
| Operating expenses | (75,396) | (69,569) | 5,826 |
| **Operating profit before other items** | **4,516** | **4,008** | **(508)** |
| Other income and expenses, net | (548) | (250) | **298** |
| **Operating profit** | **3,968** | **3,758** | **(209)** |
| Financial income and expenses, net | (538) | (512) | 26 |
| **Profit before tax** | **3,430** | **3,246** | **(183)** |
| Income taxes | (920) | (882) | 38 |
| **Net profit (adjusted) from continuing operations** | **2,510** | **2,365** | **(145)** |
| Net profit/(loss) (adjusted) from discontinued operations | (86) | 59 | 145 |
| **Net profit (adjusted)** | **2,424** | **2,424** | - |

1) Assuming all communicated country exits are reported as discontinued

Decline reflects reclassification of revenue related to discontinued operations (country exits)

Reflects reclassification of restructuring charges in 2017 of DKK 284m 'above the line' and reclassification of other income and expenses relating to discontinued operations

**Revenue, 2017 reported** | **Revenue, 2017 restated**






**Based on preliminary unaudited figures**