REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2020 Iss A/S Trading Update Call

EVENT DATE/TIME: NOVEMBER 04, 2020 / 8:00AM GMT

CORPORATE PARTICIPANTS

Jacob Aarup-Andersen *ISS A/S - Group CEO & Director*
Martin Kjær Hansen *ISS A/S - Head of Group IR*
Pierre-François Riolacci *ISS A/S - Group CFO & Member of Executive Group Management Board*

CONFERENCE CALL PARTICIPANTS

Annelies Judith Godelieve Vermeulen *Morgan Stanley, Research Division - Research Analyst*
Bilal Aziz *UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst*
Daniel James Hobden *Crédit Suisse AG, Research Division - Research Analyst*
James Peter Winckler *Jefferies LLC, Research Division - Equity Analyst*
Magnus Thorstholm Jensen *SEB, Research Division - Senior Equities Analyst*

PRESENTATION

Martin Kjær Hansen ***ISS A/S - Head of Group IR***

Ladies and gentlemen, my name is Martin Hansen, I'm Head of Investor Relations at ISS, and I'd like to welcome you to our Q3 trading update. Please be aware that the announcement, the report as well as the slides used for this call can be found on our website. And later this day, we will also have the usual replay available.

Please draw your attention to Slide #2 regarding forward-looking statements.

Presenting today will be our new Group CEO, Jacob Aarup-Andersen; Group CFO, Pierre-François Riolacci; and with us today, we also have our Deputy CFO, Kasper Fangel. At the end of the presentation, we will, as usual, open for Q&A.

And with that, I'll hand over to Jacob.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Director***

Thank you, Martin, and good morning from me as well.

So as you all know, this is my first set of financial results as CEO of ISS since starting on the 1st of September. I have to say it's been a hectic and energetic first couple of months being part of this ISS family, where I've had the pleasure of meeting both many colleagues, but also meeting many customers, and therefore, really getting to the core of getting to know this business. I also have to say that I have been fairly impressed by the passion and by the pride of the people of ISS and also the amazing potential this company holds. In these, let's be real, difficult times globally, our people in the front line are going above and beyond to support our customers and supporting society at large. For that, I would like to extend a heartfelt thank you.

In the last months, we have -- we worked hard as a leadership team. We've been doing an inclusive strategy process with a significant involvement across the company, across all countries. That work is ongoing as we sit here today, and we have today also announced that we will share the results of that Strategy Refresh on the 16th of December. I'm sure you'll be eager to hear perspectives on the future strategy of ISS today, but you will hopefully appreciate that the team here will only be able to share limited views until the 16th of December. So today, it's mainly about our trading statement.

Please turn to Slide 3 for a brief summary of Q3. If we start on the growth side. So we had organic growth of minus 8.7%, impacted both by the pandemic, but also the cleaning-related nonportfolio work. We saw key accounts at minus 1.8% organic growth year-to-date, which compares to minus 4.9% year-to-date for the group. And that resilience illustrates that key accounts remain attractive also in a time of crisis. And just to be clear, key accounts will continue to be a cornerstone of our strategy also under my leadership.

As COVID-19 continues to have its grip on the world, we have seen in Q4 that many countries will either move, remain or reenter into lockdown. Other countries are reinstating curfews. And as such, we will remain quite cautious on growth for the coming quarters given all of these second wave impacts.

Beyond the top line dynamics, we also have some other updates of relevance. We are happy to announce a new 5-year partnership with a large international industry and manufacturing customer. We came out with that last week. That's a significant contract. It's approximately 1% of group revenue and it's ramping up gradually during 2021.

We've also shown progress on our strategic divestments. We've closed Brazil and Malaysia and we have signed Thailand. And when we've closed Thailand, the combined net proceeds of these 3 will be approximately DKK 0.5 billion, which will obviously support our deleveraging.

Today, we're also announcing that the full year restructuring and one-off impacts will be around DKK 3 billion to DKK 3.5 billion. That's driven by COVID-19-related restructuring and also driven by contract-specific one-off costs. Pierre-François will shortly cover the details on that. The restructuring here will create a sharper ISS for the coming years, and let's keep that in mind.

Liquidity remains strong with DKK 15 billion of readily available liquidity, and we have no debt maturities until 2024.

Finally, just quickly on outlook -- and we'll come back to that. But outlook is unchanged but narrowed. So our organic growth rates, we now expect minus 6% to minus 8%. That's in line with the previous outlook, but it's in the mid-range of the previous outlook. On the margin side, we are reiterating marginally positive, excluding restructuring and one-off costs. And on free cash flow, we're saying around minus DKK 2 billion, which is in line with the previous outlook of around 2 -- minus DKK 2 billion in the mid-range scenario. I'll give more details on that later.

