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Q3 2024 ISS A/S TRADING STATEMENT CALL

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- **Kristian Godiksen** *SEB Equities - Analyst*
- **Allen Wells** *Jefferies - Analyst*
- **Peter Sehested** *ABG Sundal Collier - Analyst*

PRESENTATION

Operator

Hi, everyone, and welcome to the ISS trading update for Q3 2024. Today's call is being recorded. (Operator Instructions)

Today's speakers will be Kasper Fangel, CEO; and Mads Holm, CFO. But first, the word over to Head of Investor Relations, Michael Vitfell-Rasmussen. Speakers, please begin.

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

Good morning, everyone, and welcome to our conference call. We appreciate you joining us today to discuss our Q3 trading update, which was released earlier today.

I'm Michael Vitfell-Rasmussen, heading up Investor Relations here at ISS. Joining me today in the room is our CEO Kasper Fangel, our CFO Mads Holm, and our new IR colleague, Anne Sophie Riis. Before we begin, please take a quick view at the disclaimer, and then I will hand it over to Kasper to start the presentation.

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

Thank you, Michael, and good morning to everyone. Overall, Q3 has been uneventful with financial performance as expected. That means that we continued our organic growth momentum and are well on track to achieve our targeted organic growth range of 5% to 6% for the year. It's also good to see the market improvements are materializing, thanks to the operational improvements, despite investments in our business and contract startups.

Now, with about 10 months behind us, we confidently reaffirm our outlook for all three KPIs for 2024. Growth continues to be driven by price increases across the business, while new wins are not at a satisfactory level. And I will elaborate more on the actions and our response to that later in the presentation.

As mentioned, we are investing in large contract startups to ensure they run smoothly from the start and quickly are able to generate above-based turnover. While it's still early days with DWP, I'm happy to report that both Defra and the Danish Building and Property Agency are operating as planned.

From a financial perspective, that means that the profit margin is as expected, and project volume have started to come through. Additionally, I can reconfirm that the commercial work remains positive, and our ongoing negotiations with clients are progressing positively.

As mentioned previously, although our growth is as planned, we recognize price is the main driver. We note that net new wins and volume growth have potential for improvements. And we are addressing that by focusing the business more on commercial activities.

While we are not guiding for 2025 yet, I can add that I am confident that we will turn the current slight negative net new wins into positive territory. We have now secured all contracts that were to expire in 2024, and a number of contracts have also been expanded in value, which is satisfying.

Finally, a few words on capital allocation. As mentioned before, we have a strengthened approach and closely prioritize how we allocate capital. This quarter, we completed a small bolt-on acquisition in Spain in September.

As we confirm our outlook and have a clear view of net debt by year-end, we are also adding an additional DKK250 million to our ongoing share buyback program. This brings the total value up to DKK1.5 billion and the total payout yield to 8%, including the dividends paid out earlier in the year. Please turn to slide number 5.

I would like to add a few words on our pipeline. Like we said at the first-half release, our current new sales pipeline remains solid and is of high quality. Clients are still investing into the workplace experiences, and we are a key partner in developing better workplaces with our customers.

We remain focused on customer segmentation, which means we target slightly fewer, but identify more high-quality prospects. And this has increased the quality of the pipeline. Additionally, our focus on growing with existing customers remains critical.

That is both in terms of growing the scope with additional service lines, securing increased project volume, but also to extend our scope by adding volume in different countries where the customer is present. Examples of exactly that is what you will see shortly on the next slide. And as mentioned before, not only do we see significant potential from this, but we also highlight that it is associated with less risk to grow with a customer you already know.

As you know, the US has recently been significantly impacted by hurricanes, and customers have been impacted. In one instance, our team mobilized to assist one of our customers, along with our partners, in a large-scale cleanup and recovery operation. That operation has included re-establishing infrastructure and facilitating the setup of an employee support center, providing basic supplies such as food, water, and related essentials.

While obviously such adverse weather conditions are unfortunate, ISS' ability to quickly respond with its partners demonstrates its agile business model, under which we can assist clients of various sizes in an efficient and professional manner. This project will benefit our project volume in the US in the fourth quarter of this year.

