

ISS

Q1 2026 Trading Update
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Transcript

Speakers:

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Michael Vitfell-Rasmussen Thank you, and good morning, everyone. We appreciate you joining us this morning to discuss our 2026 Q1 release, released earlier today. I'm Michael Vitfell-Rasmussen, heading up investor relations here at ISS. Joining me today in our room is our CEO, Kasper Fangel, our CFO, Mads Holm, and Anne Sophie Riis from the IR team. Before we begin, please take a quick view at the disclaimer, and then I will hand it over to Kasper to start the presentation. Please move on to slide number four.

Kasper Fangel Thank you, Michael, and good morning, everyone. Thank you for joining us today as we review our first quarter trading update. We have started the year with a strong performance. In the first quarter, we delivered organic growth of 7.4%, with a solid like-for-like contribution of 2% for the second quarter in a row. Growth was supported by a strong above-base contribution, particularly from our European regions. This performance reflects the progress we have made in strengthening our commercial mindset across the organisation, all the way down to site level, fully in line with our strategy. More broadly, we continue to strengthen the business across the board during the quarter, and made solid progress on all strategic priorities. I will share more details on that in the next slide.

We began the year with seven contract announcements, and I'm pleased to report that six of those were positive. This provides a strong foundation for successful 2026, and supports a continued improvement in the quality of our revenue growth. Also, our maturity profile is historically strong at this time of the year, with only 1% of contracts up for renewal for the year. And while there is still work ahead of us, we are encouraged by the continuous improvements we are making and the growing momentum across the business. This is also reflected in our pipeline, which remains solid and encouraging as we move further into the year.

On our other KPIs, margin and free cash flow, performance is developing in line with expectations, and we therefore comfortably reconfirm our full year guidance. Finally, on Deutsche Telekom, we are still awaiting a ruling by the tribunal. In parallel, we are engaging in discussions on a potential settlement aimed at resolving disputed claims, creating clarity on contractual positions going forward, and further strengthening the collaboration and partnership between ISS and Deutsche Telekom. We continue to expect a final outcome in the first half of this year.

As you all know, last week we made an agreement to buy Actera's remaining stake in Turkey, where we already have a strong business platform and an attractive long-term market opportunity. The transaction strengthens our ability to fully capture value creation, and we'll deep-dive into the business case later in this presentation. Next slide please.

Let me now briefly update you on our strategy and how it continues to translate into execution. Looking back, 2025 was a good year for ISS, and the progress we made is clearly carrying into the first quarter. We have made progress in the areas that matter the most to our business, executing our strategy to deliver profitable growth, delivering consistent financial performance and ensuring strong engagement across the organisation.

Starting with strategy execution, the first key results is stronger commercial momentum and improved underlying growth. Our strategy is focused. We are targeting new customers in selected segments, expanding with existing customers through additional services and geographical reach, and, importantly, strengthening commercial ownership at site level. A central ambition has been to ensure that our strategy moves out of the PowerPoint and down to site level, so that both our place-makers and our customers can feel a tangible difference in day-to-day execution. The progress we are seeing in the first quarter confirms that this is happening.

In parallel, we are seeing good momentum in the roll-out of scalable initiatives. These initiatives are deliberately few and practical, focused on areas where scale matters the most, enabling growth, engaging our people, and delivering services in a simpler and more efficient way. Embedment is progressing well, and we see clear traction across markets.

Turning to financial performance, our number-one priority is continued consistency, quarter after quarter. In the first quarter, we delivered organic growth of 7.4%, reflecting solid underlying momentum. And as I said, margin and free cash flow are developing as expected, supported by disciplined execution. Finally, on engagement, we continue to see strong momentum across the organisation. ISS is a people business, and engagement is critical to delivering high quality services and sustainable financial performance. We recorded the highest-ever participation in our recent employee survey, giving us deeper insights and a stronger basis for action. At the same time, cross-organizational initiatives are being implemented, reinforcing collaboration, clarity, and accountability across the business.

Overall, Q1 confirms that our strategy is delivering as planned, strategy execution is on track, financial performance is consistent, and engagement across the organisation remains strong. With these elements aligned, we are well-positioned for the next phase of growth. Next slide please.

As you already know, last week we reached an agreement with Actera, the private equity fund that invested alongside us in Turkey back in 2021. That partnership was designed from the

outset as a structured and de-risked way to enter a high-potential market and accelerate growth, particularly within government healthcare. It allowed us to scale faster in a complex market environment while sharing risk and benefiting from Actera's strong local expertise.

