

Trading update for 1 January – 31 March 2022

Q1 organic growth of 5.4% – upgrade of 2022 outlook for organic growth

Highlights

- Organic growth was 5.4% in Q1 2022 (Q1 2021: (5.6%)), driven by return-to-office trends in large markets, price increases and continued solid demand for projects and above-base work.
- Revenue in Q1 2022 was 3% above pre-Covid-19 levels in Q1 2019 (excluding M&A and FX effects). Revenue from both cleaning and technical services were above pre-Covid-19 levels indicating continued structural demand and growth of ISS' core service lines.
- The underlying run-rate for operating margin continued to improve in Q1 2022 compared to previous quarters. Cost inflation and protection of margins have been managed tightly through price increases and cost reductions. A large part of this year's expected price increases has already been implemented in the quarter.
- The turnaround initiatives related to the underperforming contracts and countries progressed according to plan. The UK has reached its turnaround target nine months ahead of plan, and the turnaround focus is now on the recovery of the remaining underperforming areas; the Deutsche Telekom contract and France.
- Execution of the divestment programme is nearing completion. Divestments of Taiwan, Russia and two smaller business units have been completed.
- ISS has carried out a large study (ISS Pulse) to gain insight into recent industry trends. Customers are increasing investments in upgrading workplaces to enhance employee engagement. The majority of office-based customers in the survey are not planning to reduce their real estate footprint.
- The outlook for organic growth is upgraded to 'Above 4%' (previously 'Above 2%'), due to the solid start to the year. The gradual recovery from Covid-19 and return-to-office development are expected to continue during the year. Outlook for operating margin and free cash flow is confirmed.

Jacob Aarup-Andersen Group CEO, ISS A/S, says:

"The first quarter was a good start to the year and the development is a testimony to the continued growing demand for our services. Our customers are returning to the offices and continue to demand more project-based services than before Covid-19. Revenue from all of our service lines - except Food Services - are now above pre-Covid-19 levels and our collaboration with large global customers continues to emphasise increased investments in workplaces, also evidenced by our ISS Pulse study. I want to thank all of our more than 350,000 employees for delivering excellent service to our customers in a continued demanding environment."

Revenue overview					
DKK million	Q1 2022	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Revenue	18,075	17,454	17,439	17,723	18,747
Organic growth	5.4 %	(5.6)%	5.8 %	2.8 %	5.8 %
Acquisitions & Divestments	(2.0)%	(0.4)%	(0.6)%	(0.2)%	(1.0)%
Currency adjustment	0.2 %	(2.8)%	(1.5)%	0.7 %	1.6 %
Revenue growth	3.6 %	(8.8)%	3.7 %	3.3 %	6.4 %

Strategic update

In 2022, the OneISS strategic focus has been strengthened on five key priorities to become more market-focused and increase strategic execution power. The investments to improve the commercial momentum have yielded results, with numerous important extensions, and a key account contract win.

ISS has redesigned the Pulse survey to get better insights into the latest industry trends. With the survey, ISS takes a further step in acting as a business partner for customers.

Operational performance across the Group is improving, and the vast majority of countries improved their operating margin in Q1 2022, most predominantly Germany and the UK. This is underlined by the strict focus on initiatives to manage rising inflation. Price increases are implemented, and the operating margin is generally protected.

The many initiatives on environmental and social sustainability are implemented and rolled out across the Group. These include the signing of the important Women's Empowerment Principles and the integration of Diversity & Inclusion KPIs into the Group-wide short-term incentive programmes across countries.

Turnaround initiatives

Recovery of the underperforming contracts and countries is progressing well, and the improvement of the financial run-rate continued in Q1 2022.

The UK continued the positive development, and nine months ahead of plan, the country has reached its turnaround target of a low-single-digit run-rate margin. The effects of the restructuring and streamlining of the organisation are paying off supported by the positive contribution from the continued re-opening from Covid-19.

The restructuring plan and cost optimisation programme in **France** continued to progress as planned. The underlying improvement continues to be gradual and modest. The commercial development of the French business is still muted partly due to industry segment exposure.

