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PRESENTATION

Operator

Welcome to the ISS Trading Update for Q1 2023. (Operator Instructions) This call is being recorded. I'm pleased to present Jacob Johansen, Head of Investor Relations. Speaker, please begin.

Jacob Schmidt Johansen ***ISS A/S - Head of IR***

Good morning, ladies and gentlemen, and welcome to the ISS Q1 2023 Trading Update Conference Call. My name is Jacob Johansen from the ISS Investor Relations team, and here in the room for today's call, I'm joined by our Group CEO, Jacob Aarup-Andersen; Group CFO, Kasper Fangel; and Kristian from IR.

Before we start, I will ask you to pay close attention to the disclaimer on Slide 24. With this, I'll hand over the word to Jacob and Slide #3, please.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you very much, Jacob, and good morning, everyone. Before we go into the presentation and the details of the development of the quarter, I'd like to put a few words on my personal situation. In March, I got an opportunity I could not pass upon, and as a consequence, I'll be leading ISS. I've enjoyed every single day as a group CEO of this fantastic company, and I will continue 100% as CEO until a successor has been found, of course, to secure a smooth transition. I and the rest of the management team are fully committed to continue the great journey we, as a company, are on. The strategic priorities, operational execution and financial ambitions are completely unchanged. ISS is in a very strong position.

With these initial comments, let's jump into the presentation. So we've had a strong start to the year. And in Q1, we delivered double-digit organic growth. The rigid focus on implementing price increases to offset inflation has been maintained. And together with the underlying volume growth, they were the main growth drivers in the quarter.

Commercial momentum remains solid with continued small and midsized wins and a pipeline of business opportunities continues to build. The pipeline remains attractive. The underlying margin continued to improve. And on the back of the development in the first quarter, we can already now upgrade the full year organic growth outlook.

So let's turn to Slide #5 for the strategic update. The strategic priorities as part of the OneISS strategy are unchanged and with the financial turnaround well behind us. As a consequence, we've enhanced our focus on growth. And in the present dynamic FM market, it's important for us constantly to meet our customers' demands and deliver value through our products and services. Here in the beginning of 2023, we've seen solid development on the initiatives that we presented at the Capital Markets Day in November 2022.

The customer retention rate improved further. It now stands at 94%, and we are building on a good pipeline of future business opportunities. Our newly launched and improved service products are gaining traction. Among others, the Pure Space - Office cleaning product, which I will come back to.

Last but not least, the underlying margin continued to improve during the quarter, driven by the implemented OneISS initiatives.

So let's go to the next slide where we will look at cleaning. ISS is the world's largest cleaning company, and we have a proud heritage in this is a very important service area. Cleaning is our largest service line contributing around 45% of group revenue. It's a crucial service for our customers, and we have in Q1 conducted a survey amongst our office-based customers to identify drivers of customer satisfaction.

Here, cleaning across the building stands out as the single most important area to our customers, and it's becoming even more important in the post-COVID-19 world. It's also confirming our strategic focus with cleaning at the center of the integrated solutions that we deliver. We have very strong cleaning processes in place, as you would expect, and we are constantly improving our service delivery to remain world-class. The development of daily office cleaning product is a prime example of this.

So let's go to Slide #7. At the Capital Markets Day in November, we presented our enhanced daily office cleaning product. We call it Pure Space - Office. With this product, we are applying a group-wide standardized way of cleaning offices, resulting in an improved efficiency and service delivery. As part of the product, we've established extensive training frameworks towards our place makers to make sure the processes are optimized and guidelines are followed. We're also making sure to have constant feedback from operations to improve productivity across countries, customers and sites, thereby leveraging our global scale.

Since November, when the product was introduced, the number of sites have more than tripled and is now above 3,000. The uplift in productivity is still encouraging, and the cost savings are contributing to the improvement in profitability. But remember, here in the initial phase, we're introducing the product at the sites with the largest potential for improving productivity, and you can't just apply the achieved improvement to our full office cleaning portfolio.

