Arkadin Managed Calls

Event: ISS Q3 Report 2014

Date: 12 November 2014

Speakers: Martin Kjær Hansen – IR, Jeff Gravenhorst – CEO, Heine Dalsgaard – CFO

Call Duration: 01:01:09

Conference Ref No:

**Wednesday, 12 November 2014**

OPERATOR: Welcome to the ISS Q3 conference call. At this time all participants are in the listen-only mode. Later we will conduct a question-and-answer session. Please note that this conference is being recorded. Your conference will begin momentarily. A short corporate movie will now be played before the presentation begins, and after the introduction the call will be turned over to IR Martin Hansen.

(corporate movie played lasting 2 minutes 55 seconds)

MARTIN HANSEN: Ladies and gentlemen, my name is Martin Kjær Hansen, and I would like to welcome you to the teleconference regarding our Q3 results. Please be aware that the announcement, the quarterly report, as well the slides used for this call can be found on our website. Later today a replay will be available and a transcript will as well on the website.

I'd like to briefly draw your attention to slide number 2, regarding our forward looking statements. If you turn to slide number 3, you will find the agenda for this call. We'll take you through the highlights for the quarter followed by an update on the regional performance. We'll then go through the financial results in more detail, before we go to the outlook for 2014 and finish up with a Q&A session.

Presenting today will be group CEO Jeff Gravenhorst and group CFO Heine Dalsgaard. I'll start the presentation by handing over to group CEO Jeff Gravenhorst.

JEFF GRAVENHORST: Thank you, Martin; Welcome and thank you for joining us. If I could please ask you to turn to slide 5. We continued to deliver resilient and profitable organic growth in the third quarter. We are very pleased with the progress of our strategic initiatives and the continued positive impact on our operating margin and once again, in the third quarter we achieved an excellent cash conversion. All of this, combined with lower interest expenses following our listing, leads to a significantly improved net result and means that we are confident in reaching our full-year outlook for organic growth, operating margin and cash conversion.

As I mentioned, we are increasingly seeing material benefit from our five strategic initiatives, which we of course went through in more detail at half-year, and the implementation continues according to plan. I would like to highlight that we have completed the analysis phase of the cost and the customer segmentation initiatives in ten countries across the Nordics, Western Europe, Latin America and the Pacific. Further countries are being included in Europe and North America, and we now expect to complete the analysis phase in countries representing approximately 55 per cent of group revenue by year-end. Following this analysis phase, implementation has been initiated in several countries, the Nordic region being a frontrunner.

On the procurement project we are still working on phase two, which is targeting savings of approximately DKK 150 million to DKK 200 million, combined with phase one, where the savings have already started to come through. The total targeted gross savings from phase one and two amount to DKK 350 million to DKK 450 million. As stated previously, some of these cost savings will increase margins, some will be shared with clients and some will be invested in the business to maintain and strengthen our competitiveness. Finally, we continue to streamline our business and completed an additional four divestments since Q2 in line with our stated strategy. We are considering making competence-enhancing acquisitions. We have not acquired any companies in 2014, but we are getting closer.

Emerging markets are a strategic priority for ISS. It's continue to deliver high organic growth and now make up 25 per cent of group revenue in Q3. These parts of the world is not only delivering above-group-average growth but also consistently high margins.

Our ability to provide a full range of services to selected customers is also a strategic priority. Not only does this market for ISS grow faster than the remaining facility services industry, but margins are also generally higher. Currency-adjusted IFS growth was 16 percent in Q3, and IFS represents now 31 per cent of group revenue in the third quarter. Year to date the IFS revenue has grown by 9 per cent.

In Q3 this growth was fuelled by significant new contract start-ups and successful conversions from traditional single-service contracts into integrated facility services. Contracts won in the third quarter include Bankia in Spain; Aller, the media group, in the Nordic region; a renewal of a significant IFS contract with healthcare in the United Kingdom; and an expansion of the IFS contract with the Swedish energy company Vattenfall in Sweden. Part of our success with integrated facility services is our ability to deliver integrated facility services on a global scale, and Global Corporate Clients represent 9 per cent of group revenue.

We are pleased to announce another Global Corporate Client, a five-year contract in North America with the international brewer Molson Coors, covering facilities across various locations. The contract commences as we speak, and while it's initially smaller than most of our Global Corporate Clients it has the potential to be expanded. This contract adds to the contract win of a large international food producer announced in Q2 and the extension of the global contract with Hewlett Packard – HP – in Q1. Both of the recent contract wins are framework contracts which have started in selected countries with the potential to expand over time.

So, in summary, we are satisfied with our operational performance in Q3 given the continued challenging macroeconomic environment, particularly in Europe. I'm confident in reaching our outlook for the year and see further margin progression ahead. With this I would like to hand over to our CFO, Heine Dalsgaard, to cover the financial highlights for Q3 in more detail.