The execution of the comprehensive restructuring and gap closing programme for the **Deutsche Telekom** contract continued to develop in line with plan. The contract continues to be structurally challenging and is still loss-making, but it is progressing towards reaching breakeven by the end of this year.

The gradual exit of the **Danish Defence** contract continued during the first quarter of 2022. The process is following the plan and is expected to be completed by the end of May. ISS has made provisions to cover all costs during the transition period, including the exit fee.

Divestment programme

The strategic divestment programme continued the good momentum in the first three months of 2022, during which Taiwan, Russia and the waste management business in Hong Kong were divested.

In April 2022, an additional business unit was divested. With this divestment completed, the remaining businesses in scope for the programme comprise two countries, Brunei and Portugal, and one smaller business unit.

Total accumulated net proceeds now amount to around DKK 1.9 billion and 95% of the total targeted proceeds have thereby been achieved.

Group performance

Revenue development

Group revenue was DKK 18.1 billion in the first three months of 2022, an increase of 3.6% compared with the same period last year. Organic growth was 5.4% driven by continuing return-to-office trends in large markets and price increases implemented globally. Acquisitions and divestments, net reduced revenue by 2.0% primarily due to the divestment of Specialised Services in the US in Q4 2021. Currency effects increased revenue by 0.2%.

Portfolio revenue grew organically by 7%. The continued gradual recovery from Covid-19 resulted in customers returning to the office and generally higher activity in segments impacted by restrictions such as Retail, Hotels, Leisure and Transportation. The portfolio revenue was also supported by higher prices and contributions from contract wins and expansions. The price increases in Turkey contributed to the Group's organic growth with around 1%-point.

The demand for projects and above-base work continued to be strong and above pre-Covid-19 levels. Compared to Q1 2021, project and above-base revenue decreased by around 1% organically.

Revenue from key accounts delivered organic growth of 5.8% while other customers were slightly lower at 4.7%.

During the pandemic, ISS experienced negative organic growth due to the enforced restrictions and customers working off-site, with especially food services being impacted. In Q1 2022, a significant increase in food services was seen especially in the US. On group level, the growth in food services was approximately 30% and the service line accounted for around 12% (Q1 2021: 10%) of Group revenue.

Compared to the activity level pre-Covid-19 (Q1 2019), organic growth in Q1 2022 was 3%, driven by positive growth in technical and cleaning services. The inclusion of revenue from the Deutsche Telekom contract from H2 2019 impacted the growth by 4 %-points. Only food services are below Covid-19 levels at index 80 compared to index 72 in Q4 2021. From a segment perspective, the highest growth was seen among Healthcare, Public Administration and Business Services & IT. The Transportation and Infrastructure segment is still below Q1 2019 levels.

All regions reported positive organic growth in the first three months of 2022. Compared to the previous quarter, growth in the Americas accelerated due to the region's relatively higher exposure to offices and food services.

Revenue and growth Q1 2022

DKK million	Q1 2022	Q1 2021	Organic growth	Acq./ div.	Currency adj.	Growth Q1 2022
Northern Europe	7,041	6,718	3 %	(0)%	2 %	5 %
Central & Southern Europe	5,814	5,878	5 %	(1)%	(5)%	(1)%
Asia & Pacific	3,279	3,129	1 %	(1)%	5 %	5 %
Americas	1,815	1,599	29 %	(17)%	2 %	14 %
Other countries	136	140	(4)%	-	1 %	(3)%
Corporate / eliminations	(10)	(10)	-	-	-	-
Group	18,075	17,454	5.4 %	(2.0)%	0.2 %	3.6 %

Key account development

Revenue from key accounts was 71% of Group revenue in the first three months of 2022 (Q1 2021: 68%) and generated organic growth of 5.8%. As such, key accounts contributed to the overall development and benefitted from the general return-to-office trends and price increases implemented across the customer portfolio.

In general, key account customers are increasing investments in upgrades of workplaces to the post-Covid-19 world. Combined with the return-to-office trend, this led to organic growth for portfolio services. Key account customers' demand for projects and above-base work continued to be solid with slight positive organic growth compared to the same quarter last year.