Please move to slide number 6. This slide gives you an overview of our commercial development for contracts exceeding DKK100 million since the first-half reporting in August. And I'm happy to say that we now have concluded all extensions for 2024, which you now see is 0%.

For the contracts that are expiring in 2025, we only have one large key account. This contract expires towards the very end of 2025. And we are already having a positive and close dialogue with this customer whom we have ongoing scope expansions with.

Some of you might wonder why the percentage of 2025 expirees have gone up from the last time when it was 5%. This is because of two smaller 2024 expirees were extended for one year, making them now a part of the 2025 pie.

On the new wins, I would like to highlight that we have a number of secured contract startups below DKK100 million that was expected to start in Q4, which has been slightly delayed, but will impact growth positively for 2025.

Note also that during the third quarter, we signed the DWP contract, and mobilization has been successfully initiated. As you see, we have a solid development in the number of expansions. Adding this to our new wins, we look at an additional 0.6% of growth. Please move on to slide 7.

We have successfully extended contracts with customers across local markets in the past quarter. And as mentioned several times before, we are staying disciplined in our commercial processes, both for new wins and extensions. And we are not accepting unreasonable terms and conditions.

During the period, we have not exited any contracts above DKK100 million, and we believe the quality of our contract portfolio is improving. We have, in the period, had one scope reduction from a global industry manufacturing customer, affecting a few of their sites, as the customer has decided to go for two-supplier setup.

So letting it all up, I'm satisfied with our commercial pipeline. And the organization is fully geared up to convert prospects into secure deals, respecting our discipline around risk and commercial terms.

With that, I would like to hand over to Mads, who will take us through the financials. Slide 9, please.

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

Thank you, Kasper. Now a few words on the financials. The main driver of organic growth continues to be price increases in line with expectations. Prices added 6.5% year to date, with the momentum slightly lower in third quarter at 5.5%.

Turkey is the main contributing factor with around half of the total impact steaming from Turkey. However, as Turkey did not increase minimum wages in the middle of the year in 2024 as opposed to in 2023, the overall price impact is now slightly lower, fully in line with our expectations. Volume growth added around 0.5 percentage point but still supported by increased activity levels at customer sites, as well as scope increases.

Net contract wins were negative by around 1 percentage point due to contracts lost or exited in 2023 and in the middle of the year of 2024. As Kasper alluded to earlier, we expect net contract wins to move into positive territory into next year when we look at the pipeline.

Project and above-base work had a negative impact of around 0.5 percentage point in the first nine months of 2024. However, for the third quarter, isolated, we saw small positive impact from customers' refurbishment programs in Europe. As a result of this, above-base grew slightly in the quarter. Please proceed to slide 10 for a closer look at the regions.

All regions reported organic growth as expected in the quarter, with 8% Northern Europe grew by a combination of contract startup, price increases, and volume growth, also above-base supported with double-digit growth across countries in the region.

Central and Southern Europe continues to grow double digits. Turkey was still the main contributor, but the development across the region remains solid with all markets growing. In Asia and Pacific, organic growth is 1% in the third quarter, similar to the second quarter. But worth noticing is a slightly more challenging comparison base from last year.

In Americas, organic growth was minus 12%, those in line with the flagged low double-digit negative impact we set at the first half. This is based on the deliberate contract exit we have talked about at the first half. The negative organic growth is isolated to North America, and we report solid organic growth in Mexico and Chile.

And just a quick comment on currencies. In third quarter, the impact from FX was a negative 4.4%, and the FX impact year to date is expected to be 2%. For the full year, we still guide for a currency headwind of approximately 2 percentage points, and we see some stabilization from Turkish lira to Danish kroner. Please go to slide 11.

Although third quarter is a trading update, I would like to briefly comment on the margin development. With the execution of the OneISS strategy, the operating margin has improved significantly from close to zero in 2020 to 4.6% in 2023 or 4.3% if we include one-offs from the review of OneISS.

The underlying improvement continues to come through. And we are on track to deliver at the margin lift in the second half for us to reach an operating margin of above 5% for the full year. The drivers for the higher-than-normal seasonality this year is based on three things.

Firstly, restructuring costs were front-end loaded. Secondly, the benefits from OneISS kicked in fully in the second half, and thirdly, normal seasonality. What's really important here is that we are able to invest significant amount into contract startups and still deliver on our margin guidance.