Let's turn to Slide 4. Before we dig into the numbers, let's consider the portfolio performance. First of all, I would like to emphasize the benefits of our diverse portfolio of service lines. With the current outlook, we stand to maintain more than 90% of our revenue even in a year where large parts of the world have been more or less shut down for parts of the year due to COVID-19. As mentioned before, I fully support the key account strategy. Yes, big contract launches or losses can create volatility from quarter-to-quarter, but if you take a step back, the key accounts do deliver superior financials, as also evidenced through COVID-19 and explained a second ago.

We've had a few large problematic key accounts. In those large key accounts, execution problems and their setup has caused issues. But generally, key accounts provide greater value, and we will dig into much more detail on that in December.

In terms of service lines, they have proven pretty resilient through the crisis, except catering. As you know, catering continues to be down more than 40%, which is a trend we're seeing across the industry. We're seeing double-digit growth in nonportfolio work despite noncleaning-related projects have been put largely to hold. Growth has been enabled by our proud cleaning heritage and the core competencies allowing us to support corporates and society at large with the much-needed deep cleaning and disinfection needs in this crisis.

But let me hand over to Pierre-François for some details on the financials, and let's turn to Slide 5 for that.

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

Thank you, Jacob. And as you can see, our revenue in Q3 is down, 13.5%, year-on-year. We have a significant headwind from currency, minus 2.5%, and this is coming mainly from the Turkish lira. And we have also some headwind from divestments as we are executing on our business units disposal plan. And we do expect actually this headwind on divestments to carry on into 2021, even possibly accelerating as we complete some further divestment.

For Q3, the organic development of revenue was down by 8.7%, which is in line with expectations. As expected, you can see that the major contract developments is a negative minus 1.8. It reflects the loss of Novartis as a global contract. And of course, in Q3, we do not benefit anymore of the tailwinds that we had on Deutsche Telekom for the first half.

You can see that the other contract developments is down minus 9.2%. This is a significant improvement compared to Q2. And that, you would expect, given that the restrictions, were eased in the middle of the year compared to the peaks that we had in April.

However, it is fair to flag that the organic growth actually has deteriorated gradually during the quarter when the restrictions started to come back mid-August.

The projects and above base is a positive contribution to organic growth of plus 2.3%. Clearly, that's a good number. We see cleaning-related demand continues to be high, deep cleaning and disinfection. And it is not uncommon in -- at least in Europe, but also in some countries in Asia, to see extra jobs in cleaning more than double than what we are used to.

Going into Q4, and I know that's on the top of your mind. You need to remember that a few contracts will annualize, including the Danish Building and Property Agency, which started in Q4 last year. So we won't get that tailwind anymore. And it is fair to say that we didn't have the same new sales as usual over the last 8 months. So you need to be careful on that one.

We do see a second wave impact in Europe. It is difficult to fully predict what will be the impact. The situation is not the same. It's not the same lockdowns. It's also fair to say our business is not the same. For example, what we have lost in catering in the first wave and which has not recovered, we are not going to lose it again. So it's a bit difficult to assess what it will be, but clearly there will be a significant impact of the second wave.

And last but not least, some of our restructuring is also linked to closing and partially closing contracts or businesses. And it will be mild in Q4, but it will, of course, develop further as we execute on that, and it will have an impact on the top line.

I'm not going to guide on 2021. But when you put your numbers together, please remember that Q1 is expected to be negative because Q1 last year, you remember that COVID hit only mid-March. So we have a reference in Q1 2020, which is still quite good. The rest of the year, of course, will benefit from some COVID-19 recovery. I have to say it's very difficult to know to what extent. But there should be, of course, some positive out there, even if, as I mentioned, the restructuring decision that we are taking will soften the recovery because some businesses will not come back.

And then I need to make a point about wage inflation. I think that you are better placed than us to follow up on this forecasted economics. But it's clear that we do not expect a lot of wage inflation in 2021, and it is one of the drivers of our top line. So please factor that in.

With that, please turn to Slide 6 for a quick review per region. On Continental Europe, you can see that revenues are down organically by 5%. This is an improvement compared to Q2, which is definitely a good number because you remember that in Q2, we still had Deutsche Telekom contribution. So that's not a bad number. It is reflecting that some countries are actually bouncing back in Q3 against Q2 where they were in full lockdown, in particular, France and Spain. That's true in cleaning, but it's fair to say that we haven't seen any real sign of a significant recovery in Food Services.

We still benefit over the quarter of strong key account growth in Turkey and across the board in most of European countries in Continental Europe, strong demand on the extra jobs in cleaning above base of project. We remain cautious for Q4, as I mentioned, because we will see going forward more impact from the lockdowns.

In Northern Europe, the revenues on the same basis are down by 9%, which is a slight improvement compared to the minus 12% we had in the second quarter. But still, as you can see, the activity is badly hurt. Here, the U.K. remains soft. It has been under pressure over the quarter. Now it is entering into a second lockdown which is quite restrictive. So clearly, that's one of the reasons we are behind in revenues. The improvement quarter-to-quarter is driven by Denmark, by Norway. Both countries have actually reopened compared to the second quarter, but again, with limited pickup in the Food Services business. That's it for Europe.