The launch of a few large contracts also contributed to the growth, most significantly the five-year vested contract with Equinor in Norway and the full effect from the gradual start-up of the five-year IFS contract with a large international manufacturing customer in the Americas region. Furthermore, the expansion of the contract with Phillip Morris to also include workplace services in 31 countries contributed to organic growth in Q1 2022. The gradual exit of the contract with the Danish Defence had a negative effect on growth in the quarter.

During the first three months, ISS continued to work proactively with customers to seek renewals of contracts ahead of expiry. This led to a relatively high number of extensions and a high retention rate for the period. A large number of contracts were due to expire in early 2022 as customers earlier had preferred short-term extensions during the contract period due to uncertainty from Covid-19 restrictions.

In January, the multi-year global contract with a global pharmaceutical company was extended for another five years. The annual revenue of the contract is above 1% of Group revenue. ISS extended two additional contracts with new five-year deals, a contract with a healthcare company in Singapore and an energy company in Germany. Among other extensions was a significant contract with an Australian aviation customer which was extended for four years.

Major key account developments ¹⁾	Countries	Segment	Term	Effective
Wins				
Aviation Customer	Austria	Transportation & Infrastructure	5.5 years	Q2 2022
Manufacturing Customer	Sweden & Belgium	Industry & Manufacturing	5 years	Q2 2022
Extensions/expansions				
Technology Customer	United Kingdom	Business Services & IT	1 year	Q1 2022
Pharmaceutical Customer	Spain	Pharmaceuticals	2 years	Q1 2022
Government Customer	United Kingdom	Public Administration	1.5 years	Q2 2022
Pharmaceutical Customer	Global	Pharmaceuticals	5 years	Q2 2022
Aviation Customer	Australia	Transportation & Infrastructure	4 years	Q2 2022
Pharmaceutical Customer	Denmark	Pharmaceuticals	4 years	Q2 2022
Salling Group	Denmark	Retail and Wholesale	3 years	Q1 2022
Healthcare Customer	Singapore	Healthcare	5 years	Q2 2022
Victorian Department of Education and Training	Australia	Public Administration	1.5 years	Q3 2022
Mining Service Customer	Australia	Energy & Resources	2 years	Q3 2022
Professional Services Customer	United Kingdom	Business Services & IT	1 year	Q4 2022
Energy Customer	Germany	Energy & Resources	5 years	Q1 2023
Healthcare Customer	United Kingdom	Healthcare	2 years	Q1 2023
Exits/losses				
Aviation Customer	United States	Transportation & Infrastructure		Q1 2022

¹⁾ Annual revenue above DKK 100 million.

Regional performance

New regional structure

Effective 1 January 2022, Europe was reorganised and segmented into Northern Europe and Central & Southern Europe (previously Continental Europe). As a result, the Netherlands, Belgium, Poland and Lithuania moved from Continental Europe to Northern Europe. Asia & Pacific and Americas remain unchanged. Comparative figures have been restated accordingly.

Northern Europe

Revenue amounted to DKK 7,041 million in the first three months of 2022, which was an increase of 5% compared with the same period last year. Organic growth was 3% (Q4 2021: 4%). The effect from acquisitions and divestments, net was neutral, while currency effects impacted growth positively by 2%.

Organic growth was driven by the continued gradual return-to-office trend, price increases and overall increasing activity levels. Portfolio revenue grew by around 5%, while non-portfolio revenue decreased marginally, as lower demand for Covid-19 related services, mainly deep-cleaning and disinfection, was offset by more regular project work. Norway was the main contributor, due to strong organic growth from the start-up of the Equinor contract from November 2021. Furthermore, the Hotel & Leisure segment delivered solid growth due to the removal of Covid-19 restrictions. Organic growth in Belgium and the Netherlands was solid, as return-to-offices led to generally higher portfolio revenue and demand for food and other services. On the other hand, the UK, reported slightly negative organic growth due to the restructurings done in 2021. In Denmark, the gradual exit of the Danish Defence contract led to the organic growth being negative.