Please turn to slide 12 for some thoughts on our capital allocation. As you know, one of my favorite financial exercises is capital allocation. This is also the case at ISS where we, from time to time, get opportunities through small bolt-on acquisitions. We only do this in markets where we have a strong management team and a proven track record and within service lines we know well.

We have acquired four companies in Europe in the past few years, and I have done some further deep dive into these. And I am able to present a few details here today. The companies have delivered synergies as expected, and those we have been able to subtract value from their acquisitions within a short period of time.

In this quarter, we bought Grupo BN in Spain, adding about DKK300 million to revenues. Grupo BN is a small company very similar to ISS Spain, specialized in cleaning, with an attractive customer portfolio across regions that support our local footprint.

We also see a clear potential to reduce overhead costs, and our local management has a very strong record in doing so. The deal was closed in September, and we are already seeing some synergies coming through here at the end of 2024.

Consolidating the four deals we have made, we already, by 2025, see them an EV/EBITA multiple of mid single digits based on what we paid. This is even before full impact of synergies from Grupo BN and gammaRenax as they were both acquired in 2024.

This gives me comfort that the few selected deals ISS have made are adding value, as the multiple is more than two turns below the current multiple ISS is trading on. Please turn to slide 13 for more details on capital allocation.

I'm pleased to see that our financial development goes as planned. This means that even including the small bolt-on acquisitions, we are on track to end the year within our 2 to 2.5 time leverage target. Hence, we, today, are able to add another DKK250 million to the ongoing buyback. This brings the total 2024 program up to DKK1.5 billion.

This is equivalent to 6% of the outstanding shares based on the current market value of ISS. Including the dividends we distributed to shareholders earlier in the year, the total payout yield is 8%. Finally, I'm happy to announce that as of last night, Moody changed their credit rating outlook on ISS from stable to positive.

Please turn to slide 15, where Kasper will talk about the outlook.

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

Thank you, Mads. The outlook for 2024 remains unchanged. We still expect organic growth in the range of 5% to 6%. For the operating margin, we continue to expect it to be above 5%. And the free cash flow is expected to be above DKK1.8 billion, excluding the negative impact from DTAG. I will, in the following slides, go into the details on each of the three KPIs. Slide 16, please.

The drivers behind the organic growth outlook for the full-year 2024 have changed slightly. We still expect net price increases to add 5% to 6%. Volume growth is still expected to contribute around 1 percentage point, whereas net contract wins are now expected to be negative by 1 percentage point, as I mentioned previously, predominantly impacted from smaller contract wins that are not starting up until early 2025.

Projects and above-base work is now expected to have a flat impact based on the US above-base revenues, as I previously mentioned. All in all, this brings us to our full-year guidance of 5% to 6%. Please go to slide 17 for the margin building blocks.

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

Please go to the next slide for free cash flow. The building blocks for the free cash flow is broadly unchanged compared to the communication in August. In short, working capital is still expected to be slightly negative, however, less than earlier, as we have seen growth in markets with shorter DSOs, as well as general working capital improvements.

CapEx and additions to leased assets is now slightly more negative, as we have decided in selected markets to accelerate our transition into electrical vehicles. All other parts of the waterfall is unchanged, and free cash flow is still expected to be above DKK1.8 billion, with Deutsche Telekom having a negative impact of up to DKK600 million on the free cash flow for 2024.

Slide 19 please. In summary, I am satisfied with our development in the first nine months of 2024. We are delivering according to plan, and our pipeline remains healthy as we look into 2025. While we face some contract exits earlier in the year that are impacting our growth, we are assessing our growth strategy on an ongoing basis by revisiting certain components of the OneISS strategy.

The direction of our company will clearly remain unchanged. We keep focus on execution. This means an ongoing assessment of initiatives, ensuring we focus on fewer things with quality execution, which is the recipe for growth and value creation.

I'm also happy to see that our great teams are successful in mobilizing large contracts without compromising on the solid margin progression. I know that you are all eager to hear more about Deutsche Telekom. We are still working diligently to secure a resolution, and we will update you accordingly. But please remember that this is an ongoing legal case, so there are certain details that we cannot provide.

