Company Announcement

Copenhagen, 6 November 2019
No. 13/2019

TRADING UPDATE FOR 1 JANUARY – 30 SEPTEMBER 2019

Strong organic growth. Outlook for operating margin and free cash flow reduced.

ISS (ISS.CO, ISS DC, ISSDY), a leading workplace experience and facility management company, announces its trading update for the first nine months of 2019.

Highlights

- Revenue increased by 6.3% in the first nine months of 2019 and 8.9% in Q3 (Q2 2019: 5.0%).
- Organic growth of 6.8% in the first nine months of 2019 and 8.4% in Q3 (Q2 2019: 5.8%) was driven by the launch of the Deutsche Telekom contract, strong commercial momentum with a high level of key account contract wins, extensions and expansions as well as projects and above-base work. Organic growth from key accounts was 9.7% in the first nine months of 2019 and 12.9% in Q3, representing 62% of Group revenue (H1 2019: 61%).
- On 1 July 2019, Deutsche Telekom, the single largest contract in ISS history, was launched on time across all sites, hereby driving close to 4% organic growth in Q3. The operational stabilisation following the launch is progressing and is expected to be completed in the coming months. On that basis, contract revenue and profitability expectations for 2019 remain unchanged.
- On 27 May 2019, we announced that our current contract with Novartis maturing 31 December 2019, with an annual revenue of around DKK 2.0 billion, is not likely to be extended. There are ongoing discussions with the customer and the new provider. We now expect to continue service delivery in a few key countries.
- The 2019 outlook for organic growth remains unchanged from our Q2 Interim Report 2019, whereas outlook for operating margin and free cash flow is adjusted:
  - Organic growth expectations for 2019 remain unchanged at 6.5%-7.5%, and we are on track to deliver organic growth of more than 4% in 2020.
  - Operating margin is, however, negatively impacted by delayed operational improvements in France. In addition, one loss-making contract in Denmark and one in Hong Kong are not recovering according to plan, which is expected to require a one-off provision for onerous contracts. As a result, the outlook for operating margin for 2019 is adjusted to above 4.2% (previously 5.0%-5.1%). In 2020, we expect operating margin to be around 5.0%.
  - We have made good progress on a number of free cash flow improvement initiatives, among others debtor days, supplier payment terms and capital investments. However, our free cash flow is expected to be impacted by the lower operating margins as well as a stricter factoring policy, leading to an expected reduction of factoring in 2019 of

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around DKK 1 billion (previously an expected reduction of around DKK 200 million). As such, the outlook for free cash flow for 2019 is adjusted to DKK 0.6-1.0 billion (previously DKK 1.8-2.2 billion) and to DKK 1.6-2.0 billion excluding the variation in factoring (previously DKK 2.0-2.4 billion). In 2020, we expect free cash flow to be DKK 2.1-2.5 billion with a broadly neutral impact from factoring.

- Our medium-term targets remain unchanged with 4%-6% organic growth, around 5.5% operating margin and around DKK 3.0 billion in free cash flow. However, as a result of our decision to spread the transformational investment programme over 2019-2021 (previously 2019-2020), we may not reach these medium-term targets until 2022 (previously 2021).

Jeff Gravenhorst, Group CEO, ISS A/S, said:

"Our organic growth of 6.8% in the first nine months of 2019 was underpinned by our strengthening key account focus. However, the need to reduce our 2019 outlook for both operating margin and cash flow is clearly disappointing. Our execution has proven unsatisfactory in a few areas leading to an operational shortfall, hereby triggering some negative one-off items impacting 2019. Our strategic choices are right, but our level of ambition and our desired pace of change, in hindsight, have proven too ambitious. We have overstretched ourselves. This will change. We will take an additional 12 months to complete our investment programme and we will launch an efficiency plan. This will reduce both risk and cost. Whilst margin and cash flow expectations for 2019 are now significantly reduced, we expect a strong recovery in 2020. Our medium-term outlook is delayed by 12 months, but otherwise unchanged."

Lord Allen of Kensington Kt CBE	**Jeff Gravenhorst**
Chairman	Group CEO

Conference call details

A conference call will be held on 6 November at 8:00 CET.

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Link: https://iss.eventcdn.net/2019q3/

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About ISS
ISS is a leading workplace experience and facility management company. In partnership with customers, ISS drives the engagement and well-being of people, minimises the impact on the environment, and protects and maintains property. ISS brings all of this to life through a unique combination of data, insight and service excellence at offices, factories, airports, hospitals and other locations across the globe. In 2018, ISS Group's global revenue amounted to DKK 73.5 billion. For more information on the ISS Group, visit www.issworld.com.

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