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PRESENTATION

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

(presentation)

Ladies and gentlemen, my name is Martin Hansen. I'm Head of Investor Relations at ISS, and I'd like to welcome you to our Q1 trading update.

For those of you viewing online, you've just seen a brief movie illustrating how we are currently helping clients across the globe prepare a safe return back to work. With our holistic approach to facility services, we can help clients with a critical process like this and do it in a consistently manner across sites, services and countries.

Please be aware that the announcement, the report as well as the slides used for the call can be found on our website. Later today, a replay will also be available, and we'll post a transcript on the website as soon as it's ready.

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

Presenting today will be CEO, Jeff Gravenhorst; and Group CFO, Pierre-François Riolacci. We will open for the Q&A at the end of the presentation.

And with that, I will hand over to Jeff to go through Slide #3.

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

Thank you, Martin. Good morning from me as well. The first quarter results we present today will primarily reflect the world prior to COVID-19. The result demonstrates strong organic growth for the business going into the global crisis. As we go through the update today, we will update you or indicate which areas have been most impacted by COVID-19.

Firstly, the safety of our employees, our clients and the wider society will always be paramount, and I'm immensely proud of the work of all of our colleagues. Our frontline staff are helping in hospitals, critical industries and public services in the fight against the virus. Our management teams around the world have maintained focus on customer service while taking the required mitigating actions and reducing costs to offset headwinds for customers, for employees and the business at large.

Organic growth in the first quarter was a solid 4.1%. Up until mid-March, our growth was actually stronger than we expected, driven by Key Account growing 9.1% and generally strong demand for projects and above base work. The impact from COVID-19 really started to become clear during the second half of this year where we faced negative double-digit organic growth resulting in the quarter ending at 4.1%.

We will cover COVID-19 in more detail in a moment, so for now, I'll just highlight that we have both the ability and agility to react swiftly to changing circumstances. We have a strong cost and cash flow discipline, reducing where at all possible.



While the organic growth impact from COVID-19 was limited in Q1, it hit hard in April. We're still consolidating the review numbers, but our estimated organic growth in April is around negative of 20%. While the short-term results will be significantly impacted, it is important to know and to note that we've had no cash burn, we have solid liquidity and we have no financial covenants, and we have no imminent debt maturities. Now Pierre will give you more details on that in a moment.

Turning to a few other relevant updates for this quarter. Last year, we did, disappointingly, had to announce 2 particularly challenging contracts, 1 in Denmark and 1 in Hong Kong. And I'm pleased to say that both are largely developing according to plans, albeit somewhat impacted by malware at the beginning of the year.

In relation to the IT malware attack we announced in February that we have regained control and are progressing according to plan, we've seen further progress since last update. I'm pleased to say that we have relaunched business-critical systems across most operations. We are still working on the full integration of the system platform, and we expect that would take the remainder of 2020.

As an aftermath, incremental costs related to the malware attack are estimated in the worst case to be up to DKK 850 million in 2020 and mostly weighted towards the first half of this year. The net negative one-off impact on free cash flow over 2020 and 2021 is now estimated to be DKK 500 million to DKK 750 million with DKK 400 million to DKK 600 million expected to fall in 2020.

Finally, as a result of malware attack and COVID, we have delays in some of our priorities for 2020. Our strategic divestment program was progressing well until COVID-19 really hit. However, most negotiations are on hold now. Proceeds received so far this year amount to less than DKK 100 million. We remain fully committed to finalize this divestment program, but we also want to ensure divestments are executed at fair value. And as such, we'll take the required time to achieve this. Realistically, this now means we expect completion of the program in 2021.

Secondly, finalizing the reorganization and the restructuring in France is progressing. However, in a country where -- which is already challenged, the limited IT access as well as the impact from COVID-19 makes it unlikely that we will fully deliver according to our turnaround plan in 2020.

Finally, Deutsche Telekom contract is slowly ramping up on projects and above base work, generating 4.6% of group revenue in Q1 2020. However, the stabilization plan, including the finalization of the IT migration, is impacted by the recent event and thereby behind plan. The risks for both France and Deutsche Telekom were flagged in connection with our full year results and also part of why we guided for above 4.5% margin.