If you move to APAC, again, the revenues are down by 5% in the quarter organically. It is actually deteriorating against the second quarter. And the main reason, of course, is that during that period, we had India and Indonesia, which were in nearly a full lockdown. This is partly offset by China, which is clearly going back to normal and which is actually growing by 10%. So that's definitely a strong take. Australia is still under pressure, the main reason being that we have in Australia an aviation business which has not, of course, recovered and which is impacted probably for a while. Across the region, again, like in Europe, we see strong demand for extra jobs in cleaning, which is still continued.

The last region is Americas, which is badly hurt in Q3, with revenues organically down by 27%, which is actually consistent with what we have said in Q2. The main reason is that we have in that region, especially in the U.S., a very significant exposure to catering. About 40% of the revenues in that region are actually Food Services. And it's clear that with the U.S. still impacted by restrictions, we don't see any pickup in this Food Services business. That explains this strong revenue decline, even if cleaning, again, is good, especially the extra jobs that we get.

Of course, from the first quarter of 2021, we will see the positive impact of the start-up of this large international win. And Jacob, you will say a few words in a minute on that one.

With that, I suggest that we move to Page 7, and -- which is not that much of a revenue update, but much more about some one-off and restructuring that we expect to book at year-end. And I insist that these are provisional numbers, that's why it comes with a range, and we try to give you in advance everything that we know so that you are well prepared and you're in a good position to understand where we expect to land in 2020.

As mentioned in August, we are continuously reviewing our business platform during this crisis. And that's a difficult process, of course, but -- and that leads to difficult decision. And when a business is not expected to pick up soon, we have no other choice than to take action. Same, when the risk landscape is deteriorating, we have no other choice but to take full consequences. So with that, we expect a significant amount of restructuring and one-off in the second half, totaling for the full year DKK 3 billion to DKK 3.5 billion.

On the restructuring first. As I mentioned, we are working very hard to implement, make decisions about this restructuring plan. They are critical if we want to set the business in the right place for 2021. And it covers basically 3 big dimensions.

First, we need to exit some catering businesses which have lost critical size or which offer little midterm perspective. And I have to say that it is true in quite a few European countries that we have to take some decision in parts of our Food Services business. Not all, but part.

Two, we have to review our customers' portfolio because it's also clear that in some industries, like aviation, like automotive sometimes, we see little potential for recovery in the short term. And again, we need to take actions.

The third dimension is that we have also to reflect in our cost structure that the level of activity is lower than before. And it's clear that in ISS, we cannot afford to maintain the same structure cost, G&A, with a lower activity. So we are taking action. And that's only fair that it happens. It also happen that we have to take costs out when we are facing a specific pressure on earnings, like we do in Germany. I will come back on that one in a minute.

The restructuring is, of course, of different nature, the cost that we incur. It can be, of course, redundancy costs. It's a lot of those. But it's also exit fees that we accept to pay to customers. It is the cost of closing down some businesses. And that -- sometimes, that includes that we pay an exit fee to a landlord and all sort of things which are to be incurred and which are falling into that chapter.

In total, restructuring is expected to be, in the second half of 2020, DKK 1 billion to DKK 1.2 billion, and this is coming on top of the DKK 200 million we had in H1. For the full year, we expect restructuring to be between DKK 1.2 billion and DKK 1.4 billion. With that, we believe that we cover what we need to do for '20, but also for '21, to the maximum extent as far as we know.

For the one-off, that's also a big number. And we discussed in August that we were expecting something to happen in a large loss-making contract in Denmark. We are pleased with the progress that we are making on the discussion with our customers. I think that there is a recognition that this contract is an issue and has to be addressed. It is a dialogue which is ongoing which can come with a different set of outcomes, from a full revamp to a mutually agreed exit, that we are working on. But we are very confident that we'll be in a position by the end of the year to stabilize that contract, and we will take consequences that need to be taken to cover any future cost/losses that we could incur in that contract.

But it is fair to say that the biggest driver by far of the one-off cost is actually related to Deutsche Telekom, where we do expect asset write-off in the range of around DKK 600 million. And on top of that, some further provisions. I think it is maybe a good moment to stop a couple of minutes to talk about Deutsche Telekom in general. Since our latest update, we have made significant progress in upgrading our technology systems even if we are slightly behind for some of the milestones. You know that it has been a pain point, and has been for a long time, and albeit that we are not out of the woods, it is a very important step in the right direction. But it is clear that we will not complete the full technology road map before summer 2021. So we have to live with that.

It is also fair to mention that we are late in implementing some operational improvements and some of the efficiency measures, not the least because of COVID-19, but also because we don't want to jeopardize the quality of the delivery to our customers and we don't want to lose control. And it's clear that, for us, it's absolutely key that operationally, we can still deliver. It is also fair to say that we are encountering some delays with the works council, with the unions, and we take that very seriously. We believe that it is worth to invest the time we need to make sure that we align our stakeholders. This is a long-term contract. We are building a long-standing partnership with the customer, but also with key stakeholders, including the unions and works council. I think it is important that these things are well done.