Today, ISS Turkey is a significant part of the group, as one of our largest countries. The business generates around DKK 6.5 billion in revenue, equivalent to roughly 8% of group revenue, with margins and cash conversion above group average. With 45,000 employees, Turkey is also our largest country by number of colleagues, highlighting both the scale and strategic importance of the platform we have built. Since entering the partnership, the business has scaled significantly, delivering a revenue CAGR of around 25% from 2021 to 2025 in DKK.

The collaboration with Actera has been instrumental in that journey, and has helped positioned ISS Turkey as a strong and resilient platform in a dynamic market environment. Importantly, this was always a partnership with a clear industrial logic, and with a shared understanding that a future ownership change could be considered, provided it happened at the right time and at the right price. As we have communicated earlier, an increase in ownership was always contingent on the transaction meeting the criteria of our capital allocation policy.

As you know, we consistently weigh M&A opportunities against organic growth investments and share buy backs, and we apply the same criteria here. Turkey is a high-potential growth market supported by a structural outsourcing trend. Customers are increasingly transitioning from smaller local providers to professional, integrated facility services providers, and ISS Turkey benefits directly from that shift. We see a strong commercial pipeline, particularly driven by multi-service contracts within life science and financial services, two core group segments which strongly supports the strategic and capital allocation logic behind this transaction. Next slide, please.

Turning to the financial implications, this transaction is fundamentally about gaining full control of a highly attractive cash flow stream, at a price that clearly makes sense for ISS and for our shareholders. By increasing ownership, we get access to Actera's cash flow generation of the Turkish business, and, importantly, the transaction is EPS-accretive, with a clear, positive spread versus buying back our own shares. The combination of lower interest costs, as we are now able to change the capital structure of the local entity, along with the reduction in minority interest, translates into an EPS uplift of around 3%, which is meaningful.

And finally, on leverage, the impact is very limited, increasing net debt-to-EBITDA by only around 0.1 times, keeping us fully within our capital allocation framework and financial policy. To sum up, we already have a strong position in an attractive and growing market. This transaction carves out complexity and uncertainty, and I'm convinced that the Turkish business will accelerate further going forward. Next slide, please.

Let me now turn to our contract announcements. Since our last update, we have continued doing what we do best, helping our customers create exceptional service moments at their workplaces. Our focus remains clear, delivering outstanding customer experiences every day, driven by our self-delivery model and a strong service mindset. You will be very familiar with this slide by now, but it remains an important one, as it clearly illustrates that our strategic efforts are paying off. A significant part of our growth continues to come from existing customers. This is a lower-risk and high-impact way to expand, as we already understand their needs, they trust our capabilities, and we are well-positioned to extend and deepen our partnerships.

When it comes to new business, we continue to target our four core segments, which represents the most attractive long-term opportunities globally for ISS. At the same time, we remain open to local segments, when the business case is compelling. What is important is discipline, prioritising opportunities, where our value proposition truly resonates, and where we can deliver high quality, profitable growth.

Demand for workplace experience continues to increase across markets, and ISS is well positioned to capture that demand. Our strong execution in the first quarter, combined with the contract announcements we have made and the pipeline we see today, reinforces our confidence going forward. Taken together, our 2025 announcements and the momentum we have carried into the start of the year indicate that 2026 will be a year where we continue to grow revenues with higher quality, supported by solid customer relationships, disciplined execution and a strong pipeline. With that, let's turn to the next slide.

Let me now turn to the development in our growth composition and what underpins the quality of our performance. As you know, over the last couple of years, organic growth has primarily been driven by price increases, including a significant contribution from our exposure in Turkey. At the same time, net new wins were negatively impacted by contract trimming and exits, largely driven by deliberate strategic choices to improve the quality of our portfolio.

Over the past year, we have made important progress on that

front. Through a continued focus on portfolio optimisation, we exited 2025 in a position that is positive from an underlying growth perspective, something that we have not seen for several years. This improvement is the result of disciplined execution, stronger commercial focus, and a clear prioritisation of where we want to grow.

As you can see on the slide, both net new wins and volume growth have improved meaningfully, and this represents the second quarter in a row where we are seeing stronger underlying growth quality. This development is closely linked to the strategic themes I highlighted earlier, a leaner organisation, clear accountability, stronger commercial ownership at site level, and momentum in the roll-out of scalable initiatives. Going forward, we expect our increased focus to continue securing growth with existing customers, while adding new customers to the portfolio, supported by a targeted commercial investments and discipline.