Central & Southern Europe

Revenue amounted to DKK 5,814 million in the first three months of 2022, which was a decrease of 1% compared with the same period last year. Organic growth was 5% (Q4 2021: 6%), while acquisitions and divestments, net decreased revenue by 1%, and currency effects impacted negatively by 5%.

Organic growth was primarily driven by strong growth in Turkey supported by growth in the healthcare segment and price increases as cost inflation was successfully passed on to customers. Switzerland also delivered solid organic growth driven by the full effect of contract wins from 2021 and easing of Covid-19 restrictions. Organic growth in France was negative reflecting the focus on margin recovery and implementation of profitability measures. Across the region, exposure to food services is relatively low, and the positive effects from return-to-office trends were limited, while demand for projects and above-base work was broadly in line with the same period last year.



Asia & Pacific

Revenue amounted to DKK 3,279 million in the first three months of 2022, which was an increase of 5% compared with the same period last year. Organic growth was 1% (Q4 2021: 2%), while acquisitions and divestments, net had a negative effect of 1%. Currency effects impacted growth positively by 5%.

Across the region, Covid-19 impacted the countries very differently. Overall, the gradual reopening in large markets led to portfolio growth of around 3%, though largely offset by negative organic growth in non-portfolio revenue of around 6%. Australia was the main contributor with strong organic growth despite lower demand for projects and above-base work, including deep-cleaning and disinfection. Growth was further driven by an increase in activity levels within the Transportation and Aviation segments, as domestic travel resumed. In addition, the launch of several smaller key account contracts contributed to the development. Organic growth in Hong Kong, Indonesia and Singapore was negative, due to negative effects of Covid-19 restrictions being enforced during the quarter. In Indonesia and Singapore, the effects were, however, partly offset by solid additional projects and above-base work.



Americas

Revenue amounted to DKK 1,815 million in the first three months of 2022, which was an increase of 14% compared with the same period last year. Organic growth was 29% (Q4 2021: 19%). Acquisitions and divestments, net reduced growth by 17%, as the Specialised Services business unit was divested in Q4 2021. Currency effects increased revenue by 2%.

Throughout the region, the clear return-to-office trend had a significant positive impact on organic growth, primarily due to the region's relatively high exposure to food services. The increasing number of people in offices lifted organic growth for food services in the US to 73%. Compared to Q1 2019 food services revenue had recovered to index 60. Furthermore, the ramp-up of contracts had a positive effect in Q1 2022. The organic growth in Chile was strong as a result of contract wins from 2021, easing of restrictions and implementation of price increases. Throughout the region, the rising inflation is managed tightly, as most food contracts during 2020 were renegotiated to "cost-plus" and thereby providing full protection against food cost inflation. The initial effects of the mandatory return-to-office programmes initiated by several tech companies at the beginning of April are encouraging as employees are returning to offices faster than initially expected.



Russia-Ukraine conflict

In February 2022, a war in Ukraine broke out following Russian invasion of the country. ISS is monitoring the developing humanitarian crisis, and the priority is the safety and well-being of people and customers.

ISS has no material activities in Ukraine. Furthermore, the business in Russia, which has been part of the strategic divestment programme since December 2020, was divested in March 2022. Consequently, it is management's assessment that the outbreak of the war will not have a material impact on the results of the Group's operations and financial position in 2022.

Hyperinflation in Turkey

Given the current global inflation trends, ISS is monitoring inflation developments in countries across the portfolio. Countries, where the cumulative three-year inflation exceeds 100%, are generally considered highly inflationary and application of IAS 29 Financial Reporting in Hyperinflationary Economies must be considered in consolidated financial statements.

Based on monthly inflation data from the Turkey Statistical Institute, Turkey exceeded this threshold by the end of March 2022. As a result, IAS 29 may become applicable as of Q2 2022. IAS 29 is intended to ensure that consolidated financial statements reflect the current purchasing power by restating reported numbers based on changes in the general price index and by applying end-of-period exchange rates. The accounting impact on the consolidated financial statements including on key financial KPIs is currently being assessed. Organic growth is not expected to be impacted.

Management changes

On 7 April 2022 at the Annual General Meeting, Lars Petersson was elected as new member of the Board of Directors, as Deputy Chair, Henrik Poulsen, did not seek re-election.