Therefore, we do have hits in the contract in -- due to the contract on our earnings for 2020. And these hits are coming in 4 ways.

First, the run rate is not where we expected it to be. We have decided that all transition costs for the second half would be expensed in the P&L. And despite that the real transition is not actually fully completed, that's a fact, despite that we do not have yet the benefit of this operational improvement which are coming with the transition, we have decided to expense all of it from the 1st of July. Therefore, our run rate, which is improving gradually month after month, is still expected to be negative in Q4 due to the late implementation of this operational improvement and due to the fact that we still incur significant transition costs. We put them into the run rate, but of course, it will improve gradually as we complete the transition in '21. This Q4 negative impact is, of course, included in the full year margin guidance, and the risk was already covered in the guidance that we shared with you in August.

The second impact is coming from restructuring. We are seeing progress in systems. We are expecting some progress in systems. Therefore, it is a key enabler, and we want to leverage that enabler to adjust our cost base. And that's what we plan to do. It is coming with significant restructuring costs that we expect to book at year-end. And this is, of course, in the envelope that I have mentioned in the restructuring.

The third dimension is this write-off of the capitalized transition cost, DKK 600 million. This transition period, as I just said, is longer than expected, and of course, it's coming with significant cost overrun. We have decided to take consequences, depreciating these mobilization costs which are related to the contract. We will be left, at the end of the year, on the balance sheet, with amounts which are actually in line -- actually even lower than the initial transition budget that we announced at the time of signing the contract. We just think that it is fair not to recognize this cost overrun on the balance sheet.

Last, the fourth point is that we are planning to book some provisions on certain contract-related risks. Given the circumstances surrounding the start-up, the risk environment that we see, we believe it is prudent and justified in the current environment to book some of these provisions. We cannot be too precise on the numbers, first, because this is work in progress, and that's clearly where we have still a range and a lot of discussion going on. But the second reason is this is involving third parties, including the customer. It's clear that we are not prepared to give details about what we -- what are the risks associated with these stakeholders.

At the end of the day, we are doing the right things to upturn that contract going forward, generate a positive margin exiting next year. We are adjusting the asset base to reflect the situation and the profitability, and we provide for a right cover of the risk. We are completely confident that we can deliver a sustainable great service to our customer in a profitable way for ISS.

For sure, the current operational challenges have changed our view on the expected generating cash position for the rest of life of contract, which is leading to this one-off cost, but we do not consider that this contract is onerous. The total one-off, therefore, will be, for H2, between DKK 1.2 billion and DKK 1.5 billion, including the DKK 600 million that I mentioned on the DTAC assets, including the provision on DTAC and including the provision on this large Danish customer. And that is for the full year, an amount of DKK 1.8 billion to DKK 2.1 billion.

One precision you could expect, that about half of this amount, restructuring plus one-off, so the total, DKK 3 billion to DKK 3.5 billion, is expected to have a cash impact. And that cash impact would be spread over 2021 and '22, weighted towards '21. And that could move a bit because, again, as I mentioned, we do have uncertainties on -- especially on the provision side.

With that, please turn to Slide 8. It's good to see that after completely stalling in the middle of Q2, the M&A market is actually regaining momentum. We are pleased that we were able to close the disposal of Brazil and Malaysia and signed with Thailand. As Jacob said, we expect net proceeds of DKK 0.5 billion to come in by the end of the year. With that, it means that we will have completed at least 60% of in base measure and revenues of initial disposal plan. It is behind what we expected to be. Clearly, we wanted to complete all of it by the end of this year. But with COVID-19, we took a hit on the planning on some of these disposals. Still, we are very confident that we will complete the whole program in 2021, still about DKK 1 billion to go. And we are also very confident that we will land it within the range of the DKK 2 billion to DKK 2.5 billion that we had committed to.

Before I hand back to Jacob, maybe one technical point, is that we expect the tax rate for the full year 2020 to be zero-ish, so around 0. Because we will not be able to recognize tax assets against all the losses. But we expect to be a bit better than we were at the end of H1. So now we expect the tax rate to be around 0.

With that, Jacob, I hand back to you. Please turn to Slide 9.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Director***

Thank you, Pierre-François. So let me touch on the commercial momentum. First of all, I have to say I'm very happy to see that despite all the turmoil we've seen, the commercial landscape has reopened. COVID-19 is clearly a reminder to both our existing clients, but also potential customers, of the benefits that you derive from the ISS value proposition. That is central right now to all the commercial conversations we're having at the moment, and that's obviously a good sign. From that perspective, you would also say that, in many ways, some of the trends we've seen also towards the outsourcing model is just accelerating in this context.

Last week, we announced a significant new win in the Americas, corresponding to approximately 1% of group revenue. That's ramping up gradually during 2021. That customer, which is a large international manufacturing customer, intend to transition from a local FM sourcing model to a regional and centralized setup. The contract will run for 5 years, and we will deliver a wide range of integrated facility services.