Please turn to Slide 9 for the markets and a business update. The commercial momentum remains solid, and we're looking into some very interesting opportunities which can support growth for a number of years. Since the announcement of the annual report in February, we've secured 1 large key account contract with a health care customer in Turkey, and we've extended a couple of contracts in the Northern European region. The customer retention rate improved further, and it stood at 94% at the end of Q1. This was mainly driven by a good list of smaller and medium-sized contracts. This is a historic high, and we are very proud of it. But as you know, it's not the end destination.

The contract maturity profile on the right-hand side of this slide is unchanged. We still have 4% of revenue up for renewal for the rest of the year, which, as you know, is normal for this time of the year. These processes are ongoing, and we are confident in our ability to successfully renew the contracts.

Please turn to the next slide and inflation management. Q1 is a very important period of the year with respect to inflation management. Across most ISS countries, wages are typically adjusted at the beginning of the year through of course minimum wage adjustments and collective agreements. With 70% of our costs being wages, we just have to be on top of the development.

To illustrate the process and the work that has been going on here in the quarter, we brought forward a live example from a global banking customer. As part of the contract, all minimum wage increases are passed on to the customer through price increases, while other non-wage items are passed through annually. These processes have successfully been conducted in Q1, but as you can see, the picture is very mixed from country to country as wage increases vary between 2% and 20%.

In conclusion, revenue on the contract increased compared to last year and along with many similar contracts, it is thereby contributing to the group's organic growth. With this, the margin has been protected. And as is the case on group level, operating margin has been kept unaffected from inflation.

This concludes my part of the presentation, and let me hand over the word to Kasper to take a deeper look at the numbers for the quarter. So let's go to Slide #12, please.

Kasper Fangel ***ISS A/S - Group CFO & Member of the Executive Group Management Board***

Thank you, Jacob, and good morning from me as well. We had a strong start to the year with 11.3% organic growth in the first quarter, mainly driven by price increases and underlying volume growth. Thereby, the strong development from 2022 was maintained, and organic growth accelerated compared to Q4 2022.

The implemented price increases to offset inflation-related cost increases contributed with more than 6%, with Turkey contributing around half of it. It is very encouraging to see that the growth is realized in our base business. Portfolio revenue had more than 14% organic growth. And as expected, revenue from projects and above base work declined and had a slight negative contribution to organic growth for the group. All service lines had positive organic growth. Food grew by more than 30%, while cleaning saw low single-digit growth, negatively impacted by lower demand for COVID-19-related cleaning services.

Please turn to the next slide for a look at the regions. All regions reported solid positive organic growth in Q1. As seen throughout 2022, the Americas region reported the highest organic growth in Q1. It was driven by strong growth, especially within food as customer activity levels increased as a result of higher office occupancy. In addition, the contract with the global retailer was fully mobilized and had full revenue effect in the quarter.

The 17% organic growth in Central and Southern Europe was mainly a result of the very strong growth in Turkey. Inflation is still running at high numbers, and all prices have increased accordingly. We have a good business in Turkey with strong processes in place to handle the inflationary environment, and it is at the same time growing due to underlying volume growth and net contract wins.

Organic growth in France was negative. The commercial momentum in the French business is still muted, and positive effects of the strategic initiatives are not yet visible.

In Asia and Pacific, portfolio revenue grew double digit as a result of increasing activity level at customer sites. On the other hand, revenue from projects and above base work declined due to lower demand from COVID-19 related deep cleaning and disinfection services predominantly in Hong Kong. The organic growth in Northern Europe was solid despite a negative contribution from the exit of the Danish Defense contract.

Please go to the next slide and outlook for 2023. On the back of the strong development in Q1, we are upgrading the outlook for organic growth. We're now expecting it to be 6% to 8% compared to previously 4% to 6%. The upgrade is driven by the successful implementation of price increases and higher underlying volume growth. On the next slide, I'll provide additional details.