With this, I would like to turn to Slide 4. Going back to growth in a bit more detail. The total growth was 2.4%. That included acquisitions and divestments of negative 1.7%. Currency was neutral in the first quarter but is set to be negative by 1% to 1.5% for the year. Organic growth remained strong at 4.1%, better-than-expected for most quarters -- for most of the quarter. Major contract developments contributed by 2.4% to the group. This includes the launch of the Deutsche Telekom, but also the loss of Novartis from January 2020. Other contract developments in the rest of the portfolio contributed with about 0.5% to the group, down from 3.6% in Q4. Numbers were solid for most of the quarter, but significantly impacted by lockdowns in the second half of March, especially within our food services offering. In addition, we faced the annualization of 2 Global Key Accounts launched in January 2019.

Projects and above base work contributed with 1.2% to group organic growth, almost a percentage point more than in Q4. As a reminder, projects and above base works makes up around 15% of our business, meaning we delivered high single-digit organic growth within these services in the first quarter. This may be counterintuitive given the -- everything that's going on in the world right now, but it does reflect 2 things. One that there is a solid demand, especially from the Key Account in the first part of the year; and two, incremental demand for deep cleaning and disinfection to key accounts prior to customer sites going into lockdown. While this may remain an offsetting factor in the short term, we do expect the net demand for projects and above base work is significantly negative in the second quarter of this year as a result of the lockdowns.

As a final remark, in isolation, our Key Account business delivered 9.1% organic growth in the first quarter, which is very pleasing.



Please turn to Slide 5 for the regional update. Continental Europe delivered 10% organic growth in the first quarter, supported by strong growth in Turkey and Germany, of course, including Deutsche Telekom. Growth was slightly lower than the 15% in the fourth quarter of 2019 as a result of the loss of Novartis from January as well as lower inflation leading to lower price increases in Turkey. In addition, we faced negative organic growth in France as a result of contract exits and impacts relating to the malware attack. Also started to see some COVID-19 impact in some countries towards the end of the quarter.

Northern Europe delivered negative 1% growth in the first quarter, down from 3% plus in the fourth quarter last year. The slowdown reflects a sharp drop in the activity in March, especially Denmark and Norway faced significant headwinds, with Norway particularly challenged as a result of higher-than-average exposure to food services, hotels and airports impacted by COVID-19. While growth was negative in the Nordics, the U.K., which went into lockdown later than the other countries, continued to deliver solid organic growth, supported by Key Account and project work.

Asia Pacific delivered 3% organic growth. We continue to see solid growth across most countries in the region, especially within projects and above base. Organic growth was particularly strong in Australia, Singapore and Indonesia. Growth slowed slightly from 5% in Q4 '19, with COVID-19 impact in China and Hong Kong among the main drivers.

As a global company, we had the benefit of experiencing and learning from COVID-19 developments in parts of Asia before the same situation arose in other countries across the world, whether it relates to closing down or reopening sites, managing risk for clients and protecting our own business. While it is early days, many of our services in China are reasonably quick to normalize as sites reopen. However, food services, which is one of the few volume-based services linked directly to the number of end users, continues to operate at relatively low levels and will likely to -- is likely to do so for a while. The demand for projects and above base work will also remain mixed where clients hold back on discretionary spend, they continue to demand incremental deep cleaning and disinfection and workplace experience advice.

Turning to Americas. Reported organic growth was 2% positive. While we saw solid organic growth for most of the quarter, supported by Key Account as well as annualization of contract exits in the legacy business, we also started to see significant negative COVID-19 impact towards the end of March, especially within food services, which is a large segment for us in North America.

Please turn to Slide 6. While our commercial momentum and extension rates have been strong over the last year, the general bidding environment has recently slowed down materially as a result of COVID-19. As such, we expect a low level of new wins but also a high retention rate in the short term. A lot of corporates are simply postponing decisions. We do, however, have interesting opportunities in the pipeline.

Let me take this opportunity also to remind you that the commercial risk related to rebidding in 2020 remain very low with only 2% of revenue with large key accounts contracts set to mature in 2020. In fact, we actually don't have any individual contracts worth more than 1% of group revenue up for renewal until the end of 2021.

Please turn to Slide 8 for a more detailed update on COVID-19. In an unprecedented global crisis like this, we are conscious that we employ several hundred thousand employees. And as such, we play a significant role for society at large, but in the fight of -- both in the fight against the virus, but also the social impact of the ramifications. We are conscious that if we include family members, we have a direct impact on a couple of million people. As one of the world's largest private employers, we will, as a responsible company, remain committed to high social standards. We are not immune to the current short-term closures of sites. And as such, we have had to send home many employees. As the situation normalizes, we expect to welcome most of these employees back to work. We've joined government schemes, where available, and seek to strike the right balance between protecting our employees and protecting the business.

