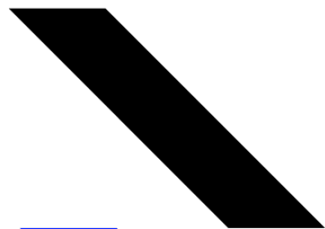


LSEG STREETEVENTS

EDITED TRANSCRIPT

FULL YEAR 2024 ISS A/S EARNINGS CALL

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An LSEG Business



CORPORATE PARTICIPANTS

- **Michael Vitfell-Rasmussen** *ISS A/S - Head of IR*
- **Kasper Fangel** *ISS A/S - Group Chief Executive Officer, Member of the Executive Group Management*
- **Mads Holm** *ISS A/S - Group Chief Financial Officer, Member of the Executive Group Management*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Mads Brinkmann Andersen** *DNB Markets - Analyst*
- **Rémi Grenu** *Morgan Stanley - Analyst*
- **Allen Wells** *Jefferies - Analyst*
- **Nicole Manion** *UBS - Analyst*
- **Kristian Godiksen** *SEB - Analyst*
- **Klaus Kehl** *Nykredit Markets - Analyst*

PRESENTATION

Operator

I would like to welcome everybody to the ISS's annual report for 2024 conference call. Today's call is being recorded. If you have any objections to this, please disconnect your line. (Operator Instructions)

Today's speakers are Group CEO, Kasper Fangel, and Group CFO, Mads Holm. But, first, I would like to hand it over to Head of Investor Relations, Michael Vitfell-Rasmussen.

Michael, please begin.

Michael Vitfell-Rasmussen *ISS A/S - Head of IR*

Thank you, and good morning, everyone, and a warm welcome to our conference call. We appreciate you joining us today to discuss our 2024 full year results, which were released earlier today. I'm Michael Vitfell-Rasmussen, heading up Investor Relations here at ISS.

Joining me in the room today is our CEO, Kasper Fangel; our CFO, Mads Holm; and our new IR colleague, Anne Sophie Riis; as well as Kristoffer Lykke-Olesen, who is heading our ESG reporting here at ISS. Before we begin, please take a quick view at the disclaimer, and then I will hand it over to Kasper to start the presentation. Please move to slide number 4.

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

Thank you, Michael, and good morning, everyone. Looking back, 2024 was a solid year with our financial performance aligning with expectations. Throughout the past year, we maintained a strong organic growth and are in a good position to continue that as we move into '25. I'd also like to highlight that we've started the year on a positive note with a number of contract wins, which you may have already noticed.

In 2024, growth continued to be driven by price increases across the business, although underlying volume is not yet at a satisfactory level. In response, we conducted a review of our strategy in late '24, which led to eight global initiatives to support and foster our strategic priorities. While the core of our OneISS strategy remains unchanged, we've sharpened certain elements to make them more execution ready, positioning ISS for future growth.

Additionally, we made some changes to our executive group management team, which I will elaborate on shortly. In 2024, the underlying profitability continued to improve in the second half of the year, offset by ongoing investments in the business towards the year-end. Regarding the arbitration process with DTAG, it's progressing according to plan.

However, as we are in the middle of an ongoing legal procedure, we are unable to provide all the details at this stage. We appreciate your understanding and patience in this matter. Finally, a few words on capital allocation. As mentioned before, we have a stringent approach and closely prioritize how we allocate our capital. In 2024, we have made three small bolt-on acquisitions in total, adding local strength to our businesses in Switzerland, Spain, and Belgium.

And importantly, we are seeing synergies materialize with margins growing and adding value to ISS. For 2025, our M&A strategy remains unchanged. We continue to focus on potential targets, always carefully weighing them against the option of share buybacks. As part of our continued commitment to deliver value to our shareholders, we are pleased to announce a new share buyback program of DKK2.5 billion. We are starting at this level and will reassess the situation later in the year.

This highlights our strong financial position and is fully aligned with our capital allocation priorities. Please turn to slide 6, where we'll deep dive into the strategic findings. Businesses around the world are facing a challenging macroenvironment, marked by significant uncertainties, including ongoing geopolitical tension.