HEINE DALSGAARD: Thank you, Jeff. So, turning to slide 6, you will see our financial highlights for Q3 in relation to our three key financial priorities, namely resilient organic growth, improved operating margin and a strong cash conversion. So, organic growth reached 2.4 per cent in Q3 and 2.4 per cent for the first nine months of 2014. The organic growth was mainly driven by continued strong growth in emerging markets, the Pacific region, as well as IFS business in general, partly offset by a continued challenging macroeconomic environment in Europe and difficult market conditions in certain European countries. The 2.4 per cent in the quarter was a small increase from 2.0 per cent in Q2 and, again, despite continued challenging macroeconomic conditions, especially in parts of Europe, and also against a strong comp in Q3 2013 of 5.2 per cent.

On operating margin we are satisfied with the continued improvement. The margin was in line with our expectations at 6.4 per cent in the quarter compared with 6.3 per cent in Q3 2013, and it was supported by improved margins in several regions, especially Western Europe and the Nordics, where it was driven primarily by the implementation of our strategic initiatives and also complemented by a strong performance in the Pacific region.

On cash conversion, the last 12-month cash conversion for September 2014 reached 97 per cent, as a result of strong cash flow performance across the group. As previously mentioned, ensuring a strong cash focus continues to be a key priority, as it underpins our ambition to pay an attractive dividend to our shareholders.

With this overview I would like to return back to Jeff to provide further details on the regional performance.

JEFF GRAVENHORST: Thank you, Heine. If I could please ask you to turn to slide 8, splitting the ISS world into two, it is clear that the organic growth has been driven largely by emerging markets. Emerging markets, which now make up a quarter of ISS, have high organic growth and solid margins. We see ongoing attractive growth prospects in this region. 75 per cent of our business is generated in the developed markets, where overall we have a strong competitive position. Organic growth picked up slightly from zero in Q2 to 1 per cent in Q3. A large proportion of developed-market revenue is generated by the Western European market. So, let's start by having a closer look at that region; please turn to page 9.

The macroeconomic slowdown in the Eurozone continues to provide headwind for parts of our Western European region. Despite this environment, as well as a very strong comparison of 6 per cent organic growth in Q3 in 2013, this region managed to increase organic growth from minus 1 per cent in Q2 to plus 1 per cent in Q3. We do however continue to see challenging markets and low demand for non-portfolio services in the short term. We continue to focus on profitable growth and on solving operational issues in the Netherlands.

The organic growth was positively impacted on by contract wins in Turkey mainly within the security and cleaning divisions as well as commencement of contracts in the UK. However, please note that the UK recently lost a large local contract within the healthcare sector, which expires on 1 November. In 2015 the loss will in isolation have a negative organic growth impact on Western Europe of approximately 0.7 per cent and approximately 0.3 per cent at group level.

The operating margin reads 6.7 per cent, which is up from 6.1 per cent in Q3 2013. This increase was broadly based, with 10 out of 14 countries delivering improved margins, and the increase was supported especially by strong performance in Switzerland and the UK and by the impact of our strategic initiatives.

Turning to the Nordic region, organic growth reach 1 per cent in Q3 and was driven by strong performance in the IFS division in particularly Denmark. The picture was somewhat mixed for the other countries, impacted on by continued low demand for non-portfolio services. As usual in the Nordic region, the third quarter is very strong from a margin perspective, due to seasonality. This year the operating margin reach 10.3 per cent in Q3, the highest quarterly margin in the region for many years. This was driven by the generally strong operational performance across the region and the benefit from the impact of our strategic initiatives, as I mentioned earlier.

Please turn to slide 10. The organic growth of 5 per cent in Asia this year builds on top of 16 per cent organic growth in Q3 2013; so, a very strong comparison. Organic growth was high in especially Singapore, Indonesia, China and India, having said that the region was, as expected, negatively impacted by some slowdown in certain economies, Hong Kong in particular. The operating margin remained high at 7.5 per cent. The decline over the last year is partly a result of the divestment of the margin-accretive pest control business in India in 2014.

In Latin America we continued the strong double-digit performance that we saw in the first half and reached 11 per cent organic growth in the third quarter. Growth was mainly driven by contract start-ups and expansions, especially in Chile, Brazil and Argentina. At the same time the operating margin in Lat Am improved by 40 basis points to 4.5 per cent in the third quarter. The improvement is mainly due to operational efficiencies, in particular optimising the customer contract portfolio as well as wins of margin-accretive contracts.