Please turn to Slide 9. Health and safety is our #1 priority. We do our very best to protect the health and safety of our employees while they protect the health and safety of customers -- of our customers and our end users. Our employees are -- were among the last to leave the sites that closed down, but then they will be among the first to show up when the sites reopen. With the pandemic, our role in society has become increasingly important. Our employees have a special role to play in terms of helping making sure that society and

customers can reopen without getting -- without the virus getting out of control again. We are providing regular updates and training to all our employees across the world. Further, as one of the largest providers globally within our individual service lines, our procurement scale has secured access to critical supplies for both ISS and our clients. In turn, this has enabled us to share personal protective equipment across countries to those who need it most.

The feedback from our clients has simply been overwhelming. We have included a few examples on this slide, and in a challenging situation, it is encouraging to see how our strategy and our value proposition really comes to life.

Please turn to Slide 10. ISS has embarked on a significant strategic transformation and transition. It has been challenging at times, and it has often had short-term financial implication in the pursuit of sustainable long-term returns. We are already benefiting from high organic growth afforded by Key Account. Further, our transition has put us in a good position to manage through a crisis like COVID-19.

With a focus on Key Account and the C-suite access, that has typically entailed that ISS currently takes a central role in the business continuity plans for our clients around the world. And as such, many customers continue to pay our base fee despite the fact that services are not delivered entirely to specification.

In addition, our unmatched self-deliveries of services by more than 400,000 employees across the world means that we don't rely on a large group of subcontractors without business continuity plans or financial strength. This enables us to help clients react swiftly and consistently across services, across sites, across nations, across countries.

We have a resilient customer mix with limited exposure to segments hardest hit by COVID-19. And finally, we have a balanced service portfolio with limited exposure to volume-based activities, such as catering, linked to number of employees. We expect the demand for catering to be subdued for a prolonged period as the number of end users working from home will remain elevated until the risk of COVID-19 has reduced. The vast majority of our services will have to be performed regardless of the number of end users' activities in the building.

With this, I would like to hand over to Pierre for an update on the short-term financial implications. Please turn to Slide 11.

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

Thank you, Jeff, and good morning from me as well. Let me start first with a very simple illustration of the rapidly changing situation we have to manage through.

When we reported our 2019 full year results in the end of February, only countries making up around 5% of our total group revenues were in some sort of lockdown. By mid-March, just before our last COVID-19 update, the number was close to 35%. And 2 weeks later, we were basically in full lockdown everywhere. Now countries in lockdowns seem to have peaked as we enter April -- as we enter May now, but they may take some time to reduce as the number of COVID-19 cases globally continues to grow significantly.

Please turn to Slide 12. As communicated in connection with full year results for 2019, the original expectation for the first half of '20 was for a mid-single digit organic growth and lower operating margin year-over-year due to phasing, including a one-off income in H1 2019 and, of course, the loss of the Novartis global contract in H1 2020, among others. Since then, as a result of COVID-19 but also as a result of the IT malware attack in February, some of the risks flagged in connection with the full year results in 2019 are materializing. These include some delays in the turnaround in France and, more specifically, the final IT migration on Deutsche Telekom. That doesn't help. Also, this was precisely the reason we came with a cautious guidance at that time.

Now to be more specific about the COVID-19 effect, let's look at April trends. And these are not actual numbers, but these are high-level numbers on April. And what do we see? We see organic growth in April to be around minus 20% year-on-year. From an original expectation of mid-single digit organic growth, this means that the estimated organic growth impact from COVID-19 sits at around minus 25%, around. It comes also with an operating profit drop-through of, same, around 25%. These are average numbers, which reflect our business portfolio, with very significant variations from country to country, depending on the mix of services and the mix of customer segments and also, of course, on the government support when it comes to the drop-through rate on margins.



Talking about services. The most severely impacted by the lockdowns are, of course, catering, which is about 15% of our revenues; and projects and above base work, which is another 15% of our revenues. Of course, other services are also negatively impacted, albeit to a lesser extent. And as the world's largest cleaning company, an offsetting factor is a high demand for specialized deep cleaning and disinfection, which we expect to persist beyond sites reopening.

In terms of customer segments, hotels; leisure; sports and entertainment; education; aviation, like airports and airlines; are, of course, particularly hard hit, but they altogether make up only around 10% of our business. Our core customer segments are business services and IT, 34%; industry and manufacturing, 12%; health care, 11%; and administration for about 10%. And most of these segments show some resilience and should recover gradually as states start to ease lockdown.