We also secured 4 extensions and expansions since the last set of results. The extensions include a large software and IT customer that now runs until end of 2022, which was originally expiring next year. And we now have no material extension risk left for 2020. 6% are up for renewal in 2021. That is more or less in line with the average year, as we have successfully started to address 2021 maturities already. Unfortunately, we also had 4 losses in the quarter, none of them major in size, around DKK 100 million each, and they will leave our portfolio in the coming quarters.

Please turn to Slide 10 for the outlook. So the outlook for 2020 is unchanged. However, we have narrowed the ranges to the base case scenarios compared to the previous outlook. If we just look at the three components, starting with organic growth. It now stands at between minus 6% and minus 8%. So that's based on a year-to-date growth of minus 4.9%, and the expectation that the growth momentum from September 2020, which was around minus 10%, will decelerate into Q4 as a result of the second wave impacts that Pierre-François also spoke about. In addition, we are restructuring certain business units, which will have an impact. And as well as that, we also have contract annualizations that will impact Q4 growth. All of that leads to the -- us reiterating the guidance range.

On operating margin, it's unchanged. It's marginally positive, excluding restructurings and one-offs. That is based on an improvement in the second half compared to the first half, driven by the positive seasonality you know we have. And also, obviously note that the margin outlook excludes the COVID-19-related restructuring and other one-off costs, which Pierre-François just went through.

Finally, on the free cash flow, we narrowed that to around minus DKK 2 billion. That is based on the reduction in operating performance we've seen as a result of COVID-19. There are no postponed VAT and social contribution by the end of the year. And let me just emphasize that at the end of first half 2020, we had DKK 1.6 billion postponed, and we are saying none of that will be in the -- postponed by the end of the year. We also have strict supplier payment discipline, and that's done in order to support a healthy payment environment in the midst of COVID-19. And then you're seeing a slight reduction in factoring, as we have told you about before, compared to end '19, which is reflecting the -- especially the loss of Novartis.

So finally, let me make a couple of closing remarks. As mentioned earlier, we will be hosting a Strategy Refresh on December 16. There, we will be providing details on the future journey of ISS. As such, we will not be entering into a lot of strategic or longer-term financial discussions in the upcoming Q&A session. You may obviously ask the question, but we will not probably entertain it. I'm very excited to address all of your questions in December, and I can assure you that we are working hard towards that date to make it worthwhile.

So with that, let's open up for today's Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from the line of Magnus Jensen from SEB.

Magnus Thorstholm Jensen ***SEB, Research Division - Senior Equities Analyst***

This is Magnus from SEB. First, on your -- I would like to ask on your financial position, which I know it looks very flattering with the DKK 15 billion at available cash. But you can also say that your capital structure is not really met these days. And with the further cash loss that you will see due to the restructuring costs you're now taking, I think it becomes a bit stressed and might be difficult to reach your financial -- your capital structure target in 2024, where you have to renegotiate loans. Could you give to me, Jacob, your view on -- is there a risk here of a share issue that you have to make to meet this? Or yes, it'd be interesting to hear your views on this.

And the second question I have is regarding contract negotiations. Could you give us some flavor on how this is -- how contract negotiation with new clients is going here during COVID-19? And if it sort of -- I would guess that some is probably being postponed. Is there, say, a potential for a catch-up effect when we go into '21 or maybe '22? That's my question.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Director***

Okay. Thanks, Magnus. Thanks for the 2 questions. So let me start with the one around leverage and also your question regarding share issue in that. So first of all, you also pointed out yourself, we have a very strong liquidity position. We have no unfunded maturities until 2024, and we will return positive cash flow again next year. That's a strong position to be in. Obviously, we recognize the leverage multiples will look higher short term, simply for the fact that our reported earnings are low in the short term. But that's going to normalize over the coming years as we delever organically.

I think importantly, for me as CEO, our balance sheet is not holding us back from doing the right things for the business. And that's obviously what I'm focusing on right now.

We have also, today, guided you for a negative DKK 2 billion of free cash flow, which you also referred to, which I note is DKK 800 million better than where our consensus is in 3 months. And that is despite us repaying all VAT and social charges of DKK 1.6 billion in the second half. And we have, today, announced disposals that equate up to DKK 0.5 billion, which means that the position of net debt at the end of this year will be more than DKK 1 billion better than where consensus is. I'll just make that point because that actually equates to actually already a capital increase from your perspective. So I'm not in a position to comment on how we see deleveraging in the coming years. I think that would be premature. But I don't recognize that we will struggle to be at our leverage targets when we get to 2024.

Then on the other question around current negotiations with clients, that's -- there's an easy answer and there's a complex answer. Because clients are different. And when we look across our footprint, as a global player in more than 30 countries, obviously, clients are facing many different environments. And we are seeing a strong commercial activity right now in terms of a number of early renewal debates on good accounts. So there's a lot of interest in renewing accounts, especially large accounts. And that is driven by the fact that over the last 9 months, the ISS value proposition has really come to the fore when you look at how we have delivered in terms of our -- sorry, to our customers.