Please turn to slide 11. In the Pacific region the organic growth improved significantly and reached 11 per cent in Q3; that is the highest quarterly organic growth since Q3 in 2010. This was mainly driven by very large start-ups and extensions, especially within our resource segment in Australia, and we see very good prospects in the Pacific, but the strong organic growth of 11 per cent in Q3 is likely to peak in the near future as the contribution from the recent large contacts is annualised. The 1.1 per cent increase in the operating margin was driven by strong performance mainly in the IFS business in Australia, as well as the divestment of the margin-dilutive commercial security activities in Australia and New Zealand in Q1. Adjusting for the divestment of the dilutive security activities, the margin was still improved by 0.7 per cent points overall; so, a very strong performance in our Pacific region.

In North America organic growth was flat. Revenue was driven by a positive impact from the portfolio business but was offset by a negative development in demand for non-portfolio services. We have a strong new leadership team in place in North America led by Jennifer Bonilla, who came from the industry and has a strong background in catering services. Integrated Facility Services revenue in North America has grown, especially in the aviation sector, where we currently serve 19 airports across the US.  As previously mentioned, we've just signed a contract with Molson Coors, and, earlier this year, a contract with GoDaddy, the internet business.  The decrease in the operating margin to 3.4 per cent in the quarter was mainly due to timing between quarters last year.  The year-to-date margin is up by 20 basis points in 2014, and we are happy with that.

In Eastern Europe, organic growth was minus 1 per cent in the third quarter compared to plus 7 per cent in Q3 last year; so, again, a very strong comparison from last year.  This was due to contract termination losses in Slovenia.  Although our business in Russia remains relatively small, we continue to deliver double-digit organic growth in Russia.  The margin remained high and unchanged at 7.5 per cent in the third quarter, supported by our termination of less-profitable contracts and cost savings in Poland, Slovakia and the Czech Republic.

With this I would like to hand back to our CFO, Heine Dalsgaard, for further details on the financial results for the quarter.

HEINE DALSGAARD: Thank you, Jeff.  So, please turn to slide 13; and, starting from the top, total revenue declined by 3.8 per cent in Q3, ending at DKK 18.4 billion against DKK 19.1 billion for the same quarter last year.  As previously mentioned, organic growth for the quarter reached 2.4 per cent, and it was supported by most regions, in particular emerging markets and the Pacific region, and by IFS in general.  The successful divestment of non-core activities impacted on growth for the quarter, with 6 per cent, due especially to the divestment of the landscaping activities in France, commercial and security activities in the Pacific and the Nordic temporary-labour and staffing activities.  These are all strategic divestments of non-core activities, which at the same time have strengthened our balance sheet and improved our cash flow.

Finally, there was a small negative effect from exchange rate movements in Q3, as you can see from the chart.

If you turn to slide 14, we will move on to operating profit. Operating profit declined 3 per cent as a result of the divestments of non-core activities. We are pleased to see the implementation of our strategic initiatives resulting in tangible margin improvements. The operating margin was in line with expectations for the quarter at 6.4 per cent, compared to 6.3 per cent last year. The 0.1 per cent point improvement in margin in Q3 is in line with the year-to-date underlying margin improvement adjusted for the pest control activities which we divested last year in May.

If you turn to slide 15, I would like to highlight a couple of areas on the income statement. Other operating income and expenses amounted to a net income of DKK 20 million for the quarter, which mainly covered a net gain on divestments of DKK 19 million coming from the divestment of the Nordic temporary-labour and staffing activities, as well as the classification of the security activities in Greece as assets held for sale. Note that for the first nine months other operating income and expenses included the DKK 102 million in costs relating to the IPO.

On financial income and expenses this line item ended at DKK 248 million, nearly DKK 300 million less than in Q3 2013. That development was mainly the result of reduced interest expenses following the IPO and the repayment of our previous debt facilities. The DKK 248 million included a DKK 58 million negative FX impact, primarily due to the volatility in the Brazilian real, which caused it to decouple from the US dollar around the elections in Brazil. Please note that for the first nine months the FX on the Brazilian real and the US dollar proxy hit is a loss of DKK 7 million only, for the first nine month of the year. Adjusting for the FX effect, the financial income and expenses for the quarter amount to DKK 190 million. The DKK 190 million covers DKK 123 million in net interest expenses, DKK 25 million in ongoing amortisation of financing fees and DKK 42 million in other financial expenses, and these other financial expenses cover mainly recurring items related to, for instance, interest on defined benefit obligations and local banking fees etc.

Income taxes amounted to DKK 299 million in Q3, equivalent to an effective tax rate of 31 per cent compared with 55 per cent last year. For the first nine months the effective tax rate was 32 per cent, and, adjusting for the non-deductible IPO costs as well as an effect from interest limitation for the year, the underlying effective tax rate was 30 per cent both for Q3 and the year to date. Profit before goodwill impairment increased from DKK 326 million in Q3 last year to DKK 651 million this year, equivalent to an adjusted EPS of DKK .3.5 per share. For the first nine months profit before goodwill impairment reached DKK 1.2 billion, and note that this is the line item of which we are targeting to pay 50 per cent in dividend in April 2015.