Finally, in terms of geography, in Q1, we saw the early impact in Northern Europe and in part of the U.S. From Q2, the trends in these regions will certainly turn more negative and the impacts will also become more evident in Continental Europe. We have generally seen countries taking a business-friendly approach, with some exceptions such as Spain, which is particularly under pressure as a result of limited government support schemes.

For the year as a whole, the situation remains far too uncertain to forecast, which is why we decided to scrap the outlook in March. And the COVID-19-related organic growth and the drop-through rate could be better, but could also be worse in the short-term following April. As we enter May, more than 90% of our countries are still in locked down. And of course, when countries start to reopen, we face 3 major uncertainties: when exactly each country terminate its lockdown and how fast? That's one. Second one is how will government support schemes be scaled down? And the third one is how quickly will our customers recover in the midst of a significant recession? And that's the reason why this 25% and 25% on revenues and drop rate are rough numbers. They are not an indication for the future, they are just a high-level picture of what we see in April.

A final point worth noting on this COVID-19 disruption is that as a result of the expected lower profit in 2020, the effective tax rate will be notably higher than the underlying 25% as some operating losses will not benefit from the usual tax shield.

Please turn to Slide 13. For sure, we do have uncertainties on revenues and profits, but we have also some very good anchor points and hard facts on our financial position. We have a solid liquidity. We have not been burning cash since the beginning of the crisis, which started for us in February, you remember, due to the malware, actually even a bit earlier with the Chinese exposure to COVID in January. Our total liquidity - and we have no financial covenants. And also, we have no imminent debt maturities. These 4 points are quite critical, and I will elaborate a bit further on that.

Our total liquidity at the end of April was solid at over DKK 11 billion, which is an increase of DKK 3 billion compared to our update on the 20th of March, including an additional EUR 300 million, that's DKK 2.2 billion, of committed credit lines. We have not increased the use of factoring. We are not seeing a significant change in payment behavior by clients. You know that we operate a continued service without dedicated customer assets. If a customer cannot pay, we are able to stop our services quickly, and then we adjust our cost accordingly. Furthermore, our key accounts are generally blue chip companies with solid credit ratings or at least solid credit metrics. While key accounts may have slightly longer payment terms, they also tend to pay on time, which is also the case as we speak. The level of overdue payments for the group is actually unchanged year-over-year. Of course, we do have a few customers that we are following very closely, but the overall risk is insignificant at group level.

From mid-March to the end of April, we achieved positive cash flow of around DKK 1 billion, plus DKK 1 billion. If we exclude all benefits from postponed VAT and social contributions, which are offered under the government packages, we are slightly negative. This may change as the situation develops, of course, but it means that we have not been burning cash and, hence, not eating liquid -- eating into our liquidity since February. This level of liquidity could be far excessive in normal circumstances, but we just want to ensure that we have no risk whatsoever of getting into a gray zone even if the situation in April is not recovering in the future. We have run all sorts of scenarios, with lower collections on top of lower revenues, with no recovery up to year-end, with even EBITDA going to 0, and in all cases, our liquidity exiting 2020 is strong. In a scenario where the drop rate of revenues and margins, like that observed in April, would actually run through to December and the same scenario where there would be limited upside in our working cap position at year-end, we should



still have a strong liquidity by the end of the year, close to double-digit billions DKK.

Further, we have no imminent short-term debt maturities. Actually, more than 90% of our bond and bank debt as of today, excluding IFRS 16, does not mature until 2024 onwards. By the way, one point here worth to mention, is that as a result of the expected short-term implication from COVID-19, i.e., an average net debt level in a year that would be higher as well as the additional liquidity lines, we now expect financial income and expenses net in 2020 to be slightly higher than 2019.

I know certain companies in this industry are at risk having to do equity right issue, but ISS is not one of them. We have strong liquidity. We have not been burning cash. We have no financial covenant, and we have no imminent debt maturities. But also remember that with the decision to defer both the dividend, the ordinary dividend, DKK 1.4 billion, and the share buyback, DKK 600 million, and with around 40% of the divestment proceeds already cashed in, in 2019, we have created a DKK 2 billion buffer against our initial net debt target for the end of 2020, and that gives us comfort.

Let me also take the opportunity to stress that we have not joined any local government support schemes that would unduly restrict our overall flexibility at group level to run the business, including decisions on capital allocation. Things, obviously, can develop weekly at the moment and, in some cases, with retrospective implications that's politics, so we have to evaluate pros and cons on an ongoing basis. But today, again, we retain full flexibility at group level.