The outlook for operating margin of 4.25% to 4.75% is confirmed. The improvement compared to 2022 will be driven by the OneISS initiatives, operating leverage and continued improvements in the U.K. and on the Deutsche Telekom contract. The improvement in France is slower than initially expected.

For free cash flow, we are also confirming the full year outlook of around DKK 2 billion, but we expect the free cash flow to be negative in the first half. With the high growth we are realizing here in the first half, receivables will increase and thereby have a negative temporary contribution on the cash flow generation.

Please turn to Slide 15, where I'll take you through the details of the upgrade on organic growth. As I just stated, 2023 outlook for organic growth is upgraded to 6% to 8%. The building blocks are the same as previously, but we're upgrading expectations for the contribution from price increases and underlying volume growth. We expect around 4% to 5% contribution from price increases. We have now seen that the price increases have actually come through in the market, and they have been successfully implemented towards customers. Underlying volume growth is expected to contribute with around 3 percentage points, driven by the increasing customer activity with higher office occupancy rates and continued investment in the workplaces.

Both price increases and volume growth include a full year effect of the improvement achieved during 2022. The remaining 2 buckets are unchanged. A small positive contribution from net contract wins and a small negative contribution from projects and above base are expected.

With this, I have covered the financial part of the presentation, and I will hand the word back to Jacob for some closing remarks, and Slide 16, please.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you, Kasper. So in conclusion, we've had a strong start to the year. The growth that we've achieved was better than expected, and we can already have by Q1 upgrade outlook for the full year. We are progressing on the strategic journey with a focus on delivering strong growth as sustainable and attractive margins. We are also, therefore, confidently confirming the financial targets for 2024 and beyond.

We're building on a solid momentum, and this would not have been possible without a relentless effort from all of our more than 350,000 Placemakers around the world, whoever they go above and beyond to meet customers' expectations and to deliver excellent services. So a massive thank you to all of you.

With this, we will open up for the Q&A session, and I'll hand it over to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question will be from the line of Michael Rasmussen from Danske Bank.

Michael K. Vitfell-Rasmussen ***Danske Bank A/S, Research Division - Research Analyst***

Three questions from my side here to start with. First of all, I understand that you guys have initiated an arbitration case with Deutsche Telekom, if you could potentially share some details in that in terms of time line, costs, and I guess, it will be difficult for you guys to talk about maybe potential outcomes or whatever at least you see from this.

My second question is on price increases. If you could just discuss kind of the dynamics in terms of the stickiness of price increases? And here I'm especially alluding to the fact that potentially food inflation will come down or until it become deflation. What will happen to kind of your dynamics in the business?

My final question is for you, Kasper. It's just a little bit more details on your working capital (inaudible) especially interested in getting some thoughts on how you see receivables developing during H1 and H2, but also into next year. What kind of days sales outstanding are we looking at? And also if you could just add a few comments on factoring.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you very much, Michael. Let me start with the Deutsche Telekom question, and then Kasper will move into the price increases and the net working capital afterwards. You are right, we have arbitration proceedings. We communicated that already in Q4, as you remember. And that's arbitration proceeding is regarding, say, certain contractual disagreements. We don't disagree across the contract, but there are certain elements that we are disputing them. That arbitration is ongoing and as you also alluded to yourself, we are not able to share any updated information on the process. Of course, the moment that we have anything to inform, we'll inform you in due course. At the moment, there's more clarity around it.

In parallel and unaffected by the arbitration, we've continued focusing on driving efficiencies and cost reductions in optimizing operations, which is also why we, again, today refer to the fact that we are seeing good progress on Deutsche Telekom. There are still opportunities to improve profitability further. You know that we moved into black numbers, which was the target at the end of last year. But you also know that we have higher ambitions than that. I should also make it very clear that we have not assumed any positive outcome from the arbitration in our 2023 outlook or 2024 targets. So that is not something that we have baked into the numbers. That's unfortunately the amount of information I can give you at this stage.

