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CORPORATE PARTICIPANTS

Michael Vitfell-Rasmussen *ISS A/S - Head of Investor Relations*

Kasper Fangel *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Mads Holm *ISS A/S - Group Chief Financial Officer, Member of the Executive Group Management*

CONFERENCE CALL PARTICIPANTS

Simona Sarli *Bank of America - Analyst*

Peter Sehested *ABG Sundal Collier - Analyst*

Annelies Vermeulen *Morgan Stanley - Analyst*

Klaus Kehl *Nykredit Markets - Analyst*

Nicole Manion *UBS - Analyst*

Allen Wells *Jefferies - Analyst*

Kristian Godiksen *SEB - Analyst*

Mads Andersen *DNB Markets - Analyst*

PRESENTATION

Operator

Hi, everyone, and welcome to the ISS interim report for the first-half of 2024. Today's call is being recorded. (Operator Instructions)

I would like to introduce Michael Vitfell-Rasmussen, Head of Investor Relations. Michael, please begin.

Michael Vitfell-Rasmussen - *ISS A/S - Head of Investor Relations*

Yes, thank you, and hello and good morning, everyone, and a warm welcome to this conference call. Following our first half report released earlier this morning. As said, my name is Michael Vitfell-Rasmussen, and I'm now heading up Investor Relations here at ISS.

Some of you know me from the past and I'm very much looking forward to touching base with those of you who may not know me yet. I am in the room here with our CEO, Kasper Fangel and our CFO, Mads Holm. But before we start up, I would like you to pay attention to the disclaimer on page 31. And with that, I will now hand over to Kasper to go through the presentation.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Thank you, Michael, and good morning, everyone. Also from my side, a very warm welcome to the presentation of our first-half results for 2024. I'm very pleased to share the room with two fairly new colleagues today. Our new group CFO, Mads Holm, who will be taking you through the financials and Michael Vitfell-Rasmussen that you just heard from who just started last week in Investor Relations.

Before getting into our performance. I want to start out by making a few quick comments about the external environment and our business. From a macroeconomic perspective, the demand for what we sell continues to be high. Customers continue to look for solutions that allows them to drive efficiency, enhance employee experience, lean into innovation and deliver on sustainability commitments.

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We also note that our industry tends to be relatively stable throughout economic cycles and political uncertainty. Our service offering is relevant regardless of the political situation in a given country and our customers tend to look for efficiencies when times are challenging and look to invest in experiences when times are a little more favorable. So all this to say that it's a great time to be at ISS and to be operating in our space.

Now on to the specifics of the first half. ISS continued to move in the right direction in the first half of 2024. Our financial KPIs developed according to our expectations and I'm pleased to announce that we can now narrow our organic growth outlook to the high end of our original rates.

We now expect organic growth to be 5% to 6% for the full year. The margin is also developing according to plan and continue to improve, driven by the OneISS review conducted last year and general improvements across the business.

Just to be perfectly clear, our margin in the first half was 3.9%, including hyperinflation and 4.0%, excluding hyperinflation. We guide excluding hyperinflation and our consensus is collected excluding hyperinflation. So the 4.0% is the margin that we consider relevant.

Commercially, we have won several local contracts and extended our largest global key account customer Barclays, which alone represents annual revenue of more than DKK2 billion. Additionally, just last week, we've been awarded a significant contract worth more than DKK1 billion in the UK with the Department for Work and Pensions.

This is extremely pleasing, and I will elaborate on this shortly. Our two largest mobilization and startups, DEFRA and Bygningsstyrelsen are also progressing according to plan and our pipeline of future commercial opportunities looks promising. The situation around Deutsche Telekom is unchanged, and we will update you accordingly once there's anything material to report.

Moving onto our capital position, it's also moving in the right direction and according to plan. This was acknowledged by S&P who upgraded our credit rating in May. We're comfortably within our targeted leverage range, which is why we have announced an increase of DKK250 million through our ongoing share buyback program, taking it to a total of DKK1.25 billion.

Please turn to slide number 5. As mentioned last week, we were awarded a significant contract with DWP of approximately DKK1.2 billion, excluding projects and above-base work. I'm extremely proud to see this win come through as it's the culmination of three years' work and the results of the UK's relentless industry focus on the public sector as also evidenced by the DEFRA win last year.

The contract was awarded after a public procurement process led by the UK government and the fact that it has been awarded to us is a significant recognition of our value proposition and track record in this segment.

Once operational, we will have welcomed close to 3,000 new ISS employees that will provide outstanding services to DWP, and we are carrying the responsibility to these employees to create opportunities that they wouldn't have had had a ISS not existed.