With this, I will hand back over to Jeff on Slide 14 for closing remarks.

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

So thank you, Pierre. And while most of the world is still in a lockdown, we are in the middle planning and supporting our clients in a safe return back to work. You saw the video at the beginning of this session. It's not just a matter of limiting the risk of virus spreading, but it's also making sure that end users are comfortable enough to return. That's one example of the incremental project work that we offer to our clients at this time. Managing and optimizing the workplace from a broader perspective is part of what we do, and the customer demand for taking on the workplace management role is increasing.

Please turn to Slide 15. It's fair to say that we face some short-term challenges like everybody else. However, I am confident that we are well positioned to capitalize on a number of potential opportunities as we come through this crisis. We are currently experiencing an increasing awareness of the role of facility services, as an example, in connection with the business continuity plans when unforeseen -- when the unforeseen happens. It is -- it further ties into an increasing awareness of some of the benefits of both integration of self-delivery and of global reach that we can actually offer to be able to react swiftly and manage consistently across services, sites, countries.

Further, we're seeing a change in perception of some of our services. And I'm confident that we will see lasting impact on -- in a number of places. As an example, a lot of clients are increasingly interested in discussing how we can move beyond just delivering the standard services, or to how ISS can manage the workplace large, including supporting clients returning to work safe and sound, as we just talked about. The same goes in relation to the change in perception of the importance of hygienic conditions through cleaning.

Finally, we see a good chance that the penetration rate for outsourced facility services will take another step up, partly as a result of the increasing level of the -- increasing the level of professionalism required by customers. It is -- we also know that in tougher economic environments, corporates turn to outsourcers as a way to manage their cost base more efficiently. And again, integrating services is a way to deliver on those needs.

So to wrap up, these are unprecedented times, and they are challenging for everyone. And the situation, I'll just remind, is too uncertain to estimate. We've gone through some of the numbers today on what we look at right now, but it is too uncertain for us to estimate. And with that, we did withdraw the outlook for 2020 last time we came to the market.

We are adapting, as we speak. We will ensure that we are balancing our commitments to all stakeholders, to our employees, to our customers, to our investors and to the society at large. We came into this crisis with strong organic growth, and through our organic --

through our strategic choices, we developed a resilient business mix, which will enable us to manage through this situation as an even stronger company.

And finally, the health and safety of our employees and our clients has always been our #1 priority. And through these tough times, we remain committed to being a responsible company with high social standards.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Magnus Jensen from SEB.

Magnus Thorstholm Jensen *SEB, Research Division - Senior Equities Analyst*

Congrats on the good results for the quarter. First of all, let's assume that sort of the lockdown starts to get canceled during May, which would seem to be the likely scenario. Would you expect April to be the trough in terms of impact on COVID 19? Or how would you expect that to pan out?

And the second question goes to the 2 lost contracts. What was the reason? Why you lost the contract with GLH Hotels and Belgian Railways?

And finally, could you just repeat what you said on tax expectations for the full year?

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

Yes. If we take the lockdown -- so Magnus, on the lockdown situation, it is very, very hard to say because -- and I'm really cautious because if we look at everything that we all look into media, we've seen Belgium release the pressure. We've seen Spain, people coming outside. Italy, coming outside. We see stabilization numbers across many countries in Europe. We've also seen Germany going out, warn about that if things don't improve, they might go into further lockdown. We've seen Singapore go into the backlash of lockdown again. It's really, really hard for us to say what is the future. But with all the assumptions and the caveats or whatever it is that you could put around this that, yes, it does look as if things are getting a little bit better, then, of course, you would expect that April, May where we stand right now is the peak. But I'm just too cautious to say that that's the case. I think it will take a while for things to get back to normal, particularly within food services, because it's a completely different way of having to do the food services delivery. Having said that, when people come back and within the segments that we're in, on banking, for example, manufacturing is still up and running to a certain degree, we are among the first ones to be back in with most of our services. So yes, it's a long answer here, but at the end of the day, most likely, it's the peak. Hopefully, it's the peak. But again, we don't know.

If you take the tax?