Please turn to slide 16, regarding cash flow. So, cash flow from operations continued to be strong in Q3 but was negatively impacted on mainly by lower operating profit, as mentioned, due to divestments, as well as the change in working capital from a cash conversion of 97 per cent this year versus 109 per cent last year. Cash flow from investing activities in Q3 mainly covered CAPEX of DKK 213 million, which leads to an LTM CAPEX ratio of 1.2 per cent of revenue. Contrary to last year, no material divestment proceeds were received in this quarter, and the cash proceeds from the recently completed divestment of the Nordic temporary-labour and staffing activities were received in early Q4.

Cash flow from financing activities in Q3 improved significantly, due to, among others, lower interest payments. In Q3 last year it also included the partial repayment of €232 million worth of senior subordinated notes. Finally, free cash flow improved by DKK 94 million to DKK 522 million in Q3, despite the lower cash flow from operations, and this was mainly driven by reduction in net interest paid. Remember that due to normal seasonality the bulk of our cash flow is generated in Q4; on an LTM basis, free cash flow was more than DKK 1.2 billion for the year at the end of Q3.

If you turn to slide 17, I will wrap up our financial results by putting everything into the perspective of shareholder return. Overall there are three important characteristics of our business which enable us to generate attractive returns to our shareholders. One, strong operational performance: we run a resilient business, illustrated by stable organic growth throughout the cycle, as well as improving operating margins. Combining this with an asset-light business model and a consistently high cash conversion means that we generate a strong and stable cash flow.

Point number two, a disciplined and efficient balance sheet: we run a disciplined and efficient balance sheet. Our financial objective is to maintain an investment grade rating and to reach a target leverage below 2.5 times pro forma-adjusted EBITDA. In relation to the balance sheet it is also important to ensure a diversified funding, and, as you may have seen, we are establishing an EMTN programme, which may be tapped to pursue refinancing in the bond markets. We will provide further details if and when an EMTN transaction takes place.

Point number three, acquisitions and divestments: we continue to review our existing business for potential divestment of non-core activities. Similarly, we are considering making selective competence-enhancing acquisitions subject to tight strategic and financial filters. We have not carried out any material acquisition since

2010.  However, we are now considering a specific competence-enhancing acquisition opportunity within our core activities representing approximately 1 per cent of our 2013 group revenue.  As we have said previously, areas where we are looking to add expertise are in catering and technical maintenance in the US, technical maintenance in Europe and at some point maybe selected activities in emerging markets.  We will fund potential acquisitions out of our strong cash flow without jeopardising the health of our balance sheet or future dividends.

So, in conclusion, with these three characteristics as a starting point, we will be able to deliver an attractive return to our shareholders and focus on shareholder returns to drive balance sheet efficiency.  We operate with a dividend payout ratio of approximately 50 per cent of our profit before goodwill impairments to evolve based on group performance and strategic priorities.  Dividend payments will commence in 2015 based on 2014 performance and will be paid in Q2 in connection with the AGM.  At some point we will be looking into share buybacks as well, but for the time being the focus will be on reaching the leverage target of below 2.5 times pro forma-adjusted EBITDA, and by the end of this quarter we are at 3.1 times.

With this, I would like to hand over to Jeff to take us through the outlook.

JEFF GRAVENHORST:  Thank you, Heine; if I can please ask you to turn to page 19, and then I would like to conclude this presentation with our outlook for 2014.  The outlook for organic growth, operating margin and cash conversion remains unchanged from Q2.  We expect organic growth for 2014 to be around the level realised in the first nine months.  The macroeconomic environment continues to be challenging, especially in parts of the Eurozone, and we do see limited signs of improvement in continental Europe also going into 2015.  As mentioned earlier, Western Europe will be negatively impacted in 2015 from the loss of a large healthcare contact in the UK, which at group level amounts to approximately minus 0.3 per cent points of the organic growth in 2015.

However, we remain confident in our organic-growth prospects as a result of the general outsourcing trend in the facility services market, our position as one of the world's leading facility services provider and our IFS capabilities on both a local and a global scale, and of course the shift towards the faster-growing emerging-market regions.

We are pleased with the improvement in the operating margin so far this year, which has benefited from the implementation of strategic initiatives, and are confident in delivering our outlook for the year for an increase compared to the operating margin from last year of 5.5 per cent; so, we expect an increased operating margin above 5.5 per cent.

Finally, we expect our cash conversion to end the year above 90 per cent versus 102 per cent in 2013. As a result of this, we expect cash flow from operations for 2014 to be lower than the Q3 LTM of DKK 3.2 billion.