Finally, we see cash flow coming through as expected and with a strong capital position, which means that we are again able to increase our share buyback program. ISS remains in good shape, and we are able to deliver on our financial KPIs for this year and reiterate our financial targets from 2024 and beyond.

And as Mads talked about earlier, it's also very pleasing to see that last night, Moody's increased their credit rating outlook on ISS from stable to positive. Despite the current global uncertainties, I'm pleased to see that ISS remains resilient and continues to achieve its business objectives. The opportunities in our industry are undeniable significant.

And I want to extend my gratitude to our more than 320,000 dedicated employees who deliver outstanding service to our customers every day. They don't have the luxury of working from home. They come to work each morning and through their collective efforts, creates exceptional customer experiences. It's encouraging to see that more and more companies recognize the importance of teams working together in person.

And with that, I would like to open the floor for Q&A. So, operator, over to you, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mads Andersen, DNB Markets.

Mads Andersen *DNB Markets - Analyst*

Yeah, good morning, gentlemen. If we could just start on the net new wins, especially if we consider the communications into Q2, any sort of -- if we look at the pipeline you were looking at in Q2, can you confirm whether you have lost any of the contracts or the biggest of ticket items in the pipeline that you talked about after Q2? Or have the discussions just prolonged and been extended, so to say?

And just on a separate note, if we look at net new wins, clearly, you say yourself, it hasn’t been great lately. But given the history of ISS and sort of winning big contracts, that then turned out to be -- have problems, so to say. Have you guys been too conservative lately?

And you talk about the commercial attitude or the commercial organization. Any comment that you can add to that, please? Have you essentially gone too conservative and been not bullish enough, so to say, on new volumes? Sorry for the long-winded question.

But just one more, please, on the underlying volumes, a little bit puzzled about the development. I know you keep the guidance for the full year. But if we look at the development in Q3, any sort of curl that you can add to why volumes are down versus the first half of the year, and sort of where are the main drivers of that, please?

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

Yes. Thanks for that, Mads, and good morning to you. So on your first question, as I said several times in my presentation, the pipeline remains healthy.

And specifically, on whether any of the contracts that I alluded to in August, when we released the first-half results, whether they have been lost, then the answer to that is no. They are still in the pipeline. So it is a longer decision-making process that is going on there, but we still remain positive around that. So it's not that they are lost.

Your question around whether we have been too conservative in terms of our assessment and willingness to take risk on new prospects with customers, I don't think that is the case. We are focusing on the future, and we are focusing on doing all the right things for the future.

And we are absolutely not afraid of taking risks. We just need to be aware of the risks that we are taking. And we got to make sure that we have a plan in place to mitigate the risks and we are being paid. So there is a remuneration for the additional risk that we are taking on board. So I think we are doing all the right things in terms of our assessment of new contracts coming into the portfolio.

And just a few words on exactly what we are doing. I think that it deserves to be said. I mean, the key thing for us across our local markets, and also when we are targeting global customers, is focus. This industry, as we all know, is offering significant opportunities for us and the competition to grow a lot.

But if you're scattered in your approach in terms of how you're addressing that, then you're not winning. You need to have focus on a few segments so that you can produce a value proposition that resonates with the customers and delivers the outcomes that the customers are after. So that is the key thing of what we are focusing on in terms of new logos.

And your last question around underlying volume in Q3, the comparison is tough. So it's the comparison that is impacting the volume in Q3. And as you mentioned yourself, we expect that to recover in Q4.

Operator

Nicole Manion, UBS.

Nicole Manion *UBS - Analyst*

Good morning. Thanks for taking my question. Just one, please. Just following up on that segmentation point. Because, obviously, a big part of the kind of initial OneISS turnaround that you did was around trimming the business and focusing on key accounts in a few sort of focus segments.

So could you really give us a bit more of a steer on what you actually mean, maybe in terms of kind of focus areas, markets, or segments when you make that point around the segmentation? Thank you.

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

Yeah, I can certainly do that. I mean, we have reduced the number of segments that we are targeting for these exact reasons that I gave to Mads in answering his questions. And just to give you an example -- a concrete example of how this is paying off, approximately 2.5, 3 years ago, the UK had a laser focus on the government sector in the UK.

