



**Event: ISS Interim Report H1 2013 Investor Presentation**

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**Speakers: Martin Hansen (Investor Relations), Jeff Gravenhorst (Group CEO),  
Henrik Andersen (Group COO), and Barbara Plucnar Jensen (Group Treasurer)**

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**OPERATOR:** Welcome to the ISS Q2 Report call. At this time, all participants are in listen-only mode. Later we will conduct a question and answer session. Please note that this conference is being recorded. Your conference will begin momentarily. A short introduction will now be played before the presentation begins and after the introduction the call will be turned over to Martin Hansen from investor relations.

**RECORDING:** Servicing the healthcare sector involves far more than preventing cross-contamination and maintaining a lean and effective operational setup, it also requires a certain amount of patient care and the ability to interact with vulnerable people and busy hospital staff. Singapore is recognised internationally for its world-class healthcare sector and one of its flagship medical establishments is Singapore General Hospital. Here ISS takes care of everything, from cleaning, portering and ward services, to mechanical, engineering and maintenance, providing a full facility management service. ISS has a long track record of providing services to the healthcare sector and has built its capabilities to a level where it is a well-established market leader. ISS continues its commitment to further developing the sector globally and to sharing best practices and innovative ways of working, such as green cleaning and the electronic housekeepers intelligent system. Within the group, ISS United Kingdom remains the hub for development, but, in order to further drive the international advancement of healthcare services, a centre of excellence has been established at corporate level. Through this centre, ISS will

in providing for a positive patient experience and a vital role in supporting the work carried out by the medical professionals. ISS helps healthcare organisations to focus on their core competencies, which is to treat and cure patients.

ISS, a world of service.

**MARTIN HANSEN:** Ladies and gentlemen, welcome to the investor call and presentation of the results for the first half of 2013. Please be aware that our announcement (break in audio) slides used for this call can be found on the website where the webcast will also be available after the call.

I'd like to draw your attention to slide 2 regarding the forward-looking statements. If you turn to slide 3 you will find the agenda for this call. We'll go through a few key events as well as give you an update on strategy. Following this, we'll go through the results as well as capital structure. We'll conclude with an outlook for 2013 followed by a Q&A session.

With me today I have Group CEO Jeff Gravenhorst, Group COO and former Group CFO Henrik Andersen, and Group Treasurer Barbara Plucnar Jensen, who will take you through the presentation. I therefore give the word to Group CEO Jeff Gravenhorst on the key events and strategy update.

**JEFF GRAVENHORST:** Thank you, Martin, and a warm welcome from me as well to this presentation of our first half-year result for 2013. I think overall we can say that it's an eventful year for ISS and we've had some significant achievements throughout the year, which I would like to take you through. So, if we can turn to page 5 in the presentation then we will take you through some of the major events for ISS.

important part of the organisation, since ISS was taken private back in 2005, and now he feels that this is the time to sort of step down, the main reason is of course after eight years it is about time that he does something else basically; that is one thing. Another thing is of course that the company is developing quite in a nice way, so from that perspective Ole has decided to step down as a board member and therefore also as the chairman.

To replace Ole we have now a new chairman, Sir Charles Allen, and I will give you an introduction to him in just a moment.

Operationally, we will go through the operational performance, overall we are very satisfied with the first half-year of 2013 and I will go through in a little bit more detail also on operational performance in a second.

We have continued our focus on the core business of ISS and how to become the world's greatest service organisation in the world, and with that there is a number of investments that we have carried out throughout the year and also still some to come for the remainder of the year, which we will also put a little bit more light on in just a moment.

We have again restructured the financing by extending the senior facilities, but also some repayment off the 8.875% senior subordinated notes, which I will also shed some light on (break in audio) will also talk about a little bit later in this presentation.

On top of that, we have strengthened the management setup of ISS and we have welcomed in a new Group CFO and an additional Group COO and appointed Henrik, the former CFO, as COO as well, and of course that I will also shed a little bit more light on.

So those are the main events for the first half-year of 2013.