So, to summarise, we will continue to focus on our three financial priorities, being resilient organic growth, improved operating margin and excellent cash conversion, leading to a satisfactory net profit and strong cash flow, ensuring our ability to pay and attractive dividend to our shareholders. With this I would like to open up for the question-and-answer session.

OPERATOR: Thank you. We will now begin the question-and-answer session. If you have a question, please press "0" then "1" on your touch-tone phone. If you wish to be removed from the queue, please press "0" then "2". If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press “0” then “1” on your touch-tone phone.

And we have a first question coming in from Mr Jonas Guldborg from Carnegie. Please go ahead.

JONAS GULDBORG: Hi there, this is Jonas. I was just wondering: on the contract you lost in the UK, what was the cost of losing that contract, and will it affect the margin as well as the top line? And secondly, on the slowdown in the Asian organic-growth rate, should we expect that to continue into 2015? And my last question would be if you could put some color on how the pipeline for further Global Corporate Client contracts looks at the moment. Thank you.

JEFF GRAVENHORST: Thank you, Jonas. We start with the loss of the contract in the UK. Of course, it impacts on the top line; whether it impacts the bottom line as well -- if I go into it, we have won several contracts in 2014 of course also in the UK, and, as you can also see in the announcement, we do win, also in the healthcare sector, and sometimes you do lose. So, this is in the normal course of the business, that we win some and we lose some. But because of the size, of course it is only prudent that we also make sure that you understand what the impact is of this. From a market perspective we do not expect that to have a significant impact on the percentage margin of our UK business neither on the overall group results. It is, as I say, just in line with the normal course of business. We do win a number of contracts every year, and sometimes we also lose one. Nothing is spectacular in that.

If I turn to Asia, I think overall, as I said before, emerging markets will continue to be a strategic priority for us, and we continue to see very strong organic growth for the emerging regions overall. If you look at Asia in particular, this year we have been impacted on by some slowdown in certain of the economies within the region. We have to remember, though, that we did have a very strong third quarter last year. So, the 5 per cent growth in Asia in the third quarter this year is on top of 16 per cent organic growth last year in the same region. So, not only did we defend that, we also expanded it. With the slowdown, though, there are certain economies -- in Hong Kong, as an example, we've had some political turmoil. I don't expect that to continue to have an impact. We've also seen a couple of losses in Hong Kong, which is also normal, but there's a little bit of a timing between the quarters here. So, I expect the region to be a little bit more normalised at the beginning of 2015. So, no systemic issues in the Asian region; from what we see, we continue to see at least high single-digit growth in that region also for the next year.

From a Global Corporate Client pipeline, as I just mentioned today, actually, the Integrated Facility Services business continues to grow generally very well for us, also in the third quarter, and we have had significant growth in the third quarter of 16 per cent in just this one quarter. Of course, some of this is single-service contracts that have been converted into Integrated Facility Services, which is quite important to us, but there are also new contract wins in general, both in the countries and of course also in the regions. As part of this we have Global Corporate Clients, and in corporate clients we grew 3 per cent in the quarter and also landed a new contract with Molson Coors. That is combined with the new contract in the second quarter with the food processing company in Europe, giving us an opportunity to have solid organic growth throughout the year next year, because these are contracts that can expand over the near future. Apart from that we have the normal pipeline; so, we have a number of candidates that we are working with on an ongoing business like we normally do. So, the pipeline is as strong and healthy as normal.

JONAS GULDBORG: Okay; thank you very much.

OPERATOR: Okay; and the next question comes from Mr Poul Jessen from Danske Bank. Please go ahead.

POUL JESSEN: Hi there; just a few questions about the non-portfolio performance. You mentioned for several markets in the third quarter that there is a weak performance in non-portfolio. My question is then: how do you look for that in the fourth quarter? And I think you earlier have stated that the third quarter should be weaker than the fourth quarter. Now you are in line in the third quarter with the full-year guidance of 2.4 per cent, do you still see Q4 to be stronger than Q3, or is that depending on a non-portfolio recovery?

JEFF GRAVENHORST: Thank you, Poul. If I take the non-portfolio question first, in the current macroeconomic environment of course the picture is mixed compared to where the macroeconomics actually hit us. When we talk about the non-portfolio in several markets it's typically because the large clients are the ones who have the biggest non-portfolio spend. So, that can have an impact across regions, even though it stems from the European side. What that means, of course, is that when you have a little bit of insecurity in the market there is a tendency of customers to hold back on incremental spend; that can be on changing of certain parts, that could be on refurbishment of offices and so forth, and that is the same as what we talked about at the last quarter. We do not see any major changes in that. So, there is a tendency to hold a little bit back. We are still growing in the portfolio business, but we are growing at the same pace as the overall; so, relatively stable but not picking up.