And you're seeing -- since then, we're starting to see that we have won Defra and DWP. That's above DKK1.5 billion in annual portfolio revenue. So that's a good example of how focus and segmentation is paying off.

It's obviously not something that is fixed overnight. But having that laser focus on making sure that we understand the customer needs and we can put ourselves in the shoes of the customer and then deliver solutions that meets the needs of the customer, that is -- focus is the key tool to get to that.

Nicole Manion *UBS - Analyst*

Great, thank you.

Operator

Kristian Godiksen, SEB.

Kristian Godiksen *SEB Equities - Analyst*

Good morning, gentlemen. A couple of questions from my side. I can start with three then. So first of all, can you comment a bit on how confident you are that you will have -- the net contract wins will be positive next year, and maybe comment on how many contracts to be signed that this depends on?

And then, secondly, could you comment on the reason for the lower-growth contribution from the net contract wins this year compared to your expectation in connection with the first-half results? And are you then confident that the retention rate will stay above the 94%?

Yeah. And then, thirdly, just lastly, could you comment a bit on the scope and the level of the synergies for the acquisitions you mentioned? If I read your slide and hear you, then the commentary and the multiples you mentioned are pre-synergies. So yeah, interested in the level of synergies, please.

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

Yes. So, Mads, if you take the last one on synergies, maybe we start with that one, if that's okay for you?

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

Yeah. So thank you very much, Kristian, a good question. Let me just restate what I said in my presentation. First of all, we are doing few selective M&A deals, and this is a bolt-on acquisition we've done in Spain. It's the right service line. It's really the right geographical footprint.

And again, it's a proven management team with a strong track record who's been able to do this. As I said in my presentation, some of the synergies are in, but not all of them at this point in time. And that even brings the multiples for the total portfolio of the four transactions below the ISS trading one. So this is even before all synergies are included, but some are.

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

Thank you, Mads. And good morning, Kristian. So on the two questions around growth, so looking into next year, I'm not going to give you any quarter or any months where this is turning into positive. But I'm confident for the full year.

For 2025, you will see a positive net new contract wins number for the full year of 2025. And that's obviously supported by what we're looking at in the pipeline and the discussions that we're having with customers. But I'll refrain from giving you any exact numbers of details in terms of customers, where we need to land in terms of getting to that positive contribution next year. But overall, for full-year 2025, I'm confident that it's going to be a positive number.

And for the changes from August around the net new contract wins that are slightly down, then I just want to say that this is related to timing of smaller contract wins that we expected to start up this year. But they have now been delayed, and they will start up in the beginning of next year.

But also, Kristian, please remember that we are changing our expectations from around negative 0.5% to around negative 1%. So in reality, it's less than 0.5%, and that is due to rounding.

Kristian Godiksen *SEB Equities - Analyst*

Okay. And the retention rate? So you're confident that will stay above the 94% also in Q4 then?

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

On the retention rate, there are -- I don't see any red flags. As you saw on the pie that we have successfully extended, contracts above DKK100 million, that is zero. So no red flags in terms of retention.

Kristian Godiksen *SEB Equities - Analyst*

Perfect. Thank you. I'll jump back into the queue.

Operator

Allen Wells, Jefferies.

Allen Wells *Jefferies - Analyst*

Good morning, gentlemen. Three from me, please. Firstly, can I just -- maybe just get a little bit more color on what the movement parts are on the above-base recovery in the third quarter? Obviously, it was a reasonable switch from minus 4 year on year in the second quarter to plus 5 in the third quarter, mainly driven by Northern and Central Southern Europe.

Can you just talk a little bit about what you're seeing there, and how you kind of think about the above-base outlook from here versus where we were before? And maybe any comments around the margin side and the impact from that? I'm assuming that legacy-wise that would be margin-accretive.

Linked to that, you update on the full-year growth makeup; so low in net new, higher above-base. And bringing that back to margins, I mean, again, that feels like that should be margin-accretive, with net new creeping in typically lower margin early on in the contracts and above-base typically creeping in higher margin.