Group, and recently been elected chairman of British Red Cross. Charles has very, very broad experience in corporate life, but also a very deep knowledge about the service industry, so outside of being the chairman of EMI Music of course has also been the CEO of Compass Group in the past. With that of course Charles has a lot of knowledge about the service industry, which of course ISS is also part of.

In 2002, Charles chaired the Commonwealth Games and has also been the vice-chair of London 2012 Olympic Committee. So we are looking very much forward to of course having Charles as the chairman. Charles is already a board member so of course we know each other pretty well, and I am really welcoming Charles as the chairman also for the future of ISS.

If we can turn to page 7, a little bit on the operational performance, I just start by saying we have continued to generate profitable organic growth. We have improved organic growth throughout the year, so in the second quarter we were at 4.3% organic growth, so that's up from the first half-year, which of course we're very happy with. We have maintained flat margin development throughout the first half-year of 2013, despite the fact that we have sold off, at the end of last year, some margin accretive businesses. I will talk a little bit more about that a little bit later, but we have kept pretty much a flat margin.

We turned the net profit in the company into profit, the profit is net profit of course that's driven by a reduction in the financial expenses as a result of our deleveraging of the company, but of course also from the lower interest rates in the amendments that we've done during the last months.

We have continued our journey strategically so we won some major IFS contracts this year as well, so won the Heinz Group in Europe and Nordea throughout the

cleaning services some five to ten years ago, into a full-fledged service organisation able to provide facility services, full facilities for our clients, we are now looked upon as a process outsourcing company basically as opposed to a task outsourcing company, and the milestone of that is that we are not actually ranked as the number one outsourcing provider in the world by the IOP Association. We are extremely proud of that; this is basically ahead of companies like Accenture or IBM. So we are in the arena of business outsourcing providers, which is exactly where we want to place ourselves.

If we can turn to page 8, another major event is the divestment of the non-core activities. In order to become the world's best service organisation, this is very important that we stick to what's core in ISS. In this, we've gone through a number of strategic reviews of the business over the last few years in order to align the business into the real core, being able to provide up-time of 100% of buildings, to banks, hospitals, and all our major customers.

With that review, there are some businesses that do not really fit that, and predominantly what we have sold off this year is our larger pest control business in the Nordic region, or North Europe basically, and in Australia, so 12 developed markets, we've decided to sell off the pest control business, which is predominantly a route-based business, where we need partnerships but we don't need to be the best in providing the pest services to our clients, we can do that via partnerships, and therefore being able to focus even more on the site services, which is the core of ISS.

We have done with the damage control activities in the Nordic region, so that was also completes in May, May for the pest control business, sorry, and in August for

going forward even lower financial expenses, and thereby even better cash generation.

We still have another six businesses at the half-year result that are for sale, around DKK 700 million; I have to say though that does include the closed deal on damage control for the Nordic region, so there is another five business units included going forward from now.

If we pay attention to slide 9, on the finances side, we have also been quite busy, in the first half-year we have refinanced the second lien facility, we have extremely strong support from our lenders with the three-year extension of the predominant part of our senior debt, and Barbara will take us through more detail on the financing, but I think what's important is that we have also now rolled the securitisation programme; that also with a reduced rate with 25 basis points cheaper going forward.

We have used around EUR 232 million of the proceeds to repay the 8.875% senior subordinated loans, of course that will also reduce our interest going forward, so again a very good event for ISS. That means that we have around EUR 349 million, EUR 350 million, still outstanding on that.

On top of that, we have been focusing on strengthening our management team and on slide 10 we have just highlighted here the overall Executive Group Management of ISS going forward. It will consist of myself as the CEO, Henrik Andersen, who was the CFO for ISS for the last few years, and prior to that the country manager for our very successful operations in the UK, has now agreed to take upon himself the European responsibilities, so he has taken over the Chief Operating Officer responsibility for the European region, of course that is in order to accelerate the

strong outsourcing profile and very strong results in his experience from the last many years. So welcome to John Peri, he has already begun and started the job by the beginning of August.

On top of that, of course we have appointed Heine Dalsgaard who comes from the international pump manufacturer Grundfos as the CFO and Heine has also joined the team in the beginning of August.