As you can imagine, it takes time to mobilize thousands of employees, although we're taking most over from the current provider, which is why we anticipate a longer ramp-up period than usual. We'll start the mobilization in October this year and the actual services and subsequent revenue will begin in October 2025.

The contract has obviously followed our strict internal framework for contract management and start-up. The contract has been officially awarded but is subject to final signing in line with the public procurement process. We expect signing by the end of this month.

Lastly, I want to highlight that DWP strong commitment to social sustainability aligns closely with our own serving as a testament to the fact that our efforts in this area are not only the right thing to do, but also highly valued by our customer.

In May, we extended our global contract with Barclays, representing more than DKK2 billion in annual revenue, making it the second largest contract in ISS. We partnered with Barclays since 2012, and this contract is truly a global IFS contract.

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We serve them all around the world in more than 25 countries, touching the lives of more than 80,000 Barclays employees daily with all our core services the renewal took place almost a year ahead of schedule and the contract went to the market. So it has been a great team effort.

We would not have secured this contract without our global reach through our self-delivery model, coupled with strong technology solutions. Barclays is also an example of a customer who values our commitment to social sustainability and recognizes how our diverse workforce can help advance the social sustainability agenda.

Please turn to slide 6 to look at two other large contracts. Let me provide a brief update on the two large contracts that we commenced in H1 2024: DEFRA in the UK and Bygningsstyrelsen in Denmark. The enterprise have done an excellent job absorbing the volumes and pleased to report that both contracts are now fully operational, and we are proceeding according to plan, both operationally and financially.

This success is only possible due to the strong processes and governance we have in place, and it gives me great confidence as we embark on an even larger contract in the UK with our recent award of DWP.

With that, please turn to slide 7 for an overview of our commercial momentum. This slide gives you an overview of our commercial developments since the Q1 reporting in May, we have won several local contracts in Europe and continue to experience good momentum with extensions.

We now only have 2% of revenue left to renew in 2024, and I'm confident in our ability to secure this final 2%. Our 2025 expiries have decreased from 10% to 5% since we last spoke with Barclays being the largest driver behind this improvement. We also experienced two new losses during this period impacting the Americas region and this is obviously disappointing. This is in addition to a number of deliberate contract exits in the region during the last 12 months.

We are staying disciplined in our commercial processes for both new wins and extensions and we are not accepting unreasonable terms and conditions, and I'm pleased to see it come through in our margin development in Americas. The margin has improved by 60 basis points since the first half last year.

Steven Quick has joined the team as a new CEO of North America in July, and I'm excited about the next chapter of North American, one year of negative growth doesn't change that. We see a lot of untapped growth opportunities in the region, and we have a strong business platform.

Looking ahead, I'm pleased with our commercial pipeline. We have several significant opportunities in the final stage of negotiations. We're also beginning to see the commercial processes stabilize after some longer cycles post pandemic when customers were in a wait-and-see mode regarding the future real estate needs. This increased clarity is helping our customers make decisions, which I expect will benefit us moving forward.

With that, I would like to hand over to Mads who will take us through the financials.

Mads Holm - *ISS A/S - Group Chief Financial Officer, Member of the Executive Group Management*

Thank you very much, Kasper. Before discussing the first half results, I would like to express my gratitude for the warm welcome I have received both internally and externally. Joining a new company is always an exciting experience, and it's been a great pleasure to become part of the ISS family. I have not encountered any surprises, and I feel confident about the company's financial position and growth opportunities.

Moving on to the first half result, I'm pleased to report that they are in line with our expectations. Organic growth was 5.9% and was driven by price increases and volume growth. I will elaborate on this shortly. The improvement in the operating margin continued in the first half, where the margin was 4.0% compared to 3.6% in the same period last year.

Lastly, our free cash flow also developed as expected and was negative DKK1.1 billion, including the negative impact from the Deutsche Telekom contract. Overall, we are satisfied with our financial performance in the first half, and we are well positioned to deliver on our full year financial outlook. Please proceed to the next slide for a closer look at the organic growth develop.

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As shown on this slide, the main driver of organic growth continues to be price increases. Price increases alone have driven an organic growth of 6.5% in the first-half of 2024 with approximately half of this growth coming from Turkey.

Volume growth added around one percentage point, supported by increased activity levels as customer sites but also increased scope from our contract expansions. Net contract wins were negative by 1-percentage-point, primarily due to contract lost or exited in 2023.

We anticipate the net contract wins will remain negative for the remainder of the year as our significant new wins this quarter will not contribute to 2024.

Lastly, project and above-base work had a negative impact of around 1-percentage-point. The decline is due to lower demand for deep cleaning, disinfection and refurbishment programs following the high demand during the pandemic. However, it is worth noting that the share of above-base work remains above pre pandemic levels currently standing at 15%.