Let me hand over to Kasper on the 2 other items.

Kasper Fangel ***ISS A/S - Group CFO & Member of the Executive Group Management Board***

Yes, good morning. Thank you, Michael. So I think the price increases are very sticky, I have to say. I know you asked in general around food. So in general, of course, the majority of our price increases comes from wage adjustments, which, as Jacob said in his presentation, is typically done in the beginning of the year. Then we adjust our wages and consequently also pass that through to customers. And even in a scenario where inflation will decrease, then of course, wages are not going to be adjusted and hence, our price increase will stick around that component.

And in terms of food, I'm also very comfortable that, that is sticky. For a slightly different reason, food is just such an important component for customers to attract employees back into the office space. So the budget that has been made available now, even though if we will see a decrease in inflation, then I don't think that the budget will decrease accordingly. Customers are going to want to spend to make sure that they have an attractive catering solution and food solution for employees.

And on your question on free cash flow, then you're indeed right that we expect negative free cash flow in the first half of this year, and it's entirely driven by the strong growth, which will temporarily tie up working capital. But it's important to say that this is purely phasing. We are firmly reiterating our full year expectations around free cash flow -- expected free cash flow of 2 billion.

And specifically on your question around receivables, then obviously, we are guiding an organic growth of 6% to 8% for the full year. And with Q1 organic growth of 11.3%, then, of course, that means that the organic growth will slow down throughout the rest of the year. And consequently, the receivables are expected to slow down accordingly.

And in the last question you had around DSOs, it's completely unchanged. It's not that we have extended payment terms with customers in any way shape or form, completely unchanged to what you have heard previously.

Michael K. Vitfell-Rasmussen ***Danske Bank A/S, Research Division - Research Analyst***

And factoring, just a brief comment.

Kasper Fangel ***ISS A/S - Group CFO & Member of the Executive Group Management Board***

Yes. On factoring, as I've said numerous times, very strong policy. You know it. We have that in place. You -- I think a good estimate on factoring is that the factoring will increase in line with our organic growth rates. That will be a good data point to use for modeling purposes.

Operator

Our next question will be from the line of Klaus Kehl from Nykredit.

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

First, a question about your operational leverage because if I look at your growth in Q1, then it's very solid, so check on that. But at the same time, you stick to your margin guidance, and that indicates kind of a low pass-through to margins and earnings. So could you comment on that, and potentially also comment on your earnings in Q1 and whether it was better than expected? Just to get a kind of feeling for your, yes, your pass-through FX?

And then secondly, you talked about this Pure Space. How much does it constitute of your sales by now? And if you're able to increase productivity by 10%, then sooner or later this ought to have a meaningful impact on your margins. Could you comment on that as well?

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Yes, thank you, Klaus. Let me start on Pure Space and then Kasper can speak to the operational leverage. So the pure space is still a relatively small part of our revenue. You will have seen the November Capital Markets Day presentation. And then today, I was referring to the fact that we've tripled the amount of sites that is now working with Pure Space - Office. But it's still a single-digit percent of our cleaning revenue that is going through Pure Space.

And we also completely open around the fact that, of course, it will not apply to our entire portfolio. But we do expect the growth to continue in terms of the number of sites that are covered by it. That is the whole purpose of this. And it's a classic example of the OneISS approach and journey we're on at the moment, which is to standardize the organization of key tools, key solutions, best practice whenever we can across the franchise. So it is, in many ways, a box standard example of what we're trying to achieve with OneISS.

In terms of giving you a specific guidance on margin impact. I think that's too, as you know, we haven't given that before, but we have made it very clear that it is one of the initiatives that is part of driving the margin uplift that we will see this year and also next year. We are very clear that we do see OneISS initiatives having a positive contribution to the margin journey, and it is part of the confidence we have behind delivering above 5% margin next year in '24.