On 21 February 2022, ISS announced the appointment of Sam Hockman as CEO Global Key Accounts and member of the Executive Group Management as of June 2022. The appointment relates to the organisational changes implemented in December 2021 and will further strengthen ISS' strategic focus on Global Key Accounts.

Outlook

Outlook 2022

This section should be read in conjunction with “Forward-looking statements” as shown in the table on page 9.

In 2022, the execution of the OneISS strategy and the ongoing turnaround will continue. The organic growth in Q1 2022 was strong driven by solid return-to-office trends in large markets and continued solid demand for projects and above-base work. Free cash flow and operating margin developed according to plan.

While activity levels in large markets developed positively in Q1, some markets in the Asia & Pacific region were impacted by new restrictions. The outlook for 2022 assumes a continued gradual return-to-office and Covid-19 recovery although the pace is subject to uncertainty.

Organic growth is now expected to be above 4% compared to previously “above 2%” (2021: 2.0%). The return-to-office trends will continue to have a positive impact on the activity levels as well as the continued implementation of price increases. The level of projects and above-base work is uncertain, and the related revenue is still expected to be slightly lower than in 2021.

Operating margin is still expected to be above 3.5% (2021: 2.5%). The main drivers are continued improvement of the underperforming contracts and countries, positive impact from Covid-19 revenue recovery and continued improvement across the business from ongoing restructuring initiatives. Cost inflation is managed tightly through price increases and cost reductions and therefore operating margin is expected to be unaffected.

Free cash flow is still expected to be above DKK 1.3 billion (2021: DKK 1.7 billion). The expected higher operating profit before other items compared to 2021 will have a positive effect on free cash flow. Inflow from changes in working capital is expected to be neutral to slightly positive following the positive impact in 2021. Payments related to restructuring projects initiated in 2020, including the exit fee to Danish Defence, are expected to reduce free cash flow by around DKK 0.5 billion.

Outlook 2022		
	Annual Report 2021	Trading update Q1 2022
Organic growth	>2%	>4%
Operating margin*	>3.5%	>3.5%
Free cash flow	>DKK 1.3bn	>DKK 1.3bn

* Based on operating profit before other items

Turnaround targets

As part of the launch of the OneISS strategy in December 2020, ISS announced turnaround targets to focus on the short-term recovery of the business. The turnaround targets – which are outlining a healthy recovery with a focus on profitability and cash generation – are confirmed.

- Operating margin above 4% as run-rate when entering 2023
- Net debt / Pro forma adjusted EBITDA to be reduced to below 3x by the end of 2022

Expected revenue impact from divestments, acquisitions and foreign exchange rates in 2022

Divestments and acquisitions completed by 30 April 2022 (including in 2021) are expected to have a negative impact on revenue growth in 2022 of around 2%-points. Countries to be divested continue to be reported as discontinued operations and will not impact revenue growth upon divestment.

Based on the relevant exchange rates, a negative impact on revenue growth of 0-1%-point¹⁾ is expected in 2022 from the development of foreign exchange rates.

¹⁾The forecasted average exchange rates for the financial year 2022 are calculated using the realised average exchange rates for the first 4 months of 2022 and the average forward exchange rates (as of 1 May 2022) for the remaining months of 2022.

Forward-looking statements

This report contains forward-looking statements, including, but not limited to, the guidance and expectations in Outlook. Statements herein, other than statements of historical fact, regarding future event or prospects, are forward-looking statements. The words may, will, should, expect, anticipate, believe, estimate, plan, predict, intend or variations of such words, and other statements on matters that are not historical fact or regarding future events or prospects, are forward-looking statements. ISS has based these statements on its current views with respect to future events and financial performance. These views involve risks and uncertainties that could cause actual results to differ materially from those predicted in the forward-looking statements and from the past performance of ISS.

Although ISS believes that the estimates and projections reflected in the forward-looking statements are reasonable, they may prove materially incorrect, and actual results may materially differ, e.g. as the result of risks related to the facility service industry in general or ISS in particular including those described in this report and other information made available by ISS. As a result, you should not rely on these forward-looking statements. ISS undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law.