Looking ahead to our growth algorithm for 2026 and beyond, we expect both volume and net new wins to become a larger contributor to organic growth. At the same time, pricing is expected to be lower than in recent years. This shift is an important component of our ambition to continue improving revenue quality over time. With that, let's turn to the next slide.

Before I conclude the business update, I would like to briefly address our contract maturity profile. During the first quarter, we have made very good progress in extending contracts up for renewal. We reduced our maturity profile from 4% to 1%, which represents a historically low level for ISS. In the first quarter alone, we successfully extended a large contract of more than 700 million, in addition to several extensions above 200 million. This outcome reflects a stronger commercial discipline, earlier engagement with customers, and a more proactive approach to managing expiries.

Importantly, this ties directly back to the strategy and execution of stronger commercial ownership, clear accountability, and a more focused organisation. We are seeing tangible results from our increased attention to contract maturities. Staying ahead of expirations, regardless of size, is critical to protecting revenue and supporting sustainable growth. With that, I will now hand over to Mads for an update on our financials.

Mads Holm

Thanks, Kasper. Let me walk you through the organic growth for the first quarter. In first quarter, we delivered organic growth of 7.4%, with contribution from all four growth levers, pricing, volume, net-new, and above-base. While we expected both volume and net-new to be solid, we saw stronger than anticipated contribution from above-base revenue, primarily driven by Europe. This is an important proof point and ties

directly back to the strategy update from Kasper. The performance reflects a stronger commercial mindset at site level, clear accountability, and better execution closer to the customer, all of which are key elements of our strategy.

Starting with net-new, performance in the quarter was positively impacted by DWP, COWI, Velux and Australian Defence, as well as contract start-up across central and southern Europe. These wins reflect both our focused approach to targeting group segments, and our ability to convert opportunities into high quality contracts.

Turning to volume, this was negatively impacted by the two contract reductions in Northern Europe announced at the beginning of 2025 and in the third quarter of 2025. However, this was more than offset by the full-quarter effect of the expansion in Brisbane, in Australia, Virgin in Northern Europe, as well as other contract expansions from 2025. As a result, when combining net-new and volume, we are pleased to report another solid quarter with like-for-like growth of 2%. This marks the second quarter in a row with strong underlying growth quality, and we continue to see this trend going forward in 2026.

Finally, above-base revenue for the quarter ended at 1.5%, driven by broad-based, strong performance across the European regions, including a contribution from DWP. Overall, the first quarter confirms that our organic growth is becoming more balanced, more diversified, and increasingly driven by the right underlying factors, consistent with the strategy and commercial priorities we have outlined. Next slide please.

Overall, all regions except the Americas delivered positive organic growth in the first quarter, in line with our expectation. Starting with Northern Europe, the region delivered organic growth of 7%, supported by the start-up of contracts from 2025 as well as 2026, such as COWI and DWP and the expansions of Virgin. Growth was partly offset by the announced contract loss in the third quarter of 2025, as well as one scope reduction announced in third quarter 2025, and one in first quarter 2025.

I would also like to highlight a strong above-base performance across the region, reflecting improved commercial execution. In Central and Southern Europe, we continue to see strong growth, with organic growth of 10% in the first quarter. This was primarily driven by price increases, particularly related to Turkey. In addition, we saw solid above-base performance and a positive contribution from net-new wins, confirming the continued momentum in the region.

Turning to Asia and Pacific, organic growth was 6% for the quarter. Performance was particularly strong in Pacific, India, Singapore and Indonesia, driven by the start-up of Australia

Defence and volume growth with existing customers. As a reminder, roughly half of the contracts announced in 2025 originated from Asia and Pacific, underlining the strength of our position in the region.

Finally, in the Americas, performance developed as expected. Organic growth was negatively impacted by net-new, driven by smaller losses, while volume growth was solid in the quarter. In the US, organic growth was broadly flat. Chile was negatively impacted by smaller losses, while Mexico delivered solid growth. At our upcoming Capital Markets Day, we will provide a deep dive into our US business and share further insight on our strategy going forward. That said, I'm encouraged to see early signs of underlying stabilisation, including a small positive net-new position in the quarter, driven by smaller wins.

Overall, the regional performance in the first quarter reinforces the broader message you have heard today. Growth is increasingly broad-based, execution is improving, and underlying quality continues to strengthen, consistent with the strategy and commercial focus we have outlined. Next slide please.