We expect that to be the same picture for Q4, and, as we look into Q4, we also have, of course, to take into account the contract with the UK which is coming out of the equation, and with that in mind we continue to hold the full-year forecast.

POUL JESSEN: Okay; thank you.

OPERATOR: And the next question comes from Mr Rory McKenzie from UBS. Please go ahead.

RORY MCKENZIE: Good morning, everybody it is Rory MCKenzie from UBS. Firstly, can you talk about the early results from that customer segmentation that you have completed the analysis of, that 55 per cent, either in terms of revenues you think that you should provisionally exit or the efficiency savings you think you can make; and then, secondly, on savings, can you talk about how much of the phase one of procurement has now come through and how you expect the savings in phase two to play out over the next couple of years; and then, lastly, on my first question, if I can, from 3.1 times net debt EBITDA to date, can you talk about the main moving parts of the Q4 cashflow and so where you currently think you will see leverage by the end of 2014? Thank you.

JEFF GRAVENHORST: Thank you, Rory. We'll start with the last question first; so, Heine, if you can take that.

HEINE DALSGAARD: So, let's start with your question relating to leverage. We, as you say, ended Q3 at 3.1 times; we will not be below 2.5 times by full-year 2014, and we never expected to be. But due to what is usually a very strong cashflow in Q4 we will of course be much closer than we are at the moment. We run a resilient business, illustrated by stable, organic growth throughout the cycle, as well as improving the operating margins, and combining this with the underlying asset light business model and the cash conversion that means we generate very, very strong cashflow. And, from our point of view, deciding what to do with this cash is what we call a quality problem. So, we will be there in the medium term.

JEFF GRAVENHORST: For the customer segmentation project, in particularly in Europe, which is where we are focused on right now, clearly we are seeing some of the benefits coming through, and this can be seen from the margin improvement in particular in the Nordic region. This is of course a combination, both in Western Europe and the Nordic region, of the procurement project as well as the customer segmentation projects and as well as the general hard work that goes in every day to ensure profitability. There is in the Nordic region not a significant impact on revenue exit; so, it's predominantly about structuring our business to be more fit for purpose for the different customer segments that we are focusing on. So, there are very small contracts that might not fit into this, but it doesn't actually have an impact on the overall organic growth. The impact is significant on the margin side, and that's also what we can see here.

On the procurement we are, as we said, very focused on delivering the savings, and we've got to remember that these savings are very difficult to actually track. We can see the savings coming through, but some of these of course are given back to the client, and some of these are reinvested into competitiveness – so, partly invested into enhancing our products and enhancing our sale organisations – and then some of it goes to the bottom line. We have not been specific in the guidance here on how much of that will actually hit the bottom line this year or next year, but we're saying that these are all together improving the margins year over year, which is our focus; so, building a more solid business and reinvesting in the competitiveness at the same time as slowly but surely enhancing our profitability, which is coming through.

RORY MCKENZIE: Just one follow-up on that if I can: could you say whether the procurement programme is global across all regions or, again, whether you've started off in the Nordic and Europe regions there; so, a bit of colour on the geographic split of the procurement savings today.

JEFF GRAVENHORST: The phase one and phase two of the procurement project is focused on Europe first and foremost. We've taken the overall total spend of DKK 22 billion, and DKK 17 billion of that is related to the European region, which is what we have focussed on. In that we split that into a couple of pockets; phase one and phase two are covering altogether a DKK 7 billion to DKK 8 billion spend, and what we're seeing now is an impact from that coming through in Europe. So, it's all over Europe, not just the Nordic region.

RORY MCKENZIE: Okay; that's very helpful. Thank you.

OPERATOR: And there is a next question coming in from Mr Paul Checketts from Barclays Capital. Please go ahead.

PAUL CHECKETTS: Good morning, everyone; I've got a few, if you don't mind. The first is on Europe. There is obviously a lot of consternation in the market about economic trends. I wonder how you feel about 2015 and whether or not you think you can actually deliver organic growth based on what you're seeing. Then, just a couple of other things further down the P&L; on the interest expense, when we last talked I think we thought that a sensible outcome for the full year would be about DKK 1.15 billion for net expense, but we've had a bit of a hit from the Brazilian real. If the rates were to stay where they are today, what would be the impact on the Brazilian real in Q4, please, on top of the run-rate we were at. And then I suppose related is on the bond that you've announced that you're going to proceed with; could you perhaps explain the logic? You've got very good rates anyway; it doesn't necessarily look like you'll save on those based on current bond market levels, and maybe if you'd just explain why that's attractive. And lastly, on your 2.5 times leverage target, when we're thinking about possible buybacks in the future, is that 2.5 times a year-end level, or is that based on the peak drawings during the year? Thanks.