The Annual Report of 2021 of ISS A/S is available at the Group's website, www.issworld.com.



Contacts

Conference Call

A conference call will be held on 3 May 2022 at 10:00 am CET. Presentation material will be available online prior to the conference call.

Dial-in details

DK: +45 7876 8490

SE: +46 4 0682 0620

UK: +44 203 7696 819

US: +1 646 787 0157

PIN code for all countries: 283234

Link: <https://streams.eventcdn.net/iss/q1-2022/>

For investor enquiries

Jacob Johansen, Head of Group Investor Relations

Phone: +45 21 69 35 91

E-mail: JJ0@iss.biz

Kristian Tankred, Senior Investor Relations Manager

Phone: +45 30 67 35 25

E-mail: KRT@iss.biz

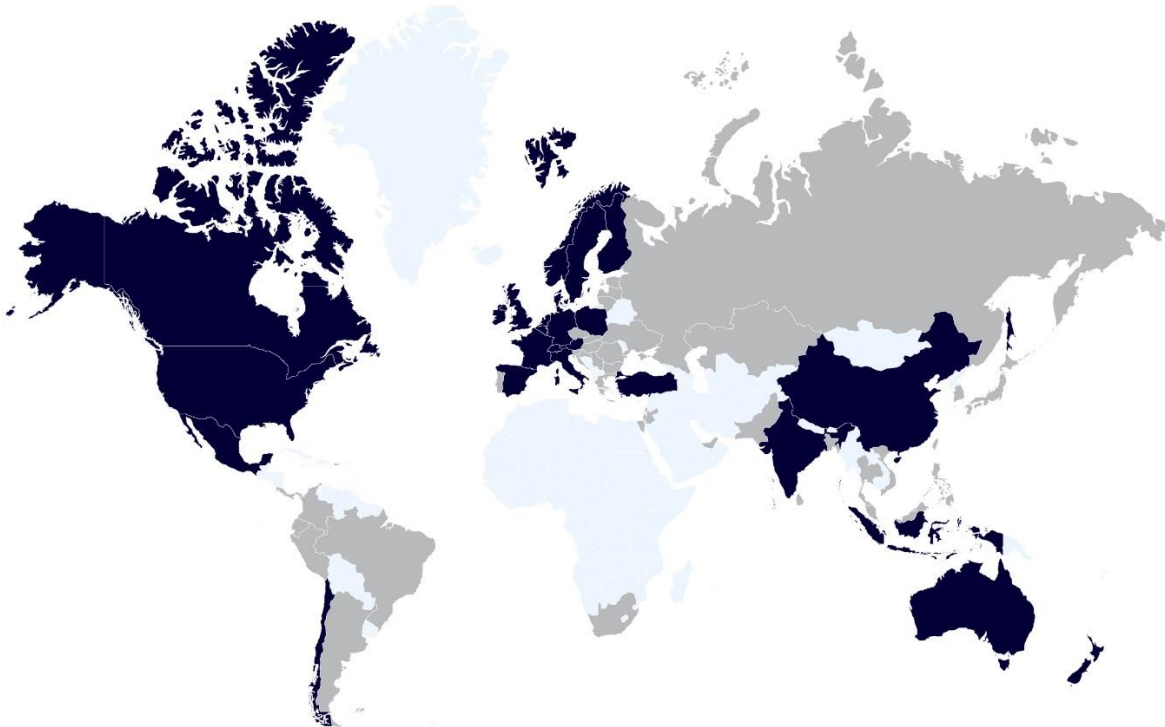
For media enquiries

Kenni Leth, Global Press & Media Relations

Phone: +45 38 17 66 21

E-mail: KLE@iss.biz

Our global footprint



ISS is a leading, global provider of workplace and facility service solutions. In partnership with customers, ISS drives the engagement and well-being of people, minimises the impact on the environment, and protects and maintains property. ISS brings all of this to life through a unique combination of data, insight and service excellence at offices, factories, airports, hospitals and other locations across the globe. In 2021, Group revenue was DKK 71.4 billion.