Finally, let me provide an update on our capital returns for the year. In April, we paid out the proposed dividend of around 500 million, corresponding to 3.2 DKK per share. Our share buy-back programme initiated in connection with the full year result is also progressing as planned. As of yesterday, we have purchased shares worth around 500 million under the total 2.5 billion programme. In addition, we got the authorisation to cancel 14.2 million shares at the AGM in April. This reduces the total share count to 160 million, corresponding to more than an 8% reduction in the total share count.

Combining the dividend and the ongoing buy-back, ISS is delivering a healthy payout yield of 8%. This strong yield reflects our disciplined approach to capital allocation. Rather than sitting on excess cash, we consistently deployed where we can create the most value for our shareholders, as you heard Kasper stating earlier. You're all familiar with our capital allocation priorities by now and, as you know, we only proceed with M&A if these meet our strict capital allocation criteria. This year, we have announced a minor acquisition of Cater Plus in New Zealand, a bolt-on acquisition with the purpose of bringing our catering footprint in New Zealand, and where we are already seeing clear operational and strategic benefits.

In addition, we are assessing a bolt-on opportunity that will significantly strengthen our market position in a specific region, with a clear and tangible synergy case from the outset. As always, we will only proceed if it meets our strict capital allocation

criteria. We will share more details once finalised. With that, I'll hand it back to Kasper. Please turn to slide 17.

Kasper Fangel

Thank you, Mads. Let me finish with a few comments on our outlook. With the first quarter behind us, I can confidently reconfirm our guidance for 2026. Q1 delivered a strong start to the year, and supports our expectation of continued sustainable growth going forward. Across all of ISS's markets, we see significant opportunities to grow our business. Supported by our targeted investments and the strengthening of our commercial function, we continue to expect organic growth above 5% in 2026. Pricing is still expected to be the main contributor to organic growth, driven partly by Turkey. However, as you have seen today, we also expect a more balanced contribution from the other growth levers. Project and above-base had a strong start to the year but, as usual, visibility remains more limited.

As outlined earlier, our commercial initiative on growing with existing customers is paying off, and we expect this to contribute meaningfully to the growth in 2026. In parallel, we are delivering on our focused execution to secure new customers within our targeted segments, and we continue to strengthen the commercial mindset at site level to spot and capture above-base opportunities. All of this is consistent with the progress we have shared with you today, with improved growth quality, stronger commercial momentum, and disciplined execution.

On margins, we are also on track, and therefore reconfirm our guidance of a margin above 5%. Overall, Q1 has given us a strong and encouraging start to the year. Execution is on track, our strategy is delivering, and we remain confident in our ability to continue building a high quality, sustainable growth platform for ISS. Next slide, please.

We keep a relentless focus on cash flow in ISS, and we are on track to deliver a cash conversion of above 60%. This equals above 2.7 billion in underlying cash flow. Adjusting for the 200 million negative impact from the 2025 prepayment, we expect free cash flow of above 2.5 billion before any positive impacts from Deutsche Telekom. We still expect payment from Deutsche Telekom for the amounts withheld in the past, which will bring our expectations to the free cash flow, including Deutsche Telekom payments, at above 3.1 billion for the full year. Please turn to the next and final slide.

As we wrap up today, let me briefly step back and highlight how ISS's strategy and performance come together to deliver sustainable shareholder value. Our equity story is clear. ISS holds a strong market leadership position in a global facility service market that continues to grow above GDP. We combine this with a relentless focus on profitability, disciplined execution,

and a clear commercial agenda. Strong cash flow gives us the flexibility to reinvest in the business, while continuing to return capital to shareholders, underpinned by the disciplined capital allocation and a strong sustainability agenda that provides a real competitive advantage.

Turning briefly to performance, Q1 marks a strong start to the year. We delivered another quarter of solid execution, with improved growth quality, strengthening commercial momentum, and consistent financial performance, demonstrating the resilience of ISS in an uncertain environment. Looking ahead, our focus is unchanged. to deliver, as we promise, quarter after quarter. We are investing in the business, strengthening our commercial organisation, simplifying how we operate, and building a stronger ISS. The strategy is clear, the investments are in place, and accountability across the organisation has never been stronger.

Let me finish by thanking our place-makers. Your dedication and professionalism define ISS and earn the trust of our customers every day. And to our customers, thank you for your continued partnership. 2026 is shaping up to be an exciting year for ISS, as we build on strong momentum and celebrate our 125-year anniversary, a milestone that reflects the strength of our people, our customer relationships, and the ISS platform. With that, we conclude today's presentation and will now take your questions. Thank you.