JEFF GRAVENHORST: So, we'll start with the organic growth in Europe. I think first and foremost the third quarter we saw the same development in the European market as we talked about last quarter, and that basically means we have been no sign of pick-up in the economy across Europe. We don't see any immediate pick-up either for the fourth quarter or the beginning of 2015. So, of course we're expecting a growth in line with -- or right now we don't see any pick-up in the market, basically, that will help us.

In relation to the 2015 growth target, I think it's a little bit too early to say. So, right now we're focusing on delivering Q4 in line with what we just said in our outlook, and then we'll come back to the growth for 2015 in connection with Q4. But, as I said, Europe is not expected to pick up significantly in the short term from our perspective.

So, Heine, if you could …

HEINE DALSGAARD: Hi, Paul. On your question relating to interest expenses for the year, it is right that the DKK 1.15 billion we indicated last time was excluding the FX effect for the reminder of the year, for good reasons, because we couldn't forecast it. Hence, adding the Q3 FX of DKK 58 million, you would probably end at around DKK 1.2 billion, which is where we expect the net financials for the year to end. And please also note that this is of course excluding potential FX in Q4 and likewise excludes anything related to the potential bond issuance.

On the logic for the bond and why it is we consider refinancing now, I think the starting point here is that we constantly evaluate our opportunities, and we always take a prudent approach to refinancing in due course. The TLA was raised at, what you also say, already attractive terms, as part of the refinancing in connection with the IPO, and, as I said, we are actually only paying 120 basis points in margin on the TLA. But also notice –and that has to do with the refinancing – that the TLA matures in only a bit more than two years from now. Now we have an investment grade rating by both S&P and by Moody's, and we find that the markets continue to be very attractive from a pricing perspective. So, that's the logic behind it.

If we take a look at your question regarding leverage and seasonality in leverage, our focus, as mentioned before, right now is reaching our leverage target of below 2.5 times, and then, as you were also saying, Paul, we do operate with a normal recurring seasonality in cashflow, which means that leverage will pick up slightly in the beginning of any given year, and a result of this that we will not start buying back shares as soon as the quarter hits 2.5 times but we would rather target for the year-end to be sufficiently below the 2.5 times to make room for the normal cashflow seasonality without going above 2.5 times in any quarter. So, that's the logic; I hope that answers your questions.

PAUL CHECKETTS: Very clear; thanks.

OPERATOR: Okay; and the next question on the line comes from Mr Matija Gergolet from Goldman Sachs. Please go ahead.

MATIJA GERGOLET: Hello; good morning. I have three questions, mostly focussing actually on the cashflow and on the debt. So, first of all, you have some disposals, say, lined up to complete by the year-end, and also you mentioned that some of the proceeds have already been cashed in in November. Could you just remind us: how much do you expect to cash in from proceeds in Q4 overall? The second question would be on the net debt. The consensus at the moment seems to be around DKK 12.3 billion of net debt at year-end. Could you comment if you feel confident with this type of consensus numbers on the net debt or not? And thirdly, just looking at your, again, net debt, I understand around DKK 5 billion of the debt will be in currencies other than the euro. So, clearly, with the euro weakening, we could have a little bit of a negative impact there on the headline debt. Are you hedged in any way from, say, the euro potentially getting weaker? Thank you.

HEINE DALSGAARD: Yes so, let's start with the last question, on euro hedging. No, we do not hedge the euro the way it looks right now. If we take a look, we consider that to be fully in line with the development in the DKK; so, correlated development there. On the net debt what we do take a look at – and we don't give any specific guidance on net debt for the year – we expect our cash conversion for the year to end above 90 per cent – and that is versus last year of 102 per cent – and that is why we are saying that cashflow from operations in 2014 will be lower than the Q3 LTM, which is DKK 3.2 billion. So, we will be lower on cash for year-end than the LTM of DKK 3.2 billion; the one cash conversion is approximately DKK 45 million. So, that was the question net debt.

In terms of divestments to be completed by year-end, the only one we have outstanding in terms of cash proceeds was the personnel services in the Nordic; that has an enterprise value of approximately DKK 350 million, and that one was received in early October.

MATIJA GERGOLET: Okay; and you don't expect other proceeds between now and year-end?

HEINE DALSGAARD: We don't have a guide on that specifically, but we don't have any big one out there.

MATIJA GERGOLET: Okay; very clear. Thank you very much.

OPERATOR: And the next question comes from Mr Allen Wells from Morgan Stanley. Please go ahead.