Can you just make a comment, should that dynamic be supportive for margins for the full year? And then finally, I noticed in the 3Q comments in the published report, you talk about refining the current OneISS strategy. And you talked around why direction remains unchanged and doing more things to simplify the business.

Could you say a comment, is there a slight wording change there, and should we read into any of those comments? I'm just thinking about -- maybe do we think about divestments or exits as you look to simplify the business? Is there further revenue shrinkage, and how do we think about the restructuring costs associated with that as we look forward? Thank you.

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

Super questions. Thanks for that, Allen, and good morning to you as well. So on the OneISS strategy, I was very clear in my presentation; it's not a U-turn in any way, shape, or form.

So we are talking about getting more focus into the way that we execute the current strategy. That's what it's about. And you should absolutely not fear in any way, shape, or form that this is triggering new divestments in terms of countries or business units or contracts or anything. Nothing to do with that, whatsoever.

I can also confirm that there are no restructuring underway, so no one-off costs or anything that you should think about in terms of how you're putting your projections together. So it's simply just a matter of us continuing to look at our portfolio and the execution of the strategy, and how we can work in a more focused way in the execution of the current strategy. That's it.

In terms of above base, then you're right. You're giving partly the answer yourself in terms of -- that has turned from a negative in the first half to a positive in Q3. And we also expect a positive in Q4. It's not all driven in Q4 by the project volume that I mentioned in the US.

Of course, that supports it. But it is a general trend that we can see that the commercial mindset and the opportunities that our site managers are spotting is improving. And that's what we're seeing here in the third quarter that is coming through, and we expect that to continue to come through in the fourth quarter.

As I've mentioned several times before around above-base work, then the various tasks in terms of margin profile varies a lot. We have some above-base work that is significantly accretive, and then we have some work that is margin-neutral. In totality, with the additional above-base work that we're looking at here, it is slightly accretive, but not anything that is a swing factor for us as a business. It's minor.

Allen Wells *Jefferies - Analyst*

Great, thank you. Maybe, Kasper, one quick follow-up. Just in relation to that US hurricane response work you flagged, could you maybe just provide a bit of color or at least help us quantify relative to the current minus 12% run rate that you're seeing in North America, how much of a tailwind is that above-base work as we think about the second half?

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

Yeah. It's -- as I said, it's not all of it. But it's, obviously, a meaningful amount, otherwise I wouldn't mention it. But the work is ongoing as we speak. So it's uncertain what the actual volume is going to be. So it is a part of the acceleration of the improvements in above-base work that is expected to come through in Q4, but not all of it.

Allen Wells *Jefferies - Analyst*

Thank you.

Operator

Peter Sehested, ABG.

Peter Sehested *ABG Sundal Collier - Analyst*

Yes, thank you. It's Peter from AGB. Thanks for taking my questions. I have three. Dwelling on the volume -- and I can see that -- I mean, this net win discussion had a bit of Q2 and would look back from Q1. The net new wins was negative 1%. Then it was negative 0.5%. Now it's negative 1%. So it goes up and down.

And I don't want to neglect this issue. But I think there's one thing that's a bit more disturbing, actually, volume growth or the growth with existing clients. And that has been on a downward trajectory for the past six to seven quarters. And if that continues, that would actually -- can turn negative in Q4 or Q1.

So my question relating to this, what is the reason for that? Have you simply exhausted the opportunities to grow with your existing clients? Is it the office space issue that is sort of lurking in the background? So some comments on that. Thank you very much.

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

Yeah. So as you will see, Peter, when you go through the outlook, the expectations in the building blocks for the full year and you look at the year-to-date position at the end of Q3, then you will see that we are expecting the volume growth to improve in the fourth quarter.

And that's actually supported by the list of expansions that we've also disclosed. So that is expecting to kick in in the fourth quarter, where you can see that we're growing with our existing customers.

And if I just take the helicopter view of that, what you've seen -- and you made the comment around that it has decreased over the last X number of quarters. That's absolutely not how we look at it for the future. We expect that that's a significant growth lever for us to grow the business going forward.

We've done the analysis and the homework around the opportunities that sits with the current customers that we're doing business with. In one or two local markets, today, that is above DKK100 million. And the addressable volume that we have, if we go across borders with them -- which is a fantastic opportunity that we have because we already serve them today, and we have the relationship today.