Operator

We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on your telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Questioners on the phone are requested to disable the loudspeaker mode while asking a question. In the interest of time, please limit yourself to two questions. Anyone who has a question may press star and one at this time. The first question comes from the line of Mads Brinkmann from Berenberg. Please, go ahead.

Mads Brinkmann

Good morning, thanks for taking my questions. Just two quick ones for me. You did provide some colour on the above-base, but I was just wondering, I think you talked about DWP and actually doing some above-base work for them, but maybe just, please, if you could add some colour on the strength of above-base in Europe, and whether that is predominantly driven by new clients, including DWP and, outside of that, what kind of project work or above-based work it is. That is one of them, whether it's essentially more variable or whether it's the work that is more sort of contractual, but not necessarily in the contracts. I don't know if I'm explaining that well, but that would be the first one, please.

And then, on the second one, the Americas, obviously, as expected, I guess, at least the US, and I think based on some of the comments from, I think, your chairman at the AGM, you expect to start to see some wins this year. And I think you also alluded to a small net positive, Mads, maybe I caught that right, but please, if you could confirm that. But just on Americas, when will we start to see the bigger wins here, and maybe also not just the 100 million but essentially between 3 and 500 million, do you have any sort of hope that this will happen this year, or is it a 2027 thing? That's all for me. Thank you.

Kasper Fangel

Good morning, and thank you, Mads. Two good questions. Let me start with your question around the US. So, just to get the data right, in the first quarter, the US growth was flat, so flat organic growth in Q1. And I'm actually pleased with the progress, underlying progress, in the US in the first quarter. Obviously, I'm not pleased with flat growth, we've got to see a return from the investments, but I'm convinced it will come through, over time. In the first quarter, our pipeline has become more lucrative. We have moved further ahead in our discussions with the prospects, the opportunities, we have in the US. I can see that in the conversations we are having with the decision-makers in the US, it's getting much more detailed. And I can see that our value proposition starts to resonate with our potential customers in the US.

So I am still of the belief that it's a matter of time before we will start to see an accelerated growth in the US, but I don't still don't want to commit to timing. I have been enough years in this business and in this company where I've been surprised about positive conversations with customers, where decision-making progress has dragged on longer than what I expected, and I expected a decision to be just around the corner. And therefore, I don't want to put forward a specific quarter and say, this is the quarter where you should expect the growth to really come through in the US. But I want to be clear, of course we want to have positive growth, significant growth, in the US, the investments we're making are the right ones, and the movement, underlying movement, in securing that has moved in the first quarter of this year.

In terms of your question on project work and the contribution to organic growth in the first quarter, then DWP is definitely a part of that. We have a positive contribution of approximately 1.5% on project work in the first quarter, and it's just pleasing to see the strong mobilisation that our UK team have done. You remember, we did some investments to establish a project team well in advance of us going live, exactly for the reasons that we are seeing now are coming through, that we knew about the pipeline and the opportunities on DWP, and we could deliver accordingly. And that is coming through.

And no reason to believe that this shouldn't stick. Is it going to be to the same magnitude, specifically on DWP? I don't know, but it's definitely not going to fade away to zero. And overall, on above-base work and project work in general, we remain cautious because the visibility is always lower. What is going to happen in the second quarter, especially with what we're seeing in the world around the Middle East and energy prices being at a record high levels, is that going to impact the discretionary spend on the customer side? We don't see that as a signal as of today, but could it change over the next quarter or so? Of course it could. But again, it's not that we are seeing a collapse today. Actually, it is in line with what we have generated in the first quarter.

Mads Brinkmann Sorry, thank you, just to follow up on the last bit, essentially you're saying so far in Q2, you're running at the same pace that you saw in Q1 on above-base?

Kasper Fangel Of course, we're not far in to Q2, we obviously have provisional actuals, so numbers for April, and that also looks to be a solid month for ISS.

Mads Brinkmann Thank you very much.

Operator The next question comes from the line of Kristian Godiksen from SEB. Please, go ahead.

Kristian Godiksen Thank you. Good morning, guys. A couple of questions from my side. So, first of all, just interested in the sequential change in the expected development in like-for-like and price development from the slide you showed in Q4 in connection with Q4 results. And then, compared to this time, especially for the like-for-like in Q4 2026, it seems like that's lower now. And maybe you could also comment on the uncertainty in the growth composition from prices in Q4 2026?

And then, the second question, it sounds like, based on the prepared remarks from Mads, that you're looking into a sizeable M&A transaction, and that is fairly imminent. And I guess the deal certainty must be high, based on you mentioning on the call. Can you provide some more colour on the size and bolt-on, and in terms of what [?]. I guess the US continues to be premature in terms of the organisation being ready to make a sizeable acquisition. Thank you.