Please proceed to slide 11 for a closer look at the operating margin development. The improvement in the operating margin continue in first half of 2024. Excluding the impact of high by inflation in Turkey, the margin was 4% in line with our expectations.

The improvement was driven by operational efficiency across the group, including continued progress on Deutsche Telekom and in the UK, as well as one-off in APAC related to certain employee tax refunds and government grants.

The positive impact of the OneISS revenue conducted last year also contributed to this progress. As a slight offset to these positive developments we decide to make certain investments in the mobilization process related to the large contract ramp-ups in Denmark and the UK that Kasper discussed earlier.

And the operating margin was also impacted by our ordinary restructuring cost being weighted towards the first half. For the full year, I expect to land within our normal range of DKK100 million to DKK150 million.

Lastly, our strong framework for passing on price increases remains effective and is margin neutral. While it does not contribute directly to margin growth it positively impacts absolute profit.

Overall, the operating margin in the first half is progressing as expected giving us confidence in achieving our full year margin guidance, which anticipates a margin above 6% in the second half.

Please turn to slide 12 for a look on regional developments. From a regional perspective, organic growth was primarily driven by European regions. Northern Europe benefited from DEFRA and Bygningsstyrelsen start-ups with most of the growth occurring in second quarter.

Growth in Central and Southern Europe was predominantly driven by price increases in Turkey. Growth in APAC mainly stemmed from volume growth and price increases, though this was partly offset by a decline in project and above-base work. Portfolio revenue alone grew by 7% during this period.

Organic growth in Americas was impacted by contract lost and exited in 2023, as Kasper mentioned earlier. For the second half, we expect negative low double digit organic growth, while the margin will continue to improve. From a margin perspective, all regions showed positive underlying improvements, even adjusting for the positive one-off in APAC.It is encouraging to see the Northern Europe region has maintained its margin levels despite the large start-ups and that deliberate contract exits are positively affected margins in the Americas.

Please turn to the next slide for an overview free cash flow. As expected, free cash flow was negative in the first half of 2024 amounting to negative DKK1.1 billion. This was primarily driven by changes in working capital, resulting in an outflow of DKK1.9 billion reflecting normal seasonality and the withholding of certain payments from Deutsche Telekom.

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Working capital was also negatively impacted by a decrease in payables, mainly due to a high level of self-delivery as our own employees are paid sooner than subcontractors. As expected the DKK200 million related to provision, pensions and similar obligations includes cash out related to the OneISS review conducted at the end of 2023.

All in all, a free cash flow in first half according to plan. Therefore, our guidance for the full year of more than DKK1.8 billion remains unchanged, implying a free cash flow above DKK2.9 billion in the second half. When we are successful in obtaining the withheld payments from Deutsche Telekom, the free cash flow outlook will be adjusted accordingly.

Please go to the next slide. Before we move on to capital structure, let me give you a short update on our most recent acquisitions. The team has done an excellent job integrating these new businesses and they are performing according to business plan or better.

We will, also under my leadership, continue to have a very selective approach to M&A with a preference for smaller bolt on acquisition within our targeted service lines and industries. Also, such M&A opportunity needs to fulfill our return requirements. In the case of M&A opportunities where the risk return isn't attractive on a risk-adjusted basis, we will pay the surplus capital out in form of dividends and share buyback as we are currently doing.

I believe this is a good segue into our next slide on capital structure. I'm pleased to see that our financial position continues to improve, which also was recognized by S&P who upgraded our credit rating from BBB- to BBB in May.

The leverage ratio was impacted by normal seasonality and ended up at 2.6 times in the first half of 2024. For the full year, we expect to be well within our targeted range, which is why we today announced an increase of DKK250 million to our share buyback, taking it up to DKK1.25 billion in total.

Let me take this opportunity to stress that capital discipline is very important to me and I fully support our current capital policy. In case of excess capital, we will redistribute the capital back to our shareholder, as I just mentioned. And of course, we, together with the Board look at a range of parameters when we make these decision, including the attractiveness of an extraordinary dividend compared to share buybacks.

Please turn to slide 17 for the outlook of 2024. The outlook for 2024 is unchanged. But we have, as mentioned, narrowed the organic growth range to be in the upper end of the range, meaning we now expect organic growth for the full year to be 5% to 6% compared to 4% to 6% previously.

For the operating margin, we continue to expect it to be above 5% and the free cash flow is expected to above DKK1.8 billion. I will in the following slides go into the details on each of the three KPIs of the outlook.

Slide 18, please. The drivers behind the organic growth outlook for the full year 2024 have changed slightly. The biggest change compared to our full year expectation is that we now expect higher impact from price increases given the stronger than expected wage inflation environment.