However, due to our diverse geography footprint, a strong customer portfolio and resilient business model with long contract durations, ISS' stable business model is now more relevant than ever before. We have built a solid foundation and a highly skilled workforce, both of which position us to effectively navigate these challenges.

The market potential within Integrated Facility Services and single service cleaning are massive. A large portion of volumes remains insource today. And with ongoing labor shortages, the shift away from hybrid workplaces and an increasing emphasis on enhancing workplace experiences, we see a strong opportunity to convert these in-house volumes to outsourced solutions. To successfully capture this opportunity, we must prioritize and remain sharply focused in our execution. And we are fully committed to both.

Let me now walk you through a few items that will make you better understand our thinking around how we will unlock the potential of ISS. Please turn to slide 7. Recent data from Gallup shows that employee engagement in workplaces has hit an all-time low, becoming a significant burden on global GDP growth and representing a \$1 trillion issue for society globally. This is a problem for businesses as disengaged staff means reduced productivity. At ISS, we know what it takes to create outstanding workplace experiences.

And we are committed to help our customers by delivering exceptional service experiences and service moments, all of which is making the customer's workplace attractive and as an outcome drives higher engagement for our customer staff. That is what ISS is all about. We make space for people and businesses to thrive.

Let's take a closer look on how other elements of our strategy will set us up for future growth. Please turn to slide number 8. I appreciate that this slide is a bit busy, but it's effective as it consolidates all our strategic components in one slide. Let me briefly walk you through some of the key points. We are now operating in the countries we have targeted. We have made the necessary divestments and moving forward, we're focused on our four key segments where we can truly leverage our strengths in service and workplace experiences. The four segments being financial services, professional services, technology and life science.

These are our core segments and we believe they represent the greatest opportunity for future growth for ISS, both because in these segments we have lots of expertise today and because these are the segments where our value proposition resonates the most. That said, we built flexibility into our strategy. If a strong business case emerges and all parameters within our risk framework are adhered to, we can and will pursue local opportunities. A great example of this is Public Administration in the UK. Three things are essential when it comes to customer needs: efficiency, customer experience and sustainability.

While price and sustainability are essential and a license to act, it's clear that our true differentiator lies in our ability to deliver an exceptional customer experience. This is what truly sets us apart and drives our success, something that is only achievable with a self-delivery model like ours, where our people are onboarded, trained and developed to the highest standards.

Our updates to the strategy are centered around three key priorities executed through eight strategic initiatives. And I'd like to highlight one of our primary focus areas, which is customer centric growth. This priority will see us increasing investments in our commercial organization as well as continuing to invest in service products that address the top needs of our customers, efficiency, experience and sustainability. We are confident that these priorities will enable us to drive both growth with current customers and new logos, while continuing to deliver outstanding value.

Now turn to slide number 9. To sum up, our strategic direction remains fundamentally unchanged, but it has become sharper and more execution focused to drive profitable growth. With a few key tweaks and refined priorities, we've designed a strategy for growth that ensures full alignment and engagement across the organization, setting a strong foundation for success.

An important element of our strategy is to enhance our commercial culture, which is embedded throughout our entire value chain. With this focused strategy and customer centric approach, we are well positioned to capture the growth opportunities ahead of us.

Let's move to slide 10, please. Obviously, our structure aligns with the strategy, which is also why I have made the decision a month ago to reduce the size of EGM from eight to five members. The main goal of this decision was to improve our ability to execute. And here is how we are going to achieve that.

By reducing the size of the team, we will be able to empower the EGM members with more responsibility, leading to stronger ownership, faster decision making and better accountability across the organization. With fewer people at the top, we have cut through much of the previous decision paths. Each decision now rests with the right person, reducing unnecessary layers and allowing us to operate more effectively as a team.

The new leadership team brings together diverse capabilities with a sharper focus and, more importantly, every member is deeply connected to our countries, ensuring better alignment across all our efforts. We are excited about the momentum that is building and are confident that these changes will drive greater performance going forward.

Now, let's take a closer look at our pipeline. Please turn to slide 11. While new wins in 2024 have been disappointing, we remain focused on the future. As mentioned in my introduction, we've seen good commercial activity recently, and as you may recall, we've already secured several contract wins in 2025 so far. It's also positive that we haven't had any losses or exits since we last spoke in November.