Kasper Fangel Thank you, Kristian, and good morning. Two good questions, as always, from you. Let me take the first one, and then Mads will take the next one. So, actually, the contribution to underlying growth, both growth of existing customers scope and also net new contract wins, is, ballpark, the same in in the first quarter compared to the fourth quarter last year. And in terms of prices, the contribution is also, ballpark, the same in the first quarter

compared to what we had in the fourth quarter. So it's actually pretty much the same contribution from a percentage point of view in the first quarter of this year compared to the last quarter of last year. Mads, over to you for comments on the second question.

Mads Holm

Thank you very much, Kristian. So, first of all, this is a great opportunity for ISS, but let me underpin we are talking about a bolt-on acquisition and negotiations are still ongoing. Why this place? Well, first of all, it's a place where we have a strong management team. It's aligned with our strategy. It's also aligned with the capital allocation policy. And that means, Kristian, that it fulfils all the checks and balances that we have talked about before.

The other part is that when we look from the case, as such, this is also a clear synergy case, similar to exactly what we have done in recent years and where we had illustrated to the market that we have been able to provide value. And also, more importantly, even with this acquisition, we are still within our leverage ratio at the end of the year, which means two to two and a half times. So all should be very clear and very similar to earlier transactions.

Kasper Fangel

And, Kristian, we are lucky that we have a good IR team here in the room that said they believed your question was more related not to the fourth quarter of 2025, the first one I answered, but more what is happening over the course of this year, so the fourth quarter of 26. And there, I will just say that the thing to point out that you need to be aware of is, of course, the comparison on net-new. Because we had DWP volume, 300 million in the fourth quarter of last year, so we are up against a strong comparison.

From growth with existing customers, the visibility we have, as of today, we believe that is going to be, ballpark, the same over the course of this year.

Kristian Godiksen

It was more to the sequential change, from what you presented in connection with the Q4 results. I'm specifically referring to the slide ten in terms of where they overlap previously, and you also have a bigger tail downwards in terms of like-for-like at the new slide, compared to the one you had in Q4. So I was a bit more curious on that one. And seems like also the price composition is a bit more uncertain now than it was previously, or at least in a more upward-going direction.

Kasper Fangel

I think you had my comments before. Remember, this is an illustration. I think I provided the colour, so I'll just duplicate what I just said before, but remember, of course, this is an illustration on a chart.

Kristian Godiksen

All right, thank you.

Operator

We now have a question from the line of Allen Wells from Jefferies. Please, go ahead.

Allen Wells

Good morning, gentlemen. Just a couple from me, please. Firstly, just looking at the pricing side of the business, obviously, the guidance for the full year, I think it was 3.5%-ish, is strong, obviously, pricing in Q1. And that does suggest a downward trend in pricing through the year. As we sit here today, obviously, with inflation creeping up, more energy base than, obviously, wage base, but how do you think about that trend, and what would be the drivers of a deflationary environment from here?

And then, specifically, when we think about Turkey, I'm assuming that the acquisition growth and the pricing impact will be captured in M&A growth this year, but if you think about the midterm, and you comment on lower pricing moving forward, how does the additional exposure to Turkey drive group pricing over that midterm? I'm assuming it's going to be accretive to the pricing story. That's my first couple of questions.

And then, secondly, just as we think about the above-base business, the comments you make suggest there's been some kind of momentum around the commercial mindset within the business. And we've talked before around a structural shift in certain areas, where some customers are just looking at less contracted, more above-base., can you maybe just update us on that? Are we going to see a period of just slightly higher above-base moving through this business? And then, maybe just linked to that, any comment around the margins on above-base work, which used to be quite accretive. In more recent years, you've talked about it being more neutral, but is that still the case moving forward? Thank you.

Kasper Fangel

Thanks, Allen. So, first of all, on Turkey, remember that we have always consolidated the results in Turkey, because we have been the majority shareholder. They have been fully consolidated and will continue to be consolidated going forward, so there's no change in that regard, as a consequence of us acquiring the 40% from Actera. And you're saying that, you're giving the answer yourself to prices over the course of this year. The 4% we're looking at in the first quarter is expected to slightly reduce due to comparison, simply just due to comparison and the fact that we have more volume in the second part of this year. So it's going to reduce slightly.