I am extremely happy with this team, this is of course further giving us the ability to accelerate the rollout of our strategy throughout the group. So welcome to both Heine and to John Peri and I'm really looking forward to the co-operation and then thank you to Henrik for the last few years as CFO and welcome onboard as the operational officer for Europe.

Now, with all of these changes in mind, it is important that we once and a while just recap on the strategy, so for the next few slides I will take you through the headlines of the strategy of ISS, because everything that we have done of course is in line with the transformation of ISS and where we want to place ISS also in the future, so if I could turn your attention to slide 12. The overall aim of ISS is to become the world's greatest service organisation and, as I said before, being listed as the number one business process outsourcing company in the world by IAOP is a good testimony of where we are in this journey.

Having said that, we are still much more ambitious than that. It is very, very important that we, as an organisation with more than 500,000 employees and located throughout the entire world, continue to be at the forefront of what the customers actually do demand. And it is quite a strange strategy or a strange business to be in because sometimes the customers are not quite aware of what



customers need than the customers themselves. That is of course the core of being our core.

So, if we go to page 13, ISS is already a leading global provider of facility services.

Now, what does that mean? That means that we can provide all the services it takes to run a facility, so we have put on slide 13 a picture here of a facility and what we can do on this is, with our own staff, clean the building, support it from the receptionist, make sure that the meeting rooms are all tidy and set up for the important meetings that clients have, we can respond to any need of the mailroom services, office supply services, etc, with the support that we actually generate with our own staff to the clients.

On top of that, we can maintain the building, both from a technical point of view and from a building perspective, so we can move the offices, we can make sure the HVAC work, we'll make sure that the outside areas are taken care of in the right way; that is gate services as well. So that's the property side.

We can also take care of all of the catering needs, so in the hospital, the patient feeding as well as the restaurants, we can do the fine dining for the major banks of the world, like the Barclays, and that of course is also provided by our own staff. On top of that, the securing of the building, we can also provide the services within security.

What it takes on top of all of these services is that we can manage it on behalf of clients and thereby provide the intelligence of what's the cost, what's the transparency, how can we live up to the needs of the customer and how can we actually be in the forefront of that. That's who we are today. We provide these services by a self-delivery model, i.e. our own operation, our own staff, our own

can take care of the projects on behalf of the customers and that's around 20% of the business that we do today.

We place ourselves of course in emerging markets, that's a very important part of our strategy, it's important for us to continue to integrate the services and thereby take out synergies and make it the most cost-effective service to the client. So integrated facility services is a key element of our strategy.

And of course on top of that we can provide this throughout the world as a global service to customers throughout the world. These three parts: emerging markets; integrated services; and global reach to global clients, is the key to our strategy also going forward.

On page 14, it's a little bit of highlighting, what is the value proposition that we are actually proposing to our customers? This value proposition starts with a lot of value added, which sometimes is difficult to see when you are a facility services provider but it is all about risk management on the customer's behalf. Today there are so many corporate social responsibility demands to our customers, which of course they have to focus on as much as they can, but really running all the tasks inside a building is a job that we can do better than our clients. We can make sure that we can protect the brand of the customers by having effective HSE and labour laws management locally. That means we will make sure that there are no illegal immigrants on site and that we are working within the parameters of the law for all of our 530,000-plus people around the world servicing our clients in the best possible way.

On top of that of course we have good single service excellence, we have very consistent delivery and we can do it on a global scale, and we can be flexible

As I said before, the key to our services is that, on top of everything else, we can integrate all services that are provided on-site and thereby harvesting synergies and sharing them with our clients through efficiencies throughout the services, thereby giving the clients financial stability and certainty and transparency on the way that we deliver the services. This is key to our strategy.

To do this, as you can see on slide 15, it's a very important thing that we keep aligning the company by having very strict processes of how we run the company from a shared vision throughout the world that is the same vision country-by-country, division-by-division, customer-by-customer, and we deliver the values, we deliver the leadership principles, this is a very important part of managing the risk and making sure that the clients have the right employees onboard living up to the incentive systems that we have and the values that the customers want us to deliver the services at.