Volume growth is expected to contribute around one percentage points, whereas net contract wins and projects and above-base work are each expected to have a negative contribution of around 0.5-percentage-points.

Net contract wins are impacted by losses and deliberate exits mainly in the Americas. The losses are obviously disappointing, but as Kasper mentioned earlier, we have some good contract wins, including DWP that was awarded last week, but will not impact growth until 2025.

Our above-base work is expected to be slightly down due to comparisons still being impacted by the high levels in the post-pandemic environment. All in all, this brings us to our full year guidance of 5% to 6%.

Please go to slide 19 for the margin building blocks. The assumptions for the full year margin guidance remained unchanged as per normal seasonality, the margin development is back-end loaded due to profits being generally higher in second half. We also expect to see the full benefit of OneISS review materialize in the second half as well as continued operational improvements. In summary, we expect the operating margin to be above 6% in second half.

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Please go to the next slide for the free cash flow. The building blocks for the free cash flow also remain broadly unchanged compared to communication in February and in May. In short, working capital is expected to be slightly negative. CapEx in addition to lease assets, negative and interest and taxes paid will be slightly higher than in 2023. The latter because of the higher profits.

As I mentioned, the free cash flow is expected to be above DKK1.8 billion if Deutsche Telekom continues to withhold these payments.

That concludes my part of the presentation. So let me pass the word to Kasper for some final remarks.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Thank you, Mads. In summary, I'm pleased with the development in the first half of 2024. We are delivering according to plan on almost all parameters, and we were able to upgrade the guidance on growth slightly. While we faced some disappointing losses that negatively impacted our growth, I'm extremely pleased that we were awarded the DWP contract and as mentioned, I see the commercial landscape opening up.

I'm also glad to see that our operating model is working effectively. And the teams are successful in mobilizing also the very large contracts such as DEFRA. I would also like to highlight the margin development, which is progressing according to plan with no unforeseen pickup.

I appreciate that you're all eager to hear more about Deutsche Telekom. And I assure you that we are working diligently to secure the payments as soon as possible. And we will obviously update you accordingly.

But also hope that you will respect that this is an ongoing legal case, and we must protect our commercial interest. So we cannot provide all the details at this time.

Lastly, as Mads mentioned, our capital position is strong, which is why we've increased our share buyback program today. All in all, I believe we're in a good shape, and I'm confident in our ability to deliver on our full year financial KPIs as well as our commitments to our customers.

As I said in my opening remarks, ISS is well-positioned and our disciplined execution provides us both optimism and confidence as we move forward.

On that note, let me take an opportunity to provide a few ‘Thank you'.

First Thank you to our current and future customers who continue to allow us the opportunity to serve them - Thank you for your trust.

To our valued colleagues here at ISS that serve our customers on an everyday basis around the world - Thank you.

Whether you clean their premises, cook their food or perform other important tasks, you make a significant difference in the places you serve, and I truly believe we can make a difference for you through the many career opportunities we provide. ISS is an incredible engine for social mobility for our placemakers, all over the world.

With that I would like to open the floor for Q&A. Thank you very much.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now start the question-and-answer session. (Operator Instructions)

Simona Sarli, Bank of America. Please go ahead.

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Simona Sarli - *Bank of America - Analyst*

Yes, good morning and thanks for taking my question. So first of all, on volume growth, so what is driving the cost for this year, especially in a context of your comment on better commercial momentum and also what is the impact of contract losses on client retention and high level what is the expectation for client retention for next year also considering the contract win with the UK Department of Work and Pension? And also please just very quickly a second one on your contract with the UK DWP. If you can please quantify the headwind on margin for 2024 and 2025 from the mobilization costs. Thank you.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Okay. Thank you, Simona. And I think that was slightly more than one question, which is totally fine, no problem at all. Let me let me just go through this and hopefully, I captured it all. I mean, first of all, in terms of the broad perspective and the helicopter view of our optimism on future growth, obviously is pointing towards our pipeline and we have an attractive pipeline with real quality.

And what I mean by that is that customers that want to work in a partnership and its in segments that that we have chosen to focus on. And then we're also seeing a change in the processes and decision making at the moment, whereas, you know, I have mentioned several times before that it was almost stalled for a long period of time in terms of decision making.

And we're seeing that things are starting to stabilize and normalize and decisions are being made in accordance with what we saw before the pandemic. And then it's also not a secret that our comfort level, of course, also comes from the fact that we have a number of significant contracts that where we are in the final stage of completion, and we're pleased about that.

And in general, around retention our retention is well above 94% despite the losses in Q2 and then of the contracts that expires in the near future so in 2024, I see no red flags.