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

Yes. On the tax one, it's a pretty easy one. We're going to have -- of course, the situation in each and every country is different, and we're going to have some operations which will be loss-making. And you know that to recognize a tax asset, you need to come with a clear view on the recovery. And where we expect to be okay in most of the countries, we will have some countries where we will struggle to get the benefit, the accounting benefit of the tax shield, so, let's say, the 25% buffer against the operating losses. And then, of course, we will recover going forward because there is no change in the underlying tax rate. It's just that there may be some moves. Then there may be also some restrictions, for example, in some jurisdictions about the allowance of interest against the profit where you need to be below X percent of EBITDA or something. And with the squeeze on the profit, there is a risk that we will not be allowed to actually deduct this interest. So these are more technicalities. There is no change on the underlying 25%. But you need to expect, with significant impact on the P&L, that we will not be able to deliver the very stable effective tax rate that we are used to deliver.



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

And then better come back to the 2...

Magnus Thorstholm Jensen *SEB, Research Division - Senior Equities Analyst*

What's a reasonable level to use then?

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

I don't know because it's not global, it is country per country. And I would need to get -- make a guess about the full year, and that's really what we are missing. So I can't really tell you. It will be higher, but I cannot tell you precisely the number as we speak.

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

And Magnus, on the 2 lost contracts, it is normal turns. These are very small, so it's less than DKK 200 million. And some of it -- or one of them is also to do with what segments we're in, in the U.K. really is where is our emphasis. And our emphasis in the future is not in the hotel industry. And from that perspective, it's also one of the industry that will be impacted long term.

Operator

The next question comes from James Winckler from Jefferies.

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

Wanted to -- a few questions. One was on the cash benefit, the DKK 1 billion-ish from VAT social payment deferral. Wondering if on a full year basis you'd expect that to sort of normalize out. But as -- I'm not sure how long you're able to actually defer those. Or it's just sort of mid -- near-term benefit, but full year basis should wash out?

Then two, curious if you can give us some scale of how -- what sort of year-over-year growth, food services, specifically in the Americas, and catering is down right now through April.

And lastly, if you can give any sort of numbers around the increase in demand for disinfection deep cleans or how that's contributing to your overall growth right now?

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

I'll start on the cash side. It's difficult to say where we would be at the end of the year, but I mentioned that we have been running scenarios for the full year of what could happen. In all scenarios, actually including our management case, we make the assumption that we would not, at the end of the year, postpone VAT and social contribution. These are temporary measures that we would expect would be moved at some point. So we look at it as something that is not to go throughout the year, it may change. But hopefully, we will be in a situation in Q4 where that sort of arrangements would not be necessary anymore. And anyway, we have also, so far, made sure that we do not build a huge position in there, which means that we are not going to pile up delays for 3 or 4 months, something like that. So for us, it's just a temporary measure, which is helping on a matter of 1, 2 months, and then it should go away by year-end. That's our central scenario.

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

On the question about the split of services, it was on the U.S., if I understood it right?

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

Specifically, I was just curious on how far -- if you can give any numbers to how strongly down catering is and with a focus on the Americas because that's, obviously, where it's most important.

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

Yes. So if we look at the -- if you look at overall food services, which is about 15% of our revenue, a part of that is within health care. So that part is less impacted. Actually, you have some ups in that, and then you have some restaurants that are down. But generally, that's not impacted. The normal B&I food services is impacted by around 50% down. So that's what we see within our catering offering.

U.S., it's a little bit different because, there, we still -- we have very good customer relationship there. However, the activities on the tech sector, which is very sort of focused on California, is locked down. We still get paid for a big part of our fees, as we talked about earlier. But at the end, the activities is low.

And on the demand for the deep cleaning, it is part of why we had the very good above base and one-off work for the first quarter. We saw at the latter part of this quarter an uptake in extra deep cleaning work across the entire world, actually, and we also see that coming out of the crisis, particularly with China coming in. We're right now working with clients across the world on how do we help them opening up the sites. And with that, of course, there will be a lot of one-off works in that. There will also be less project works on normal one-offs. So as I said, Q2, we do expect that to be a negative impact on growth year-over-year, but there will be a significant part of the work on deep cleaning. We don't actually guide on that individual number right now because we don't know the full extent of it as they have not opened, and some are only just in the beginning of planning the opening.

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

I realize that I did not cover your point about furlough, and of course, that's a bit of a different story than VAT and payroll, which is pure cash. Furlough is a cost which is actually exited. You have basically 2 set of schemes, 1 where the employees are paid straight by the government. And then, of course, it means that cash wise it's completely neutral for us because then the salary bill is picked up by the government straightaway. There is another set of schemes where we have to pay and then we get reimbursement, which can be 100%. Unfortunately, sometimes not 100%. And then we have a receivable on the government, which usually is 30 days, something like that. So we get paid within a month. So here, it's more a credit that we have. And -- but again, that should smooth away when the year is end. So we should end up with 0. And that's not borrowings, that's costs which are exited for real.