We -- I am sitting on piles of customer testimonials in terms of people being incredibly pleased with how we have gone above and beyond to ensure their safety and maintaining their operations in this difficult time. That, to me, is a strong fundamental starting point when we talk about contract negotiations and renewals. Obviously, it really depends on the industries. We have industries that are very hard hit by the current COVID situation. Some of them are postponing negotiations. Some of them are reducing scope. Others are wanting to secure a strong partner like ISS for -- as they rethink their workplace of the future. So I think it's very mixed.

We do not -- if you sum all of that up, we do not see it as an overall negative in terms of commercial momentum. But we see a need for different types of services also going forward. We see a significant request for more innovative workplace solutions, more than management technology and many things that play into our strong value proposition. So overall, we're quite confident in the commercial momentum in the coming years. Whether we will see a catch-up effect, I think that may be too dramatic. I don't think we'd come out of COVID overnight. I think different regions come out gradually in different ways. And therefore, I think you'll see a gradual recovery of commercial momentum across different regions.

Magnus Thorstholm Jensen ***SEB, Research Division - Senior Equities Analyst***

Okay. Maybe just one more question. I think it was Pierre-François who said that you had left some contracts during the year and you've also lost some -- you talked about the DKK 400 million. Could you say how much you, in total, have sort of have lost now that will not come back in 2021?

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

Well, that's not to say about contracts. That's more about business. And that's not an easy one. We -- of course, the key -- I mentioned that the key issues are coming from, one, catering and some business in catering, and the other one is coming from some customer segments. It's a bit early to say today, but if you take what we have lost in terms of COVID impact, which is somewhat significant, and you remember that we entered the year 2020 guiding above 4% in terms of top line. And if you take today the midpoint of our guidance, we are at minus 7%. So a rough explanation is that we've lost something like 11% in terms of COVID impact.

Our view today, and of course it will change and it -- it's not that it can change, it will, but our view today based on what we know is that you can say that there might be 1/3 that would not come back in the next few years. It doesn't mean it will not come back at all, but it will not come back in the same form. And that's especially in catering, but there also some customers that we have decided to exit because we don't believe that they will recover in the next couple of years. And then the, let's say, another big 2/3 is going to come back over the next couple of years. And I wish it was all coming back next year, but that's a bit too early. So if you want to build some big tickets, that's more in terms of activity than in terms of losing contracts. I mean, that's more the decision that we've made to exit some of businesses that could indeed impact our organic growth in the next few quarters. I hope it gives you some colors.

Operator

The next question is from Annelies Vermeulen from Morgan Stanley.

Annelies Judith Godelieve Vermeulen ***Morgan Stanley, Research Division - Research Analyst***

This is Annelies Vermeulen from Morgan Stanley. I have a couple of questions. So I recall at the H1, you talked around 50,000 people that were sent home (inaudible). Could you give us an update (inaudible) majority of the people? (inaudible) you've made some redundancies in other parts of work? Some color on that would be great.

And secondly, on the restructuring comments that you talked about. Clearly, the world is very uncertain at the moment. I know you have limited visibility even in 2021. But particularly relating to those provisions for the loss-making contracts, do you think that it's definitely conservative enough? Have you baked in the worst-case scenario? Or could this potentially be worse? I'm trying to get a sense of to what extent your restructuring costs and one-off charges and so on could also be higher in 2021.

And then my last question was on contract losses that you've lost in this quarter. Could you give us some color as to what has been driving that, that would be different from them all? Has there been more competition, more customers wanting to save costs, so therefore move away from an integrated model? Anything that you've been hearing would be great.

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

So on the -- maybe on the people side, you're right that we had, I think it was in July, about 50,000 people in end of June, early July, were sent home. These numbers has come down during the summer. And now it is moving up again. And we are tracking now again these numbers carefully because this is something which is going on. It's fair to say also that we are -- also, as part of this restructuring, we have some of these jobs which are actually not going to come back. But it's a bit too early to mention how many of those.

It is fair to say that across the countries which are entering into the second wave, we see supporting schemes from government which are pretty consistent with phase 1. So it's clear that we find the same level of support. Actually, it's even a bit better because governments have been used to it and all the processes to find further following is actually up and running in most of the countries. So after a decrease of that number, which has been nearly halved, then you would expect that it peaks again. I want to mention that even when things were getting better, we still had a significant number of people who were sent home because catering has not picked up. So there has been a significant hard core of people who have not been back to work over the period even if it has come down.

On the restructuring and the loss-making, I mentioned that this is an anticipation of what we expect to book. We have a wide range, and it's clear that the high end of the range is definitely covering a big ambition in restructuring. It means that we would be able to land all this restructuring. So that's definitely covering the risk for 2020 and actually any risk that we would know for 2021. So we are indeed doing our utmost to make sure that we start the plan because we do not want to be late in terms of restructuring. So things have to be kicked off. And that's why we expect to see a massive charge in 2020, even if, of course, the implementation could spread over 2021, that's for sure. But we are doing our utmost to start this plan. It is absolutely key for getting the benefit of it throughout '21. But to be also very candid, it is our interest, to be very clear with you, this is what we believe is the cost of restructuring, and that's what we have tried to achieve with this indication.