So, in summary, in terms of our commercial landscape, we're making good progress in the commercial space, and I think things are looking really promising. In terms of your question on DWP, then we do expect and that's fully included in the guidance that there will be mobilization costs incurred in the second half of this year.

We also had that in the first half just related to two DEFRA and Bygningsstyrelsen, and we expect that to the same extent in the second half. But again, that is included in our guidance of above 5% and actually the point on mobilization cost is a very good one because that's the right thing to invest in that to make sure that we're getting off to a good start with the contracts that we are starting up. What has been done on both DEFRA and Bygningsstyrelsen is that we have invested into, for instance, getting project people on board so that they are setting up the right project regime and framework, which of course, gives a period of time where we're carrying some costs without any offsetting volume.

But we can see that that's the right thing to do from a longer-term perspective, because then we are well positioned to work to get our arms around these opportunities once we have gone live with the contract.

Operator

Peter Sehested, ABG. Please go ahead.

Peter Sehested - *ABG Sundal Collier - Analyst*

Yes. A couple of questions from my side. First of all, if you could just follow up on the previous question with respect to the mobilization costs into '25, if you could give us a heads up on what we should expect there. I don't believe you touched upon that part of that question. And then in terms of volume growth, clearly below my expectations, but also looking at the past couple of years, your retention rate has increased.

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How ever tracking your volume growth it has actually decreased. So just a little bit of your comment on that observation and what are you actually doing in the US to ramp up a new contract wins as fast as possible. I know you've just got your new CEO on board, so perhaps some of what his ideas are to ramp it up into the US and potentially follow up question after these two. Thank you.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Thanks, Peter. So back to DWP, I also expect mobilization costs in the first half of 2025 but it's not anything that is a material or we should expect that the business is going backwards. As I said, in the above 5% for 2024 and it's the same magnitude that I expect throughout the months in '25 before we go live with the contract.

And again, it's factored into our guidance for the above 5% this year and absolutely the right thing to do. Just in terms of some of the volume or growth, and I mean, a couple of things on this one. We are growing with our existing customers. We're doing that in the first half and will continue to do so in the second half. So we're growing approximately 1% with our current customers.

And then, of course, do I sit here as CEO and try to polish things up in terms of new wins when we have a negative contribution to our growth, of course I don't. And that's disappointing. We are having a negative contribution from new wins of slightly less than 1% in the first half.

I expect that to be a significantly lower negative contribution in the second half. So it's improving in the second half, and that is factored into our guidance. And that's, of course, has to do with the contract starts that we have started here now, which will start to have a positive impact in the second half.

But one thing is this year, what in all due respect what is more important to us is that we are seeing growth in the midterm and the long term. And I have no reason to believe that that shouldn't be the case, given what the what I just mentioned to Simona on the first question.

In particular in the US, your question around that, Peter I mean, we are pleased with the appointment of Steven Quick, as I said, but we also have to appreciate that he started in July. So of course, Steven will need a bit of time.

But I just want to highlight a few things around the US. One, you mentioned, how are we going to mobilize contracts there? We have a strong platform in the US, if you look at the results for the first half of this year, then we're improving margins with 60 basis points versus the same period last year.

And it's a platform where I'm comfortable that we can absorb new volume without having to increase our overhead costs accordingly and one year of negative growth in the US, of course, I am not pleased with that, but that doesn't change our perspective around that market in general.

There is a lot of untapped opportunities in the US and midterm and longer term, we are planning to work to get our arms around that and utilize that.

Peter Sehested - *ABG Sundal Collier - Analyst*

Cool. And my final question was around the cash flow and capital utilization. Can you just add what to expect the factoring for the full year?

And in terms of long on capital allocation, clearly, what is your view on M&A at this point in time? Because seems to me that the best way would be to sort of, you know, buy cheap companies and your share looks like one of the cheapest around so any thoughts on whether your cash flow use should be more concentrated towards buybacks than external M&A? Thank you.

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Mads Holm - *ISS A/S - Group Chief Financial Officer, Member of the Executive Group Management*

Yeah. So thank you very much for some questions here. Let me take the last one on the M&A side first, I think it's important to state that we have a very firm M&A strategy. We are doing smaller bolt-on acquisitions, and we are only doing it in proven countries and it's also only within right service lines and you have to remember and the proof is really in the pudding here and all the transactions we have done lately are delivering according to plan or even better.

And of course, they need to fulfill the strategic fit I just talked about. And to your point, we do see a return on invested capital that is higher than our WACC. We have a very firm capital allocation policy, and I can ensure you that I also support that fully here.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

So Peter, just to I'll also a few comments. I agree with what Mads said. We do not have any M&A in the pipeline here in the short future. So we agree with what you mentioned around them, as you know, capital allocation and the attractiveness of doing share buyback.