And then, remember that the vast majority of our cost base is wages. And typically, wages are adjusted once a year, in the beginning of the year, and it will be a rare exception if it's more than that. We don't see any signals anywhere, in any local markets, where we believe that there will be a wage increase

during the year this year. That is not something that we have visibility to at the moment. So we expect pricing to continue to contribute with, ballpark, the same percentage that you've seen in the first quarter for the rest of the year.

And in terms of above-base, it is a deliberate initiative that we've worked a lot on in ISS, because there are great growth opportunities for our operators, because they are the ones that are spotting opportunities at the customer sites, spotting opportunities for us being able to do things that sits outside the ordinary scope that we deliver on a recurring basis. And we have done a couple of concrete things. We have, one, done a significant piece of work on making it very easy, not through a long binder of an MSA where they need to determine themselves what is in scope and what is out of scope, but to do an overview sheet where our operators knows this is what we are paid for delivering. And then, when they're spotting things that are not listed there, then that's above-base, to make that visible and very tangible. And then, incentivising our local teams and the site teams to get their arms around the above-base opportunities.

And that is what is coming through, and why you have seen the percentage of total revenue increasing over the last two years. And I see no reason why that shouldn't continue, going forward. But, of course, above-base work is more uncertain by nature. It is the discretionary part, where customers can add and reduce. But so far, we remain positive about that from a growth perspective. And from a margin perspective, it varies. We have some above-base projects that are very lucrative financially. That's where we can do the above-base work with our existing workforce, so costs that are already covered. Then, of course, it's very accretive, but we also have above-base work where we are taking care of more the administrative burden, and therefore it's a smaller mark-up fee that we are getting for taking care of that administrative task. In consolidation, I will say that above-base work is accretive to margins, but it's not a swing factor.

Allen Wells

Helpful, thank you.

Operator

The next question comes from the line of Zach Al-Qaryooti from Morgan Stanley. Please, go ahead.

Zach Al-Qaryooti

Good morning, Kasper. Good morning, Mads. Just one question left for me, I think just bringing together a lot of the moving pieces towards the full year guidance that we've discussed already. Just taking a step back from that, could you maybe elaborate what is the key factor within there that led you to decide not to upgrade the guidance today? And maybe just more in recent weeks, following the quarter end, is there anything you're seeing on customer sentiment since the Middle East conflict that's making you a little bit more conservative? Thanks.

- Kasper Fangel Thank you, Zach. The answer to your question is that it's early in the year. We are off to a very good start. And of course, with such a Q1, we are more comfortable with our full year guidance now compared to when we spoke to you in February and initially gave the guidance for the full year. On above-base and projects, as I said, we do not have indication from customers that they're going to cut back significantly. But it is an uncertain world, and the visibility we have on above base work is less. So what is going to happen in the second half? Again, we don't see any warning signs, but it could come. So that's why we believe that that sticking to the above 5% and continue to focus on the commercial and momentum, that's the right thing to do. And then we will obviously update along the year.
- Zach Al-Qaryooti Very clear. Thank you.
- Operator We now have a question from the line of Thomas Lind from Nordea. Please, go ahead.
- Thomas Lind Hi, good morning, everyone. Two questions regarding, I guess, public contracts. So, the first one is regarding the social value model. And sorry, this is a bit educational here, but I was just wondering if you could tell us a bit about the social value model that you have, I think, in the UK, which was a contributor to winning the DWP. I think you previously said something about that you're rolling it out to other countries, and I was just wondering if you could give us a bit of an update on all that.
- And then, the second question would be regarding all the defence growth opportunities that we see, especially in Europe and also some of the other countries. If you could give us any colour on the pipeline here, and opportunities, risks? Sorry for the broad question, but any colour here would be appreciated. Thanks.
- Kasper Fangel Thank you. Thanks, Thomas. And thanks, especially, your first questions. Very happy to share with you the social sustainability and the contribution that we are giving to local society in collaboration with customers. So, the whole purpose of that is that we, in collaboration with our customers, can tap into the local community and figure out where there is a swing factor, where we can help people that do not necessarily have great opportunities to get a job and have something meaningful to wake up to in the morning to get a job, and something exciting to wake up to. And we are doing that to a great extent in the UK, but it's also spreading across other local markets.
- Because, remember, for many companies, it's hard for them to put substance behind social sustainability. On the environmental part and ESG, companies are pumping billions into energy reductions and reducing the CO2 emission, but if you're a bank, in isolation, it's hard to get meaningful substance behind social

sustainability. And that we can do in collaboration with our customers. So we are running programmes where we are helping disabled people to get a job. We have a programme in the UK and in the US where homeless people are also being helped. We are helping people getting out of poverty in India. And we are implementing that as one of the strategic initiatives across our local markets.