We've said that when you look at margin this year, a key driver is the continued improvement of the previous hotspots, but also contribution from OneISS initiatives. And as these more and more sites roll on from '24 and onwards, we expect a more -- an increasing impact from these OneISS initiatives of which Pure Space-Office is one of them. So it's definitely a positive contribution and an increasing contribution, but I'm not going to put a number on it.

Kasper, over to you on operational leverage.

Kasper Fangel ***ISS A/S - Group CFO & Member of the Executive Group Management Board***

Yes. And I think I will just start from a helicopter view, Klaus, because that will give you a good understanding of where we are. Overall Q1 and the start to the year is consolidated in line with our expectations. But as you will appreciate, this is a portfolio company. So you do have things that are going better than planned, and you have things that are going -- that are behind plan. And we have been very clear and mentioned France as one of these areas where we are behind plan.

But on operating leverage, it's better than planned. We have not added overhead costs as a consequence of the stronger-than-expected growth. So clearly, we're getting an uptick from that and consolidated. We are following the plan for Q1.

Operator

The next question will be from the line of [Abbey Dole] from UBS.

Unidentified Analyst

This is [Abbey] from UBS. I have 2 questions on behalf of Nicole. Firstly, thank you for disclosing the over 6% pricing contribution within organic growth, but can we ask whether you expect that to stay at the same level all year? You mentioned that a lot of wage adjustments happen at the start of the year. So we just wondered whether there were still any large markets where we should expect further increases over Q2 to Q4 that could further [base that] contribution.

And then secondly, you mentioned that commercial discussions are still more complex than before the pandemic. Could you go into any more detail on this? Is it the challenge as part of work? Is there more pressure for cost savings? Or is there anything else that's going on?

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you very much. Let me just address those 2. You said in terms of the 6% to 8% growth, whether we expect that throughout the year. No, we will say we've just delivered at Q1 11.3%. And as Kasper also indicated before, we do expect growth to be -- the growth percentage to be lower next -- sorry, in the second half versus the first half. And that's mainly a mechanical reason due to the fact that we have higher comparables in the second half versus the first half. So we are simply facing tougher comps in the second half, and that will have the mechanical effect of growth -- reported growth coming down. That's also why we're guiding the 6% to 8%.

You asked specifically around whether we had any major countries where there were big price increases to come through. You can say that -- as we said before, the majority of price increases in general are pushed through in the first quarter. There are some coming through in the second quarter as well due to April, May timings. But overall, the assumption of 4% to 5% wage increases across our portfolio are unchanged, and they are also behind the 6% to 8% growth guidance for the year.

So whatever we are seeing in terms of Q2 effects from price increases and wage negotiations there, that's factored into the guidance we have given you. So don't expect us to, in Q2, do a major adjustment based on where negotiations are coming out. We know where the final wage settlements are roughly coming out. So I think 6% to 8% is a good estimate of where we see the year.

On -- the other question was around commercial processes and the longer time to close. That's -- just to be very clear, that's not a new flag we're coming with this quarter. We've been -- that's the narrative we've had for a while. What we are seeing is that we have a very strong pipeline that is growing on a daily basis. And especially some of our major regions are really starting to see pipeline build, so that's great. So there's a lot of good stuff going on in the commercial arena.

But what is clear is that the decision-making process around larger deals. So not the small and midsized deals where we see the same flow and also relatively the same time to closing, but the large deals and the large companies, it's just taking a longer time to close. And it's an industry phenomenon right now, which is basically -- I think the best way to describe it is that larger companies are discussing their workplace strategies as part of their employee experience strategies. And with the times are gone where a real estate or facilities management contract was just renewed somewhere deep down in the organization, today our services are at the C-suite level in terms of it's being discussed at C-suite levels because it's an active part of company's strategy in terms of enhancing their employee experience.

That is a good thing to be very clear. That is the reason why we are seeing a good underlying growth as well because people are investing in their people. They're investing in their employees. That also means that it just takes more rounds internally to make sure all stakeholders are aligned around new big 5-year contracts as is usually the norm in this space.