And that's, of course, also what you're seeing with the increase of the DKK250 million here in first half. And on factoring just real quick, you should expect factoring to increase with the same percentage as our organic growth.

Then I'm fully aware that it's slightly higher in first half. I think it's a little more than DKK50 million higher. That's simply because the growth that we have with customers that has invoices that are eligible for factoring are higher than the 5.9%. For the full year, and what is included in the guidance, is that the factoring will increase in line with the reported organic growth percentage.

Peter Sehested - *ABG Sundal Collier - Analyst*

Okay. Thank you very much. Thanks for talking the questions.

Operator

Annelies Vermeulen, Morgan Stanley. Please go ahead.

Annelies Vermeulen - *Morgan Stanley - Analyst*

Good morning, gentlemen. Just one question from my side. I wanted to pick up on situation in the Americas. It seems that the contract that you've been losing and exiting are biased towards that region specifically.

So just wanted to understand if there is anything specific factors in that region, whether it is pricing, positioning, discussion with clients that would explain why it is the case that you are losing contract wins in that region compared to others? And just want to make sure I got that right. You flagged that you're expecting negative, low double-digit organic growth.

Can you clarify whether it's from Q3 over rest of the year and what's the assumption that has been putting that in that low double digit organic growth in that region, whether it's just the impact of contracts you've lost to date or if you're expecting any additional work around the perimeter and potentially exiting additional contracts there? Thanks.

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Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Okay. So let me let me provide some context to the reduction the loss that you are referring to in in Americas that we have announced here in Q2. This particular customer are going through some significant changes in their business. And as a consequence, they have insisted on commercial terms that ISS doesn't entertain.

And after several discussions with the parties couldn't agree, then we decided to separate the relationship. And now, of course, to the other part of your question, that is, of course, poking two relevant questions. And the first thing is that is that a trend both in the US and more at the global scale, and it absolutely 'sn't. These are specific cases that we don't see will replicate elsewhere neither in the US.

And the second thing, which I guess you also have in your mind is, of course, are we not competitive in the US and maybe also even broader? And we absolutely are. If I look at the retentions that we have successfully secured here in the first half, then almost all of them, without any exceptions that has been tested in the market, including with the Barclays process. So we absolutely price competitive against the competition.

In terms of some of your expectations, I mean, I'm not guiding on regions, neither on the half years, but from the double digit without getting being more precise, you should expect that to happen from Q3 already because this contract is going out or has gone out here in the beginning of July.

Annelies Vermeulen - *Morgan Stanley - Analyst*

Yeah. Okay, understood. Thanks very much.

Operator

Klaus Kehl, Nykredit. Please go ahead.

Klaus Kehl - *Nykredit Markets - Analyst*

Yes, good morning. Klaus Kehl from Nykredit. Just one question from my side. When you think about the growth bridge for '25 in what kind of a number from new contract wins would you expect in '25 as of today?. You've given all the moving parts in the contracts that you have seen so fine in '24, that would be my question and I know you haven't guided for full year for '25, so it's more like, yeah, high level thoughts.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

So let me just, I mean, we'll just come back to Americas. I just reflected a little bit here. So just to take the drama out of this one, I mean, we're talking low double-digit negative in the second half. I just want to put that out there to make to make sure that that is clear for everyone.

Obviously, we in August 2024 and I'm not going to provide any detailed guidance for '25, Klaus, which I'm sure and I know that you will appreciate, however, there is no reason to believe next year that we shouldn't continue to grow with our existing customers.

We see that as a clear trend that we are tapping into the available volume with our current customers and with the importance of an office environment and the investments that customers are willing to make to make sure that they're getting their workforce back into the office space. There's no reason to believe that we shouldn't continue to grow with our current customers.

And then I also expect a positive from a new net contract wins. Of course, we are having a quarterly impact from DWP next year, we have a number of significant contracts that are in the final stage of completion and no reason to believe that that shouldn't have a significant positive impact next year.

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And from a retention point of view then I don't have any big ticket items where there is a red flag hanging around.

Klaus Kehl - *Nykredit Markets - Analyst*

Okay. But if it was actually the new contracts that I was referring to given what you know today. What would you expect full-year for '25? Could you elaborate a bit on that?

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

I don't want to give you any specific number, but I can say that much that I expect it to be a positive contribution.

Klaus Kehl - *Nykredit Markets - Analyst*

Okay, fair enough. Thank you very much.

Operator

Nicole Manion, UBS. Please go ahead.

Nicole Manion - *UBS - Analyst*

Good morning. Thank you for taking my question, just one, please on the commercial discussions, I think you said previously that one of the reasons that the cycles are maybe getting a bit longer because that more people were getting involved as it became a discussion around HR, strategy, marketing, not just between FM and the chairman in part maybe because of the stuff around return to work. With those cycles now shortening again, what does that tell us?