We do this through some very, very standardised and strict group policies and strategic cornerstones that gives us the ability to be very agile and very flexible country-by-country, to fulfil the needs exactly of a hospital in Singapore or a hospital in the UK, which, albeit similar, is of course also different. This is what ISS is about today, but all of it under one brand, one company and one culture.

Turning to slide 16, of course that means that you can't do everything to everybody and be the best at it everywhere in the world, so continuing to execute the ISS strategy means that we have to say no to certain things and focus on the points where we need to be the best in the world. That's of course, as I said before, leads us also to make strategic reviews of our platform and thereby selling off businesses where we believe that there are other companies that can be even better at this

of our services. That is pretty straightforward and with that in mind we can say that already now we continue to grow our ISS business; this is a strategic pillar to us, we continue to grow our emerging markets; that is a strategic pillar to us, and we continue to grow our global clients across the world; that is a strategic pillar to us. So we are following the strategy month by month, half year by half year, quarter by quarter, etc, and with that fulfilling our transformation.

On slide 17 that transformation falls into five categories. Keep expanding our non-cleaning services, so today only 50% is cleaning, 50% of our business is all other services, giving us the capability of 100% up-time for our customers' facilities around the world.

Market, going from local to global, so keep expanding our geographical presence, we continue to do this particularly in the emerging market growth that we are seeing. The value proposition is of course very customer oriented because it's a customer-oriented solution that we provide to our customers. We do this of course via growth. The growth used to be acquisitions to build the platform; we don't do a lot of acquisitions anymore, basically we've done none this year, and we have focused on organic growth and basically also taken out businesses that doesn't belong to us and thereby divestments, so growth organically is the focus.

That of course is driven by very fixed processes in order for us to deliver consistent services at a very high standard and quality to our clients throughout the world, and a good career development for all of our 530,000+ employees.

So, I can say I'm very happy with the first half-year development, both strategically, but also operationally, but let's have a look at some of the financial results coming out of all these efforts, so please, Henrik, will you do us the honour of taking us

HENRIK ANDERSEN: Thank you, Jeff, and thank you for your introduction and I'll also say here it's a pleasure to see and welcome Heine. Heine is in the room and we're in the process of handing over between each other, so next time I'm sure you'll be delighted to hear Heine's voice on the future calls here.

But back to the financials, if you turn to page 19, as usual the summary of key objectives, you will see we have said first half is an organic growth of 3.5%. The 3.5% for first half also comes supported from 4.3% in Q2, so actually we have gone up from 2.7% in Q1, and this is broad the line, we'll come to the details in a second, but we actually are quite positive to see organic growth stemming from areas of our markets and also coming from some of the large contracts we have started.

Also, one of the things of course is the large contracts, but also that we can see that in the second half of the year we have had a start of a better pickup of what we will call non-portfolio services. It's too early to conclude, but we're just seeing that first early part from across the world.

Second, the operating margin is 4.8% for first half of the year, against 4.9% in first half of 2012. It's definitely in line with our expectations and we have seen increases in the Nordic region and certain countries in Asia and then we'll come to the breakdown of some of the other regions.

We are still having a couple of operational challenges in Europe and we have had start-ups in some countries in Europe and also in the Americas, which has affected the first six months of 2013. And then, as Jeff rightly referred to, we have carried out some non-core divestments, which of course also affect our margin negatively and we will also touch on that when we come to our outlook for the year.

In terms of cash conversion, I will say business as usual, the cash conversion 98%.

days at half year of half a day, which we of course are very pleased to see, and will continue to have as a focus area.

You will see the prior years since 2009 in the figures below and I will leave that to you to go through.

If you turn to page 20, you will see the breakdown of our growth per region, clearly very encouraging to see Western Europe being a 4% organic growth. You will also see in Western Europe we have divested; that's where we had the largest divestment percent at first half of nearly 2% of turnover, so we end with a net growth in Western Europe of 2% and there are a number of countries contributing positively to the 4% growth in Western Europe. In Nordic we are around zero, slightly positive organic growth in Q2, but we are still in negative year-to-date after first half. We can see we are winning contracts in the Nordic area and most of the negative 1% is stemming from contracts we left or have exited from in 2012, so we are looking positively to the Nordic area, particularly Norway's doing very well in terms of positive organic growth, and we are still having negative organic growth at half year in Finland and Sweden with a various degree.