So listen, we're very excited about the pipeline we're looking into. We're very excited about the negotiations we're in on a number of different commercial situations. And this is just, I think, a fact of life. We need to live with it at the moment and will probably come down in the coming years, but we don't see that changing overnight.

Operator

(Operator Instructions) The next question will be the line of Peter Sehested from ABG.

Peter Sehested ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

I have a couple. First one on pricing again. Your price component for the years increased by 1 percentage point since your last comment on this late February. There are 2 components to this, and I say its confidence in being able to pass it through, and then this underlying actually figure. And since you've always -- since you've been very confident in your ability to pass on, I guess, you've been surprised by the underlying figure itself. But however, we are -- I mean, it's just a month since you provided your comments on this. So what has actually surprised you during -- since late February until late March, that makes you -- make this upgrade. So that is my first comment -- question.

Kasper Fangel ***ISS A/S - Group CFO & Member of the Executive Group Management Board***

Yes. Thank you, Peter, and good morning to you as well. I think you know how the mechanism is working. So minimum wage is obviously being announced and then we adjust the wages accordingly. And then we have the proactive discussion with customers, where, in some instances, customers have a lower budget than what the minimum wages has been increased to, and therefore, we work on finding efficiencies and scope changes, et cetera, et cetera, to basically make a win-win for both parties.

This year, there's not been many reductions to scope. So it's been passed through to a greater extent compared to last year. And I think it is an acknowledgment generally in the market around that minimum wages are increasing, and therefore, budget needs to be increased accordingly on the customer side. And I would say that's the one to point out, which is a positive thing for us, obviously. And that is the change compared to when we communicated in February.

Peter Sehested ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

Okay. And then in your report, you made a very specific comment about France that is actually diluting the margins. Are you implicitly signaling that your patience with France -- that you're reconsidering how you should approach France as a business? That's the second question.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Yes. Thank you very much. Let me address that one. Yes, listen, we are -- as you point out, we are highlighting and Kasper also said it before that France is not developing in a satisfying way. Just to take a step back, and let's just remind ourselves, France, as you know, was designated as one of the 4 hotspots and has just for a long time, not been recovering in the same way as we've seen with the other hotspots. We've been flagging it on a continuous basis.

And last year, you also know we took the consequences and changed the country management team and both strengthened the operational and the commercial competencies in France to get a very strong team in place. There's been major restructuring done, as you know. And what we also said when we entered 2022 that despite all the work last year, we didn't see the run rate margin end where we wanted it to end in France.

In 2023, the development has not been satisfying. And we haven't seen the underlying improvements that we wanted to come through. And part of that is driven by the fact that commercial development continues to be muted. We've said clearly that in Q1, the organic growth was negative in France. And that is one of the components, that means the run rate, we struggled to get the run rate to improve when we have a falling top line. And that means France is diluted to the group as a whole.

It also, of course, is a statement that reflects the fact that we have improved profitability across the group. And that also means that France being behind plan means that it just becomes a bigger relative negative component. So it's not that there's been a rough change compared to in previous quarters. But France lagging behind and the other hotspots actually raising ahead of expectations, just means that we are highlighting France now more specifically. That is being compensated, as you would expect, given the fact that we have confirmed our guidance. So it's been compensated by the other countries. And as Kasper has also said, we're a big portfolio business, and there will always be underperformers and outperformers in the portfolio. But of course, we are highlighting that we are not satisfied with the current performance in France, no doubt about that.

Peter Sehested ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

And you are not currently engaged in any kind of process to dispose of this business? I would -- I don't expect a comment to that, but nevertheless, I'll go ahead and ask the question.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

No, Peter, our focus right now is on delivering in France, of course, that's as you would expect.