Operator

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

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

Just two quick questions for me. Firstly, I understand, obviously, the commitment to protecting employees, getting them back to work. Obviously, providing PPE and the protective gear, et cetera, that goes with that, is that a cost that ultimately ends up being borne by you guys, i.e., headwind to margins? Or do you end up passing that additional safety cost measures on to the customer? That's my first question.

And then secondly, just on the capital structure and leverage. Obviously, you're at above 3x net debt to EBITDA at the end of last year. It looks likely to be higher this year. And obviously, we can debate where earnings and cash goes in 2021, but relative to the, I guess, a broad 2 to 3x target range we tend to think about in the past, how comfortable are you as a business operating at the upper end or I think you're above the upper end for what could be a number of years? If you could just comment on that, please.

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

Okay. So on the protective gear, there's a little bit of up and down in it. But in general, we, of course, are responsible for the proper uniforms, the proper gear for our employees to carry out their work. That's sort of the base. But then you have, of course, these cost-plus contracts, the open, the olden book contract where it simply just becomes one of the costs that's in there -- that sits in there, and win those cases, which are key accounts, where a lot of the big accounts, then it becomes part of our cost base and thereby also covered in those contracts by clients. But in general, that will be on our plate.

The other part of it is, though, that we do supply our customers with the protective gear. So there's been quite a lot of income coming through of supporting the clients with masks and other gears, site hand sanitizers, et cetera, which is an upside for us. So that's where we see the benefit, that's more revenue, of course, of taking care of employees. Number one is ourselves; and number two, it can be covered by some of the global customers where we have open book.

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

Yes. On the capital structure, which is a very valid question. And I think we don't have yet all the answers, of course. But there are a few points that we can bounce together. One, I agree with you, the key point is the DCR. And if we look at the DCR, there are 2 components. On the net debt, I think that I've been very, very clear that with the decision which has been made on the dividend and the buyback in 2020, we have built some buffer that give us a good leeway to manage our 2020 year and come with a net debt at the end of the year that should not be too far away from our initial expectation. And of course, we cannot give any guidance on the free cash flow, but with this DKK 2 billion, which is -- which is there, we do have flexibility to manage our net debt out. Then, of course, the key question is, what is the EBITDA in 2021? And a lot of our efforts, as you can imagine, as we speak, is to make sure that we exit 2020 with a run rate EBITDA which is maybe not back to normal, but definitely in a better shape and that allow us to pick up on the recovery in 2021. I think you heard what we said, and Jeff was very clear about the platform. The platform is strong. We have no reason to believe that the revenues, the bulk of our revenues will not come back. That's true. We have about 10% of our revenues which are more exposed to hotels, aviation and some sectors, some industries which are more exposed and you may be in doubt that in 2021, we would recover all of it. And probably, we will not. So there is a risk on the revenue side in there that we will struggle to get the benefit of these revenues, and therefore, the EBITDA. But on the rest of the business, we see a strong potential for recovery, and we see also opportunities to grow, as Jeff mentioned, especially, of course, with this new way of working that will be a part of the story. And then margin-wise, again, with the strong exposure to key accounts, we do not see that there should be a change in the underlying market. There will be all sorts of moving parts, but there is no reason why we should not be able to come back closer to a decent margin in '21. Maybe it will take to '22 to recover full of it. I don't know as we speak. I have no clue. But that could -- that we will have this year in 2020 that would be very high, and we have a strong rate improvement of our DCR in '21 that we are doing everything to make sure we get there. And then I cannot answer much more than that, but we -- today, we have good visibility on what we -- where we want to be at exiting 2020. And with good grounds to believe that '21, we will recover this year much more in line with where we want to be.

Operator

(Operator Instructions) And our next question comes from Klaus Kehl from Nykredit.

Klaus Kehl Nykredit Realkredit A/S, Research Division - Chief Analyst

Klaus Kehl from Nykredit. Two questions from my side. First of all, I guess that you have shut down some quite large contracts. But exactly how quickly can you start them up again? Is it within days? Or does it take 2 weeks or 3 weeks? Or yes, any thoughts about that.

And then secondly, you mentioned this drop-through margin of around 25%. And previously, I think that you talked about 15% to 20%. Maybe it's just me that I can't remember what you said, but have you changed the underlying assumptions? Or is it because that you will take a harder hit than previously expected and that will make it harder for you to absorb the hit? Or any comments about this drop to margin? That would be my questions.