Are you seeing a return to normal? And what does that mean for those kind of discussions of the contracts in general that are more sort of around workplace and returning to office and that kind of thing. Thanks

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Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Nicole, very good question. We are still seeing that a significantly more executives are involved in the decision making process, which is a good thing for us because that means that it's important to talk to our customers that they are making a setup in the office that is appealing to the staff and they're investing in that to make sure that there's innovation.

And in general that there's a desire for staff to come back. I think the change since last time we spoke on the stabilization of the processes is that businesses in general have gotten more clarity to how they would like the office space to look in the future.

That has been a little bit in a hold mode until we were fully over the pandemic. And we could see that, you know, people were clear on how do they want the office to look in the future. That is the clarity that I think has come over the last quarter.

Nicole Manion - *UBS - Analyst*

Got it, thank you.

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Operator

Allen Wells, Jefferies. Please go ahead.

Allen Wells - *Jefferies - Analyst*

Good morning, guys. Just two quick technical ones for me. And one was just, sorry if I missed it, can you quantify the one-off benefit you saw in Asia-Pacific in terms of the margin benefit there? And then secondly, I noticed in the comments there was an option for your Turkey JV partner to potentially exit that and by the end of the year.

And just in terms of what you're thinking there in terms of your commitment to buy out your partners and what cash implications might be for that and in terms of the quantity, could be quite helpful as we think about the cash flow outlook, and that's it. Thanks.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Mads, do you want to talk to the one-off?

Mads Holm - *ISS A/S - Group Chief Financial Officer, Member of the Executive Group Management*

Yeah, so thank you very much for the question. And so the one-off in APAC relates to government grants and payroll tax refunds. It's actually a catch-up from 2018 to 2023. So you should expect a slight margin improvement going forward because this will, of course, benefit us also going forward.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Yeah, and just to make it absolutely clear, Allen, the net contribution from one-off is zero. So it's a wash, the positive that Mads spoke about in the first half is offset by some different phasing in what I mentioned in my script in the ordinary restructuring cost that is baked into our run rate and guidance that is front end loaded this year.

So a negative impact in the first half, but it's going to be a positive impact for the second half. So it's net zero and that's a wash.

In terms of some of your comment on Turkey, I'll do that super quick that related to Actera and it's actually a positive story. Remember that they entered into ISS Turkey in accordance with the acquisition that we did in 2021. Actera is a private equity fund, so it's not a surprise that they want to exit that at some point in time, and they have some rights to exit but in any case, ISS can obviously decide to buy them out, as you said, quite rightly yourself.

But it's a very early stage and rest assured that we will protect the business, we will protect our employees and we are also acutely aware that we protect the interest of the shareholders if any transaction is to occur.

Allen Wells - *Jefferies - Analyst*

Okay. Thank you.

Operator

Kristian Godiksen, SEB. Please go ahead.

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Kristian Godiksen - *SEB - Analyst*

Thank you. A couple of comments from my side. So maybe on the decision to increase the share buyback, maybe you can elaborate on that.

Yeah, both on the decision and also the magnitude. Based on my calculations mechanically and even at the low end of your free cash flow guidance, you will still end below the low end of your net debt to EBITDA target. On my calculations, you will end at 1.9. And so maybe a couple of comments to that. That would be the first question.

And then maybe secondly, if you could also comment just for good order, whether the run rate in the holding back of payments from Deutsche Telekom is unchanged to what you communicated in connection with the Q1 results as well.

And then maybe just thirdly, if you could comment a bit on, yeah. First of all, confirm that I heard it right that the order pipeline is improving. And then if that is true, can you comment on, whether this is due to an increase in new opportunities or this is more due to progress on the existing opportunities in the pipeline that has been there for some time. Thank you.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Thanks, Kristian, I suggest Mads, that you talk to the question around the share buyback, and then I'll talk to the two others.

Mads Holm - *ISS A/S - Group Chief Financial Officer, Member of the Executive Group Management*

Yeah. Thank you very much, Kristian. A good question. So first of all, I think it's important to express that we have a very clear capital allocation policy, which I actually mentioned earlier, and you're right, we delighted to increase the second tranche of the first share buyback program in the history of ISS.

And with an increase of 50% to DKK250 million, taken up to a total of DKK1.25 billion. And we are we are comfortable in what we're doing. We do keep a buffer, of course, in pursuing these bolt-on M&A opportunities but doing your calculations.

I support you and of course, it is a situation that we are discussing with the Board on an ongoing basis, but we like to take a prudent approach, and we like to follow the capital allocation policy. So this is absolutely something that we will look at on an ongoing basis and come back to if we see further potential momentum here.