Then on the losses or exit costs or risks which are surrounding the 2 big contracts that we are talking about, i.e., the large Danish contract and Deutsche Telekom, yes, of course, I think that the range that we have given is factoring in the worst case. And we do not expect that it should be worse than that for 2020. You can never say, over the next few years, can there be a downturn somewhere? Of course, it can happen. But clearly, we have reviewed the whole set of assumptions. And with the amount that we have indicated, we are strongly -- we strongly believe that we have addressed even the worst cases.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Director***

And then maybe just on the contract losses. So first of all, us losing 4 small to midsized contract, that's not unusual for a quarter. So there's no major difference there. But you asked specifically what the reasons were behind. So of the 4 here, one of them was a Nordic technical services contract we had. It was slightly loss-making, and it went to a smaller local player that was willing to take that type of pricing which we didn't want to. There was a U.S. cleaning contract, which was a financial services customer that decided to reduce its footprint and introduce a local setup. Then there was an aviation business where, simply, that was re-scoped. And finally, there was a public administration organization in another region where, say, we lost an outright bidding on that one. So it's very different on all 4 of them. So I don't think you can discern a specific trend in that. And we do not see a changed momentum around what types of businesses we lose or don't retain, et cetera. I think that's still quite diverse.

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

And maybe just to make a link with history. On these losses of contracts, we do not expect to see a significant margin impact, not only because of the size but also because, as Jacob alluded to, the margin that we are delivering on this contract was not at all what you have seen associated to other big losses. So this is really the noise that you have in a business like that with no negative impact on margin's development.

Operator

Our next question is from Dan Hobden from Crédit Suisse.

Daniel James Hobden ***Crédit Suisse AG, Research Division - Research Analyst***

Hopefully, you can hear me okay. Just one question and one follow-up question, if that's okay. You mentioned about leaving clients or maybe proactively exiting low-margin contracts. I was wondering, could you be able to quantify the percentage point drag that, that could present as we head into 2021?

And then just a clarification question just around -- I think you mentioned that you're going to return to free -- or to positive free cash generation in 2021. Is that post the restructuring charges that you've guided to as well?

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

For the difficult contract about what would be the impact, top line, of the exiting contract, it's a difficult one because, as you can imagine, these are ongoing discussions. And the discussion that we have with our customers, especially in catering, is we need to change the commercial model. It cannot be that we are volume-driven, and we cannot afford to take the volume risk for you. So either you change your commercial model or we need to exit. These discussions are going on and that we have provided for the fact that in some contracts, we don't believe that we'll make it. But of course, in some contracts, we do. And we have customers which are willing to listen and say, "Okay. We need to find a solution."

Now if you push me in a corner and say, "Oh, how much are we talking about?" I would say, less than 1% overall. But 1% top line, it is a significant amount. So -- but I think that we can do better than that. It depends how much successful we are in driving new conditions, new commercial model in this contract. That's an indication that I can give you. Please take it as a very ballpark number and can be changed.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Director***

Maybe then on the other question, just to follow up on the question before. We do expect a slight positive free cash flow next year, including the restructuring charges.

Operator

The next question is from Al Ellis (sic) [Bilal Aziz] from UBS.

Bilal Aziz ***UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst***

It's Bilal Aziz from UBS. Just 3 for me, please. Firstly, just related to the new one-off costs related to the loss-making contracts in the tune of DKK 2 billion. To what extent does that represent a more broader review of the balance sheet versus just the specific contracts, i.e., should we be concluding that this number is perhaps more comprehensive in terms of write-downs?

Secondly, whilst not expecting you to preview your strategy day, some of your peers have suggested that they will go back to previous margins in 2019 level over the course of the next 3, 4 years. I guess ISS has been through its own specific issues over the past 2 years and now the COVID impact. How should we be thinking about your trajectory potentially over the next few years?

And lastly, I appreciate it is very early days, but what sort of conversations are you having with clients regarding outsourcing budget and FM spend more broadly post the crisis?

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Director***

Okay. Thanks, Bilal. And let me just try to address them. So first of all, you asked about the overall -- whether this has been a broad review, et cetera. So we've taken a prudent approach to the major contract issues that you know of, and we've also taken some clearly tough decisions on significant restructuring, as Pierre-François went through. That significant restructuring is obviously to improve our run rate in the coming years. After this, I'm comfortable with where we are now. And so with what we know today, I don't foresee more large one-offs of restructuring. Obviously, circumstances can change. But for now, this, I don't foresee anything else.

You asked about previous margins, whether we can get back to previous margins. And I'm pleased that our peers have talked about that. As you know, we are coming with -- you referred to it yourself, our strategy day on the 16th of December. I think I would defer our statements to -- like that to that session. There is nothing I have seen in this business that tells me that there is anything fundamentally broken. So you are alluding to operational issues in recent years. As I just said, I don't think we are -- there's a fundamental game-changer out of that. But let's discuss longer-term financials in December.