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

Thank you. So on the starting up of contracts, I mean, shutdown contracts, it's shut down sites, obviously. So we have not lost contracts in connection with COVID, unless -- and actually, again, a lot of our clients or most of our major clients are blue chip customers, and they have strong credits and so forth. So we don't see a lot of credit risk or shutdowns from that perspective either. So it's site shutdowns, and it is, as we also alluded to, partially shutdowns because most of the buildings will still have our services in them as we speak. So despite the world being where it is, more than 75% of our workforce is still working out there. We still have a high degree of delivering technical services, of cleaning services, of security services, et cetera, that is still going on. Where we're the hardest hit is within catering. These sites, therefore, they are running. So when we start to, sort of, see people coming back in, it is putting on the cleaning services and the catering services on top of what we already do. So it's relatively quick to start this up again, and that could be within days or weeks for that matter. Having said that, the larger the sites, the more preparation it takes from the client's side of exactly who do they want back, how many do they want back. And with that, we support them. And we do sell them also, as a product, how do we ensure social distancing and proper hygienic conditions as and when we open and how do we make sure people feel well. So all of this is in planning. But with that planning in place, we can start any -- within days. Then it really comes down to how the customers want to do it. So again,



all of it based on the fact that we are actually running most of our business already.

On the impact on the drop rate, yes, Pierre?

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

Yes. And thank you very much for asking the question because it gives me an opportunity to make very clear the assumptions. When we -- you're right, when we communicated on the March 20, we were indicating a drop-through of 15% to 20% that was based on what would happen in an average country on the back of the situation, let's say, a couple of days before March 20 and with the knowledge of that time with the spread of the lockdown on that time. Now we are giving you also an indication today, which is based on the knowledge of April. And based on the month of April, we come with that vision that it's 25% against our expectation on revenues and with a drop rate of 25% on the margin. I don't think that there is a deterioration or a change, actually, even in the assumption. It's just that the business mix, the portfolio of countries which were impacted at that time and which is today is different. And then it depends very much about the exposure, as I mentioned, on the service lines, catering first, but also the nonportfolio, that's a big driver. The other one, to be very candid, is also the effectiveness of the government support measures because that's also a very important driver of this drop-through. And to be very candid, some of these measures have been varying over time, and it is likely that they will keep on varying a bit over time. And that's why I really insist that what we gave you at the end of March, that was a picture that we had at that time. What we are giving you today, this is a picture that we see today. And of course, at the end of May or at the end of June, we may have a different picture with some countries easing the lockdown, I think we had the question before, and there will be some impact. So that's the reason why we have indeed different.

And to be also very open on this drop-through margin, the key driver over there, the first and the biggest one, is, of course, that we are losing the gross margin and the revenues which are going. So that gross margin is leaving us. And with an exposure on catering and nonportfolio work, clearly, the gross margin is somewhat a bit higher than, let's say, average. So let's say, 15%, just to give a number, again, varying a lot from one country to the other.

Then the key component is how much of the labor cost we can actually exit when the revenue is out. And of course, it depends very much on the government support. If we are on short-term exiting of the people, which is the vast majority of our business because we believe that it will recover, then the key uncertainty is how much of that cost will be transferred. In some countries, actually quite a few countries, it's 100% of the cost which is transferred. But in some countries, we have to pick up a bill, which can be 10% but which can go actually to 30%, 35%. And then we have residual cost of labor, which for a while is impacting us. Again, very strong variation from one country to the other. But as an average, it can cost us, let's say, 5% to 10%, which are still to be picked up by us. And then even if, again, you know that we have limited fixed costs because we don't have big assets which are dedicated to customers, but we have some depreciation, which is across the board. So if you have lower revenues, then the percentage tend to increase. You have some rentals that you cannot get rid easily out, you have some equipment that you are also leasing, so we do have some fixed costs. We do have also, of course, our G&A, which are not that easy to reduce when you believe that the activity will pick up at some point. But that's another, let's say, 5% to 10%. And then on the face of that, we have all sort of cost measures that, as you can imagine, we have triggered immediately actually already in February on the back of the IT malware, and that's the usual stuff. So that's all the freeze of hires and many projects, consultancy and projects have been stopped, that CapEx is cut. All sort of actions, which are ongoing, as you can imagine. The net is that in April, it's about 25%.

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

Okay. I think that finalizes the call for today. Thank you all for participating. You may now disconnect.

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