In addition to the specific contracts mentioned on the slide, we have good traction on local deals. We have won several contracts across the whole group, and we continue to see customers expanding scope with us, both regarding service lines and geographies.

We also note that the ongoing dialogues on contracts are remaining positive, and we still haven't been deselected in any of these tenders that are still to be closed. I also want to highlight that we are seeing longer lead times in tenders.

Facility Management has become increasingly strategically important for our customers, which has led to more complex and extended decision making processes. As a result, we will refrain from commenting on timing, but we remain positive about the momentum and the health of the pipeline.

Looking ahead, 6% of our larger contracts are up for renewal in '25 and the dialogue on 2025 expirations is going well so far. Towards the end of '25, we have two significant customers up for renewal, both of whom have expanded their scope over the course of the contract and share a longstanding partnership with ISS.

Now, I'll hand it over to Mads for a closer look at our financial performance. Slide 13, please.

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

Thank you, Kasper. Now a few words on the financials. I'm pleased to share that we ended fourth quarter on a strong note with financial metrics meeting expectations and delivering full-year results accordingly. The organic growth momentum reaccelerated in the fourth quarter, resulting in organic growth of 8.3% in the quarter. The organic growth for the full year amounted to 6.3% and thereby slightly exceeded the outlook for the year due to one off project work in North America.

As expected, our underlying performance improved in the second half of 2024 with an operating margin greater than 6%, offset by ongoing investments in the business. This brings our full year operating margin to just above 5% for the year. I will highlight a few

key events that impacted our margin in the end of the year in the upcoming slides. Our cash flow also delivered ahead of plans with DKK2 billion of free cash flow. I will go more into the details later in the presentation.

Please proceed to slide 14 for a breakdown of the regional performance. The fourth quarter demonstrated strong performance with positive organic growth and margin improvements across all regions. In Northern Europe, we saw full year growth of 6.4%, fueled by contract start up, price increases as well as underlying volume growth.

We successfully renewed all large key account contracts set to expire in 2024, and we started mobilization of DWP contract in October. Furthermore, DEFRA and the Danish Building and Property Agency are both up and running as expected.

The operating margin increased by 50 basis points versus 2023, driven by broad based improvement, though most significant in Denmark, Finland and the UK Central and Southern Europe continues its double-digit growth, with positive performance across all countries in the region. The primary driver was again related to price increases in Turkey. The operating margin improved by 90 basis point compared to 2023, driven by broad based improvements, but particularly in Turkey and Switzerland. In Asia & Pacific, we achieved organic growth of 2.4%.

Overall, 2024 was impacted by more selective bidding strategy, as we have a sharp focus on sustainable margins in line with our group strategy. Do note, we also have a tough comparison due to high above base activity in the aftermath of COVID related projects in 2023. In 2024, we increased margins by a healthy 110 basis point in the region versus 2023, driven by before mentioned focus on sustainable margins.

Finally, despite deliberate exiting large volume contracts, the Americas ended the year with positive organic growth, thanks to a strong fourth quarter driven by hurricane response and restoration efforts with a key account. The operating margin increased by 70 basis point compared to 2023, driven by the previously mentioned deliberate contract exit as well as efficiencies and operational improvements across the region.

On a last note, I want to highlight that our corporate cost has decreased from 1.4% to 1.3% of the group revenue as a result of scale benefits and internal efficiency programs. Overall, we remain on track with our strategy and are confident in our continued growth moving into 2025.

Please go to slide 15 for a closer look on organic growth performance. The organic growth momentum reaccelerated in fourth quarter, resulting in organic growth of 8.3% in the quarter. The organic growth for the full year was 6.3% and thereby exceeded the outlook for the year, slightly driven by above-base work from hurricane and restoration efforts in the US.

Prices added 6% year-to-date, with the momentum slightly lower in fourth quarter at just above 5%, since Turkey did not increase minimum wages mid-year in 2024, unlike in 2023, which means the overall price impact was slightly lower in the fourth quarter, and this was fully in line with our expectations. Still, Turkey remains the main contributing factor when it comes to pricing, with half of the total impact stemming from Turkey.