And some of that is what you're seeing also in the expansions that we're disclosing here in connection with Q3. And we expect that to accelerate going forward.

Peter Sehested *ABG Sundal Collier - Analyst*

Good. So I think we had exactly the same questions (inaudible) just a follow-up to the question I just posed here. So we had exactly the same discussion in Q2. So what you're saying here is that not only are you expecting a positive contribution from net wins in 2025, but you're actually also seeing an improvement in the underlying growth rate, growth at existing clients.

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

Obviously, I'm not going to do any detailed guidance for 2025. We will do that in February when we release the results for '24 and the outlook for '25. But overall, from a commercial perspective, I'm positive around the underlying growth momentum.

Peter Sehested *ABG Sundal Collier - Analyst*

Thank you. So then for the remaining two questions, the first is also a repeat from Q2. And that's with respect to the US strategy, the arrival of the new CEO in that region. And if you could provide us some flavor on what's on the agenda for 2025 in addition to contract wins.

And the second question pertains to potential change in Board of Directors related to the recent change in majority ownership. (inaudible) because some -- just in publicly available information, it seems that the new shareholder has a more, let's say, active approach than the former shareholder. Do you think the shareholder (inaudible) with a less (inaudible) interest in the company now? So just some flavor on whether you have heard that the new shareholder is seeking for a seat on the Board. Thank you.

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

I like how the three questions is turning into 27 questions from you, Peter. It's great. I love it. No, I mean, obviously, as you would expect, on the question around Lind Invest and in terms of Board composition, that is a dialogue between the Board and Lind Invest and obviously, not something that I will comment on. So I'm sure that our Chair and Henrik Lind are having conversations around that.

In terms of the US strategy, we are following the plan in line with what I mentioned in August. So we have a new country manager, Steven Quick, that has come on board. And we are looking at the detailed plan for how we are going to make a breakthrough in the US for the future. And you should not expect any restructuring or significant changes in how we have set up the platform in the US.

It's back to the focus point. We have a good platform in the US. You also saw in the first half that we're delivering some solid margins. And we are able to absorb volume without having to increase overhead costs accordingly. So it's really about the focus on where we are growing, which segments are we growing in, which geographical areas are we growing in, and then making sure that we have a value proposition and operating model that both meets the customers' needs and can deliver accordingly.

Peter Sehested *ABG Sundal Collier - Analyst*

Thank you very much.

Operator

Mads, DNB.

Mads Andersen *DNB Markets - Analyst*

Yeah, hi again. Just a quick one, please, or two, if I may. One, on the ongoing sort of wage negotiations that you guys are seeing right now into 2025, anything that you can -- any color that you can provide in terms of what we should expect for wage increases for next year?

And I guess implicitly, to some extent, pricing impact on the top line, I think some of your peers have mentioned 2%. Is that reasonable to expect in your case? And then maybe just a second one on -- sorry if I miss it -- but on Turkey, I mean, I guess, the communication between you guys is pretty unchanged since Q2.

But how do you sort of think about this? Because either way I look at it, it seems to be -- at least, if we assume a sort of similar multiples to where you guys are trading at right now, then it's will be quite a significant amount.

And how do you think about that and also thinking about potential -- the tie-up of capital that it would require and sort of the drag that that would potentially put on the rest of the business, and essentially growing organically in somewhere like the US? Thank you.

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

Thanks, Mads. So three questions turned into five now. It's good. In terms of the contribution from price increases next year, our expectation is that you will see a higher contribution than what we have seen historically, but lower than the contribution that we're having in 2024. That's our expectation.

And in terms of Turkey, you're right; there are not any material changes compared to the communication that we did in August. So the PE fund that owns 40% of the company has expressed the desire to exit their investment. On your comment or indirect comment around, would we be interested in buying that, it purely depends on the price.

We are here to create shareholder value, and we're looking at our capital allocation policy. And if it's more lucrative to increase our share buyback programs, then we increase our share buyback program. And then we're not interested in buying the stake in Turkey. So it totally depends on the price, and we adhere strictly to the policy that we have around capital allocation.

Operator

Kristian Godiksen, SEB.