And it is the right thing to do, but it's also important commercially, because we can help our customers to, as I said, put substance behind the social agenda. We also moving ahead and trying to quantify what is actually, in monetary terms, the impact from those great initiatives, and trying to convert that into economical value. We're not there quite yet, but basically it is to look at what is the alternative? If these people were to be supported by the authorities and didn't have work, what would that then cost the society? But we are very proud of it. We are giving people opportunities that they not necessarily would have had if ISS didn't exist. So it's a very important initiative for us. And as I said, it is being rolled out across our local markets as we speak. Mads, do you want to take the second question around defence?

Mads Holm

Yes. So, as I also alluded to in my speech here, we were positively impacted in the quarter by the start-up of Australian defence. And you're completely right, we are seeing, of course, that a lot of money is being allocated into defence. We are of course, monitoring that close. This is a good proof point that we're relevant also as a partner for defence contract start-ups. And therefore, of course, we bring the learnings that we have here in Australia with us, across the board, into other places as well. This is the benefit of us winning in certain places and taking that learning and those learnings with us when we are looking for other opportunities. But we are very much aware that the defence segment is a growing segment right now.

Thomas Lind

Thanks.

Operator

We now have a question from the line of Casper Blom from Danske Bank. Please, go ahead.

Casper Blom

Thanks a lot. And, of course, also congrats from my side on the on the strong start to the year. First, a follow-up on the deal in Turkey. You've made it quite clear with the 3% EPS impact from minorities and lower financials, but could you give us a bit of guidance on when you expect that this will actually be visible in numbers? Will it be a full 3% EPS increase already in 2027? Or how long will it take for you guys to get the interest rates down, or interest payment down?

Secondly, on the chart you show with the contract maturity and the 1% that is up for renewal this year, there's 8% renewal for 2027. Can you speak a bit to how much of that you can start

addressing already here in 2026, to, how to you say, lower the uncertainty when we start looking more into 2027, eight months from now? Thank you.

Kasper Fangel

Thank you, Casper, and good morning. So, the 3% increase to EPS you will see with full impact in the numbers for 27. And then, you will see a gradual impact over the course of this year, but the full year impact is from 27 and onwards. And on your question of renewals, first of all, in the 8% up for renewal next year, there are none of them where we see a red flag. So there's nothing that I would highlight as particularly risky. And that means that, in many instances, we're already talking to customers now. So the short answer to your question is, yes, we can, and we already are, addressing that as we speak.

Casper Blom

That's very clear. Thanks a lot, Kasper.

Operator

We now have a question from the line of Klaus Kehl from Nykredit. Please, go ahead.

Klaus Kehl

Hello. Previously, you gave us some data points on Turkey, and no doubt that the business has been doing very well over the last couple of years, but I guess a lot has been driven by prices. So could you give us some comments on the like-for-like growth they have realised over the last couple of years? And also, a follow-up question to Turkey, and just to be absolutely sure, you have full access to the cash flow from Turkey, right? That would be my two questions.

Kasper Fangel

Thank you, Klaus, good clarifying questions. Let me hopefully be crisp and clear in my answer to that. So, we have seen, over the last three years, double-digit underlying growth, so excluding prices in Turkey. And that is coming both from growth with existing customers, and it's coming from new wins. So very strong growth in Turkey. And on your second question, around the cash flow, yes, as of today, we own 90% of ISS Turkey, and management owns 10%, so 90% of the cash flow we have access to as of now.

Casper Blom

And just to be clear, there's no restrictions at all, or any funny things we should be aware of?

Kasper Fangel

Nothing at all. Nothing at all. And Turkey has generated a very strong cash contribution over the last decade. And it has accelerated post 2021, and increased from there on. So we're very pleased with us now not having to share the cash flow with Actera. But we have access to that strong cash flow, and that's also a part of, to Casper's question, what we will use to repay expensive debt, so that you are seeing the EPS uptick coming through accordingly.

Casper Blom

Perfect, thank you.

Operator Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Kasper Fangel, Group CEO, for any closing remarks.

Kasper Fangel Thank you very much. There are a lot of people attending this conference call, thank you so much for your interest in ISS, very much appreciated. Thanks for the good questions in the Q&A session. Our IR team, obviously, will remain available to take further questions over the next couple of days. And then, both Mads and myself are very much looking forward to meet many of you for the upcoming roadshow. So, greetings from sunny Copenhagen, and have a wonderful rest of your day. Thank you.