In terms of Asia, we are growing organically at 14% and you will also notice from probably the breakdown of it that it is a fabulous growth of 14% combined with an EBITDA margin of 7.4%, so it is a fantastic thing to be in, and there is a number of countries out there that are doing particularly well and still winning, but also well supported by some of the global IFS wins where of course we have to mention Barclays and Citibank in this picture.

On Pacific, we are negative with 2% and I would say Pacific we lost a couple of contracts during the second half of last year but we are winning contracts right now

Latin America, we're growing 6%, you know from our full year and our Q1 that we have said it's a managed growth, so part of returning to profit in some of the countries in Latin America, using a very controlled growth. We are positive we can see we have changed both run rate and also growth rate and pipeline is fine in Latin America so we are quite pleased to see a 6% growth for Latin America.

And in terms of North America, 4%, it's a little mixed, the 4%. We have had large wins, especially represented by Barclays, but we also had some losses in North America and I think that is coming to a net organic growth of 4% for the year first half, and that's something where we are working very hard to strengthen that commercial pipeline in North America going forward as well.

Eastern Europe, 2% from end of last year where we were negative in the second half of the year, positive 2% first half. Some large start-ups related to also Novartis in Eastern Europe, but they are also due to organic growth in a number of other areas. So Eastern Europe, positive start of the year, absolutely.

And in terms of the group, as I said, 3.5% for the first half for the group, and of course giving a total growth of 1.4% adjusted for divestments and FX.

If you turn to slide 21 you will see the breakdown again of operating margin, and here you will see that Western Europe we are two-tenths down; that is two things again, some of the challenges we have had and still have in some of the countries in Western Europe, but also down to divestments of some margin accretive businesses, so that has sent the margin negative for the first half of the year.

In terms of Nordic, we are a tenth forward, and that is particularly progress in Finland for the first half of the year. As you probably remember, there were certain one-offs affecting Finland also first half in 2012.

Pacific we are two-tenths down, some of that is loss of a couple of contracts from last year and then challenges around a particular contract, which of course we are working with in Australia, so that's the main driver for that.

Latin America, 3.9% for the first half of 2013 and that is actually a step forward from what we saw ending in second half of 2012. Latin America is on track for profitable growth and return to a more profitable margin so we are positive to see them contributing to 3.9% for the first half of the year.

North America, we have had, as I said, we have had a loss of a few contracts and we have start-up of a very large contract as well, so therefore North America has been slightly lower than what it was for the first half last year, and it's something we're working with and it's something we expect to also increase from here.

Eastern Europe, progress from first half last year and I would say, despite some large start-ups, they managed to get to a 5.4% for the first half of the year, very pleased with that.

And, not surprisingly, corporate costs has remained the same percentages and that's something we are definitely still looking quite tough at.

We enter into slide 22 and the cash conversion. I won't drill with sort of the details because I'm sure you will see that we are mainly in and around what we have achieved close to the 98%. One little extraordinary there is Latin America where it has 43% for the first half and that is simply due to a tax payment that has been paid in the first half of the year, which has triggered in Mexico, was able to pull Latin America down to 43%. So, overall, group-wise, very pleased to see a cash conversion at 98% and exactly also what we have discussed before following that path and keeping that path for still generating the cash out of the business.



predominantly of course that is down to a couple of lines. We have the financial income and expense where we've gone from DKK 1.3 billion to now DKK 1.16 billion, and I will say, even in that financial expenses for the first half of the year, we have had some extraordinary expenses because of course we did the refinancing and we have also done the repayment of the 8.875% as Jeff was mentioning and that is contributing to the expense line in that quarter on amortisation of financing fees of approximately DKK 125 million. So, in reality, we are seeing now, quarter on quarter, that effort is really paying off with the deleveraging on the financing expense line, so we are quite positive, here you will see the DKK 152 million positive.

On the other income and expense with plus DKK 37 million versus minus-DKK 111 million, you will also find from the note there that we have had an annual income from the divestment of the pest businesses and of course part of that we have used to restructure especially part of the European countries, but also countries, we are doing that in countries where we have had pest activities. But you will all be able to find details on that in the company announcement.