Kristian Godiksen - *SEB - Analyst*

And maybe, Mads, if I just may follow up on that just maybe for me to understand, obviously, based on the seasonality of your cash flow and obviously the net debt-to-EBITDA is quite different in the first half of the year compared to the end of the year.

Maybe just for my understanding of how to understand the capital structure policy of 2.0 to 2.5 that I had assumed it was an end-of-year target, but maybe you could confirm whether that is the case or it's a yeah, how to understand that?

Mads Holm - *ISS A/S - Group Chief Financial Officer, Member of the Executive Group Management*

You're right, it's a financial leverage target. It is something that we are we are running towards. However, I would also say that you will see seasonality, of course, in the first half compared to the second half because it is in the second half where we generate most money and it is a bit too early to say.

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And as I've mentioned to you, if I do the calculation I see where are you adding at. But also think it's important here to take a prudent approach, and it is something that we're looking at on an ongoing basis.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Thanks. Hi, Kristian. Just real quick on your two other questions. So on DTAG, the negative cash impact this year the total exposure of that is DKK600 million. I can't give you an exact number there at the first half, and I'm sure that you will appreciate that. But what I can assure you is that what they are holding back when we are getting that paid that will come on top of the DKK1.8 billion, which is the guidance for this year. So that will come on top of that.

And in terms of the order pipeline, it's both actually. It's the existing prospects that we spoke about at length previously, where I've said that the process has taken longer than expected, those are opening up and the decisions are starting to be made and then it's also some new interesting prospect that is coming into the pipeline so it’s a combination of both.

Kristian Godiksen - *SEB - Analyst*

Perfect. That's good to hear on the pipeline. And just maybe sorry, I'm sorry to follow-up on the Deutsche Telekom. I know it's a delicate matter, but as I recall you on the Q1 call, you mentioned that the run rate was unchanged compared to what the run rate was at connection with the full year results. So that run rate, has that changed or is it the same? Just whether there is a change here or not?

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Yeah, that run rate has not changed. It's the same, but I can't give you an exact number. And rest assured I fully understand that you all are eager to get more details around that one, but we have to protect the interest of the company. And then once there's material movements in this arbitration process. Then, of course, we will communicate through a company announcement.

Kristian Godiksen - *SEB - Analyst*

Okay. Thank you, fully understood.

Operator

Mads Andersen, DNB Markets. Please go ahead.

Mads Andersen - *DNB Markets - Analyst*

Yeah, hi gentlemen. Sorry if I missed it, but maybe if we could go back to the DWP, we've talked about it already to some extent, maybe ignoring the ramp-up costs and mobilization if we look at that contract when fully implemented, should we think about the margin profile of that contract as if it is supposed to be above 5% kind of margin contract as well?

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Yes. Thanks, Mads. And you're right, actually, I didn't answer that when that question was the was being put early on. But yes, that's a margin that is going to be accretive to Group average margins. So very pleased with the commercial terms on DWP.

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Mads Andersen - *DNB Markets - Analyst*

Yes. Thanks very much. And then just last one for me. You talked about factoring the forecast. I'm not sure I caught the actual reasoning of why it was up in H1. You touched upon yourself, it was probably up to the tune of two times what organic growth was, why was that for first half?

Mads Holm - *ISS A/S - Group Chief Financial Officer, Member of the Executive Group Management*

Yeah. So let me take you through it. So the development in factoring was in line with higher revenue from key account customers where the invoices are actually eligible for factoring. And this is only limited number of blue-chip clients that have a strong credit rating we are doing it with.

So if you say that, what's the growth, then you only missing DKK60 million to DKK70 million and that's actually because the growth in fracturing stemming from these blue-chip clients that we are able to do factoring with.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

But we do want to take the drama out of this, if you don't mind, I think the delta versus the 6% growth that we were reporting in first half is DKK50 million. We have a policy in place which we have explained to you, I think, more than 4000 times now that we are only providing factoring if it's in line with our policy. And that means the funding rate needs to be lucrative versus the corporate funding rates and the payment terms are greater than 60 days.

Now you have some key accounts where these invoices are eligible for factoring and during the cut off so in May and June, the growth from these were high. And of course, we factor because we stay compliant with our policy. And then again, let me stress for the full year guidance, there is no expectation around factoring increasing more than then the reported organic growth.

Mads Andersen - *DNB Markets - Analyst*

Understood, thank you.

Kasper Fangel - *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*

Thank you very much indeed. Thanks for your interest in ISS and participating in this call. The IR team will be available both today but also in the coming days. And we're looking forward to talk to most of you in the roadshow that is coming up. So from here, thank you very much indeed, and have a wonderful rest of your day. Thank you.

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