Peter Sehested ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

Then finally, I just also stumbled across your comment on the retention rate, in particular, the formulation that to structurally improve the growth rate, you need to increase the retention rate from here, which is already at very high levels. And of course, it all makes sense that a structural improvement of organic growth leads to an improvement in retention rate. But nevertheless, could you sort of comment on whether you are signaling that it is getting increasingly difficult, getting from higher up from these levels? And are you sort of raising a minor flag with respect to the future growth rates in the underlying business relative to prices, which you say are sticky?

So 2 components to this question: Will it be increasingly difficult to increase retention rate? And second, should we expect relative to what you commented on at the Capital Market Day that a higher-than-expected component of growth will come from pricing than previously expected? And that is my final question.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Fine, Peter, let me take them. Those 2 questions, I can be very categoric. There's absolutely no change to the guidance we gave at the Capital Markets Day. So let's just start there. Absolutely no change. We are still seeing the same components of growth in the coming years. We are flagging that retention has gone to 94%, which is actually a bit ahead of our plan, which is a good result. And of course, staying at 94% -- already staying at 94% will improve our underlying growth rate in the coming period. We've also made it very clear we want to increase it further.

Of course, your question is correct. The further you get towards 100%, the harder it is to increase it. I think that's just like any business would tell you that. But we are in no way flagging that we think it's hard from here. We think that we can continue to increase our retention rate from here because we see that. We just constantly see a stronger renewal activity across the board both in our excellent country management teams, in our global and regional accounts as well. So retention will continue to go up. We have dedicated programs on it, but the raise from 90% to 94% over the last 5 years, was, of course, easier than going from 94% to 98%. That's clear. But it will go up from here.

That also means we are not flagging that there's a different component of the growth guidance going forward. We still see those happening. When I look into '24, there's no doubt that with improving retention rates and the fact that we are seeing a strong underlying commercial momentum and a big pipeline of attractive deals, then -- we do expect that the contribution from net new sales will be increasing as we go through this year and into '24.

We've said all along that we can see a very natural development here where price increases will have a less component, a smaller component in the coming years, but new sales will have a bigger component and then with underlying growth in portfolios, of course, continuing.

We always almost skate through the last comment, but I think it's important to remember the strength of the franchise when we are constantly improving our portfolio. That is the best business we can do. That is when we increase our scope and our business with existing customers at good margins. But no -- Peter, no -- absolutely no change to our guidance and no change to our confidence in how we will deliver the growth.

Peter Sehested ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

And I just wanted to slip in one last question. And it is pertaining to the comment with respect to Pure Space, and you mentioned the sites with the most potential. Could you just briefly give a brief description of what characterizes these sites?

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Yes, yes. Thanks, Peter. So I'm sure because I know you were there at the Capital Markets Day in November. Troels Bjerg, our group COO, did some good presentations around this. But basically, we -- you know we go to this in a very scientific fashion. So it's a very data-driven approach where we benchmark all of our sites across the board, and there are many, many sites. We benchmark all of our sites on cleaning efficiency and productivity, and we index them up against different standards, also adjusting for the different type of sites and the different regions and other specificities.

And that means that we have a very clear view on a global scale from a portfolio where we see the biggest upside in terms of productivity enhancements. And therefore, we target those. In that so there is the pure indexation in terms of on an adjusted indexation basis, is this site delivering the way we would expect it to do? Adjusting for whatever special features, there is on that site.

And on top of that, of course, we look for scale as well. So we look for sites that index low and also are big so we can get bang for the buck. And then we often then use them in a specific country as also pilots in terms of making sure that the local teams truly get the processes under their skin and really become super users within the new products and procedures. And then we use that to scale. We scale it and then we scale across other sites. So it's a mix of how they index on productivity and the absolute scale of the sites as well.

Operator

Thank you, Peter. As there are no further questions, I will hand it back to the speakers for any closing remarks.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

All right. Thank you very much. And as always, thanks for good and engaging questions. You know that the eager IR team is sitting here waiting for your calls. So any further dialogue then reach out. I also know we'll be seeing a lot of you in the coming days. So once again, thanks for your interest, and we'll speak soon. Thank you.