Then in terms of outsourcing budgets and dialogue with clients right now, I think that's a moving picture. And the reason why I give you that a little bit more cagey answer is that if we just look at the conversations we've had with our larger clients in the beginning of the COVID situation until now, there's no doubt that the picture has actually moved quite significantly amongst many of our larger clients.

First of all, I think -- I do think that the notion of people working permanently from home and seeing significant reductions in footprint has nuanced quite a lot into more hybrid models, where our clients in general see hybrid models emerging where most employees are able to work in a flexible fashion both at home but in the office, but it also accentuates the need for the workplace and the workplace experience. .

We've said many times at ISS that we do believe that the workplace is the cultural temple of a company. It's where you define the culture and the DNA of a company. And we see that being echoed in many of the conversations we are having with clients right now, that you may reduce your square meters, and I do think one of the effects of what we're seeing right now is an acceleration of changes of footprint. So we do expect to see lower footprints in general in terms of workplaces going forward, not dramatic numbers, but we would see a reduction. But that footprint, on the other hand, the requirements and the expectations to that footprint is also increasing. So you can say a company like us that not only deliver single services, but where the core value proposition is an integrated facility service with enhanced curated experiences around the workplace, I think, to many ways, it plays into our strengths.

No doubt there is pressure on many companies in terms of reducing their cost, also in the FM space, and we have strong dialogues with people around that. But as you also know from previous presentations and dialogue with the company here, we have many examples of large customers where we've seen significant reductions in footprint but actually see an increasing wallet. So I wouldn't drive a straight line between those 2 things. But there's no doubt that your question also accentuates that this is a fluid situation, and we are seeing several different emerging models depending on industry and segment as well.

Operator

The next question is from James Winckler from Jefferies.

James Peter Winckler ***Jefferies LLC, Research Division - Equity Analyst***

Most of mine have been answered, and forgive me if this is a repeat, but just last one would be if you're able to break down that the H2 guidance of DKK 2.2 billion to DKK 2.7 billion, the cost and one-offs, into buckets like how much of that is restructuring, how much bad debt, how much provisions just to assist with our modeling into how we think about next year.

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

On the restructuring, we expect DKK 1.0 billion to DKK 1.2 billion in H2, which is coming on top of the DKK 200 million. And with that, you need to make the guess that it is cash. So there are maybe a few noncash items that you can make that the assumption that it is cash, and this would be cash-out over the period with a bulk in 2021. Of course, this is not money that we are throwing out of the window, and we do expect to see benefits coming to the business. And that will help us, of course, in '21 and in '22 full year. So that, you can peg into your model.

When it comes to the one-off, we expect -- on top of these restructuring charges, we expect to have DKK 1.2 billion to DKK 1.5 billion again in -- at year-end, in H2. DKK 600 million out of this is the asset write-off on Deutsche Telekom. And that will have a positive impact on earnings but spread over a long period of time, but still, of course, a positive. Then there are provisions for the rest of the number, provisions which are covering both this Danish large contract and risks which are surrounding the start-up of Deutsche Telekom. And that, of course, is where we have the most uncertainty because it's still depending on discussions which are ongoing. It's not that easy to give you more details on the content but also the cash outcome.

Of course, the DKK 600 million is a full noncash item. Provisions should turn out to be cash, but with a significant level of uncertainty that you need to factor in. I cannot be much more precise than that, but happy to follow up on question with IR if needed.

Operator

The next question is from [George Callaghan] from Charleston Capital.

Unidentified Analyst

Just checking if the line is okay. You can hear me okay?

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Director***

Yes. Yes, we can.

Unidentified Analyst

Most of mine have answered as well. I just had a quick follow-up on the leverage question. I guess, as things normalize you -- under some scenarios, you'll be booking more like high-yield credit metrics. I'm just wondering, is that something that you're comfortable with, to operate in a high-yield credit rating environment? Or what are your thoughts on that?

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Director***

What our thoughts are in terms of whether we are comfortable with the high-yield rating, well, currently, we are an investment-grade rating. You know what our financial policy is around rating ambitions. We are fully aware that we have a negative rating outlook with both S&P and Moody's. We've had that for a while, which reflects, you can say, more the historic performance. Most of the metrics are backward-looking and it will take time to rebuild those metrics in the coming years, no doubt about that.

If we are downgraded from the current levels, which we don't have a view on, but if we are, it's not a game changer for us in the way that, as you know, we have all the liquidity we need. We have no maturities until 2024, et cetera. But I'm not going to go specifically into discussing my view on a high-yield situation. So that's not where we are. And I think we made our points around the strength of our liquidity and the strength of our deleveraging. So I think we'll keep it at that.

Martin Kjær Hansen ***ISS A/S - Head of Group IR***

All right. I think that concludes the call for today. Thank you all for participating. IR will, as usual, be available for follow-up questions. Thanks.