I think that was the headline of the financials, but again there a solid first half of the year, we're very pleased with the progress we are making, and again pleased to see that we are able to continue our deleveraging of ISS, which I'm sure will happen, and continue to happen also in the second half of the year.

So, with that in mind, I'll hand over to Barbara. Please, Barbara, in the capital structure, take us through that.

BARBARA JENSEN: Thank you very much, Henrik. Yes, as both Henrik and Jeff has mentioned it has

year, but what has happened in 2013 is obviously the ability to use the proceeds from some of the divestments we've done, we've had the positive impact from the less interest costs due to taking out the expensive bonds in December last year, but also obviously the continued focus on continuing to perform strongly in the cash area.

If you look at the slide 25, you can see the absolute level of net debt is now on what you could call historically low levels, at least in newer times. We have decreased with more than DKK 6 billion compared to half-year 2012, so today we have a seasonality-adjusted net debt just below DKK 24 billion.

In terms of leverage, things are progressing as we want them to, so you can see currently again, year on year, we have deleveraged with more than one turn so we are now looking at a leverage of 4.76-times on a seasonality-adjusted basis.

If you turn to slide 26 you will see the components of the capital structure.

Compared to last quarter, this is now post the refinancing that we finalised in April.

Just to summarise, what actually happened there was that the second lien was refinanced with additional senior debt, this was a new tranche of EUR 330 million and a tranche in the dollars of \$350 million, both at less interest margins compared to the previous second lien.

Furthermore, we don't have the senior notes on the balance sheet anymore, so therefore you can see the notes we have outstanding is the EMTNs now due in 2014, the senior subordinated notes in 2016, which we have addressed some of now in July, which I will return to in a minute, and that is basically it in the bond markets. So strengthening the capital structure, simplifying the structure with the various debt instruments that we have now, are leaving us at a very comfortable

introduction, we have been able to do this with an improved margin going forward with less 25 basis points, so a drawn margin of 250 basis points.

Furthermore, with the proceeds from the pest divestment, we completed an excess proceeds offer as well as a partial redemption of a total amount of EUR 232 million, equalling to DKK 1.73 billion. So the top part of the 2016 maturities is no longer sitting on our maturity profile.

We are very comfortable with the capital structure as we have it at the moment and, as also has been highlighted earlier in the presentation, this is a key priority, we continue to address the debt levels we have in the company, thereby improving the interest expenses quarter by quarter, again accelerating additional deleveraging. So, with these details on the capital structure, and after having heard the current trading and the strategy update, I will hand over to Jeff to give you a little bit of update on the outlook for the remainder of 2013.

JEFF GRAVENHORST: Thank you, Barbara. If I can ask you to pay attention to slide 29, as we heard, we are satisfied with the development of the company for the first six months, we had good organic growth also in the second quarter. We expect though that the full year, as we started up some of our larger contracts also at the end of last year, so we still expect to have an organic growth for the full year around 3% for 2013. From an operating margin point of view, it is important to pay attention to the divestment of particularly pest control, which is a fairly large business that we sold off mid-year this year. It does have a 0.2% impact for the group for the full year, however we expect that by the improvement in the rest of the business that we will only be slightly lower than last year's margin.

So pretty much in line with what we said earlier, the only thing is of course a slight adjustment of the operating margin as a result of the divestment of pest control. So, with that confirmation of the outlook for the year, that's it, I would like to thank everybody for listening in to the presentation of the results of the first half-year of 2013 for ISS and I will hand back to Martin for the Q&A session.

OPERATOR:

Thank you. We will now begin the question and answer session. If you have a question, please press 0 then 1 on your touchtone phone. If you wish to be removed from the queue, please press 0 then 2. If you're using a speakerphone you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, press 0 then 1 on your touchtone phone. There is no one in the queue, so I remind you, if you would like to ask a question, please press 01 on your touchtone telephone. So, if you'd like to ask a question, please press 01.

MARTIN HANSEN:

Ladies and gentlemen, this concludes today's investor call. Thank you for participating, you may now disconnect.