ALLEN WELLS: Good morning, guys. Some of mine have been answered, but just a couple more from me. Firstly, just on the UK healthcare contract that you lost, I don't know if you can provide any granularity on what you think the reason was that you didn't actually retain that contract. Was it price? Was it terms? Any granularity there would be helpful. Secondly, I think as part of the IPO process you highlighted that on the pipeline of GCC clients there were three deals that were relatively close to be signed. It seems like you've won two; maybe you didn't win one. I don't know if you can provide any granularity on where we are now on that pipeline in terms of how many deals are in relatively advanced discussions that could be signed over the next 6 or maybe 12 months. And then my final question, just on the emerging-market business; I think you talked a little bit about in Q2 the pricing was okay but sometimes contracts were being lost due to unfavourable terms on some of the deals. It seems like emerging-market margins were down slightly, obviously, in the quarter. Was it pricing that played a role there? Was it anything to do with the terms? Whether you can just provide any granularity you can on the movement there; thank you.

JEFF GRAVENHORST: Thank you. We start with the UK; some of these are just generic for all the questions on generic business development, basically. Overall on the UK hospital loss we simply lost in a in a close tender to one competitor. So, we were number two, and whether you become number two or number four really does not matter; you lose it, obviously. But the point is that we had a very competitive offer, and that's also why we can win contracts within the same sector within the same year, basically. So, it is what happens; you are up against competitors once in a while. Hopefully we win more than we lose, and that's the case, but this case was just a straightforward competition. Of course, you can always argue whether there's a little bit of price in there, but I don't think that was the main driver; this was purely just lost to a competitor which is also a strong player in this field. So, that is the normal course of business, as I said before.

On the GCC, the three deals we mentioned at the time of listing, you're right, we won some of them, and some of them we didn't win; the one we didn't win in particular was the one that you referred to with the particular terms in the emerging market. So, that's not a generic condition; that was a very specific thing we talked about last time. We are very confident that what we want to do is to grow profitably but also prudently, and that means we are not interested in taking on terms which in the longer term also can be hurting us, for that matter. So, we're very alert to that. Having said that, that's not a general trend; so, in this specific case that I mentioned last time, that was the reason why we won. We didn't win one of the GCC contracts.

Overall, I don't see the market being particularly different from prior other than the fact that people are a little bit more tight on using incremental spend and a little bit slow in making decisions because they're waiting to see what's going to happen particularly towards the east of Europe, towards Russia. But from a pricing perspective I don't see a major difference to what we've seen before.

So, the pipeline of what we have in GCC: we don't actually disclose how many we have in the pipeline, but what we've done is today we've given you a little bit of qualification to that, and that means that of course we have this year extended the Hewlett Packard contract, we won the food producing company in the second quarter, we won the Molson Coors here in the fourth quarter, and we have overall 12 contracts; and it's 9 per cent of our business altogether. So, of course it's an important part of our business, and we do have a pipeline which is good and in line with what we've seen earlier. What is important to see is that the Integrated Facility Services business is actually still very, very healthy and with good growth, particularly driven by the countries and the regions; so, that's important to remember.

So, the margins in the emerging markets: that, as I said at the beginning, is a little bit between the quarters year on year. We still produce a very healthy margin in the emerging markets; so, nothing major as a reason for the small drop there.

ALLEN WELLS: Great; thank you very much.

OPERATOR: Okay; and there is a last question in the queue coming from Mr Michael Rasmussen from ABG. Please go ahead.

MICHAEL RASMUSSEN: Hello; a couple of follow-up questions, please. First of all, looking at acquisitions, what kind of average multiples have you typically been paying when you've looked into these sectors and also in the regions which you're currently looking at? And secondly, on Russia, I know it's not a very important market for you, but I was a little bit surprised by you saying that growth is double-digit there. What is driving that, please? Thank you.

JEFF GRAVENHORST: If we start with Russia, it's a very, very small part of our business, as you know, and we're not an export business, of course; we're a service business. So, we're not hit by any embargoes in any way, shape or form other than companies you're not allowed to deal with, basically. So, we have a small business which is still focusing on helping blue-chip companies in the Russian market. So, a lot of the Western European companies are already there and converting services into us, and that's the reason why we continue to grow. But I have to stress that it's a relatively small part of our business overall.

Secondly, what we've been paying for acquisitions: we haven't been making any acquisitions since 2010, basically; so, we can't actually use any comps of our own on this. But of course we can follow the comps in the marketplace, and we don't of course disclose the prices for any upcoming or potential acquisitions that we're in the middle of; that makes, of course, a lot of sense! But we are focusing on that the measures that we use are very tight strategic fields that have to be competence-enhancing; that means there has to be immediate synergies for any acquisitions we make, that has a significant impact on our business, and that focus is on the ability to self-deliver catering and technical services in particularly North America and on technical services in parts of our European organisation. So, the financial measures here is really impacting on: can we get quick synergies, immediate synergies, out of it? And then of course we not be paying above market comps prices; but, other than that, we are not discussing what the prices are for the companies we are looking at currently.

MICHAEL RASMUSSEN: Great; thank you very much. Thank you.

OPERATOR: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating; you may now disconnect.