Kristian Godiksen *SEB Equities - Analyst*

Thank you. I also have a number of follow-ups. I'll just be frank up front then, both pertaining to M&A and also on some DTAG questions.

So if I start with the M&A questions then, maybe, Mads, could you comment a bit on the quantity of the synergies, maybe as a percentage of revenue, and then maybe also give a split on the top-line and cost synergies.

And then further on the M&A, what is the expected increase on the pro forma and net debt to EBITDA from the most recent acquisition? Is that in line there around 0.1 net debt to EBITDA as the previous ones, or will this one differ? And then I have some questions on DTAG afterwards, but I will stop here.

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

So thank you very much, Kristian. So the way we do this -- and I think, first of all, it's very important to really state also what Kasper alluded to here, that we are doing what we believe is most shareholder-accretive overall. When we're doing this type of bolt-on acquisitions, it will not increase overhang cost at all. And that means that you will have full benefit on the top line.

And I think this is very much the very selective approach we have to these type of bolt-on acquisitions. And this is also why we are seeing the multiples are coming through with the pace that we illustrate on the slides. So no overhang cost in this part. That's all taken out. Thanks.

Kristian Godiksen ***SEB Equities - Analyst***

And on the top-line synergies, split between the top-line and cost synergies and net debt to EBITDA?

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

That's zero.

Kristian Godiksen ***SEB Equities - Analyst***

Zero on the net debt to EBITDA, or zero top-line synergies?

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

The top line.

Kristian Godiksen ***SEB Equities - Analyst***

Okay. And what about the net debt to EBITDA?

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

That's pretty much zero as well.

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

DTAG, Mr. Godiksen?

Kristian Godiksen ***SEB Equities - Analyst***

Yes. So you previously stated, Kasper, that the run rate has been below the DKK600 million. Is that still the case? And then -- yeah, let's start there.

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

Okay. I'm not going to give you any exact numbers on that, and you know that as well. The impact is up to DKK600 million. And if the impact is lower than DKK600 million, let's say, for the sake of the conversation, that it's DKK300 million, then that means that we will deliver DKK1.8 billion plus DKK300 million in free cash flow. So it's up to DKK600 million. That is the maximum exposure.

Kristian Godiksen ***SEB Equities - Analyst***

Yes, I'm aware. But the run rate you've commented on previously, are you willing to comment on that now or (multiple speakers) been below the DKK600 million, I think?

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

I have not commented on any run rate previously, to my knowledge. What I have mentioned is that the max exposure is DKK600 million, and that is not an amount that is going to increase, also, not into 2025.

Kristian Godiksen ***SEB Equities - Analyst***

Okay. So that was actually my follow-up question. In 2025, you state that if you do not reach a bilateral agreement, the two parties between you, then a settlement is expected in the first half of next year, right?

So we're just wondering, will this -- should we expect that this holding back payment should continue in the first half until a settlement is reached? Or do we expect that no payments will be held back at all in 2025?

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

You should expect that the maximum exposure is DKK600 million, nothing -- not more than DKK600 million. And from there on, it should be a clean cash flow from there on.

Kristian Godiksen ***SEB Equities - Analyst***

Okay. So just to be sure what you say, so I'm also following here, so (multiple speakers) --

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

If you get to DKK600 million deficit this year, then it's a clean cash flow for next year.

Kristian Godiksen ***SEB Equities - Analyst***

Yeah. And if you only have DKK300 million, as you said -- just imagine if it's DKK300 million this year, then there's potential risk of DKK300 million next year. So the maximum (multiple speakers)

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

We are talking math now. If you get to DKK300 million this year, then the cash flow is greater than DKK2.1 billion this year, and then there could be a headwind next year of DKK300 million.

Kristian Godiksen ***SEB Equities - Analyst***

Perfect. Okay, then I follow you. Perfect. Thanks a lot.

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

Okay. Thank you very much indeed. Thanks for good questions, very much appreciated. Thanks for showing your interest in ISS and joining our trading update.

As always, our IR team will remain available, not only today, but over the coming period to make sure that if there's anything that needs to be clarified or if you have additional questions, then they are at your disposal.

With that, thank you very much indeed, and have a fantastic rest of your day. Thank you.

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