Volume growth added around 0.5 percentage point, still supported by increased activity levels at customer side, resulting in scope increases. Net contract wins were negative by around 1% points for 2024, as previously guided. This was primarily due to contracts lost or exited in 2023 and mid-2024.

We remain fully committed to our strategy of pursuing only contracts that deliver sustainable margins. Projects and above base activities contributed around 1 percentage points, driven by increased non-portfolio activity in fourth quarter in North America.

Please proceed to slide 16 for a closer look at the margin performance. ISS has been on a margin recovery journey over the past five years, improving from an operating margin near 0% in 2020 to a current margin of just above 5%. This progress is a direct result of our focused execution of the OnelSS strategy, emphasizing selective tenders, driving profitable growth and consistently managing costs.

As we close out 2024, we finished the year with a margin slightly above 5%. Several factors influenced the results at the end of the year, including: general retention and consultant services related to EGM changes in January, accelerated efforts in the mobilization of our significant win with the Department of Work and Pension in United Kingdom.

And finally, we have a strong momentum in our new shared service center in Poland, which has led us to accelerate the transfer of FTEs from UK to Poland. This contributed negatively to margin performance for the year, but the impact is purely phasing. What's truly important here is that we're able to invest significant amounts into contract start up and reinvest in the business, while still delivering on our margin guidance.

Please turn to slide 17 for some thoughts on our free cash flow. Free cash flow for 2024 was DKK2 billion, though slightly ahead of guidance. This was mainly driven by DKK200 million of unexpected prepayments rather close to year-end, primarily driven by prepayment for services that hasn't been delivered as well as customer receivables paid before due date. Working capital was a headwind of DKK700 million, owing to higher revenue growth as well as the timing impact from DTAG still withholding payments.

Second half free cash flow was DKK3.1 billion as a result of a stronger operating profit and improved working capital, a trend in line with our expectation and previous years. Also, it's worth noticing that the factoring balance decreased in the second half and that factoring grew less than organic growth for the full year.

Let's go to slide 18 for a brief update on our M&A strategy. As the CFO of ISS, I'm passionate about driving value through appropriate capital allocation. Our approach balances growth investments with share buybacks and returning value to shareholder, ensuring long term success and financial strength.

As you may recall, M&A activity was high under private equity ownership of ISS. Since our relisting, we've become much more selective, focusing solely on bolt-on acquisition. We pursue these only in markets where we have strong management team and a proven track record and within service lines we know well. Given the success of this strategy, let me emphasize that it remains our approach moving forward. Now let's deep into how we create shareholder value.

Slide 19, please. Since 2020, we had deleveraged our business significantly. As we close out 2024, our leverage ratio stands at 2 times. We are now firmly within our leverage target of 2 to 2.5 times, which remains our top priority in our capital allocation policy. As a result, we are proposing a dividend payment of 20% of adjusted net profit equal to DKK3.1 per share to be presented at the Annual General Meeting in April.

Additionally, we are launching a share buyback program of DKK2.5 billion, as Kasper mentioned in the beginning of the presentation. DKK2.5 billion is a starting level, and we will reassess the situation later in the year. This initiative highlights our strong financial position and is fully aligned with our capital allocation priorities. Combining our dividend and share buyback, we have a 11.5% payout ratio in 2025. That concludes the financial update.

I will now pass it back to Kasper, who will walk us through the outlook for 2025. Please turn to slide 20.

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

Thank you, Mads. Looking ahead to 2025, we are well positioned to continue our growth trajectory, focused on delivering sustainable results in a market full of opportunities. With a clear strategy and the right capabilities, we are ready to drive long term success.

For 2025, we expect organic growth to be in the range of 4% to 6% and an operating margin of above 5%, both fully aligned with our financial ambitions. For reported free cash flow, we expect it to exceed DKK2.4 billion which includes a headwind of DKK200 million from prepayments made just before the end of 2024.

So in other words, just timing improving 2024 and creating a headwind for 2025. As you all know, we're still in the middle of an ongoing arbitration process with DTAG. The financial impact remains unchanged. We believe they owe us the negative cash impact from 2024 at approximately DKK600 million, and therefore, with the payment from DTAG, we expect a free cash flow of above DKK3 billion. In the following slides, I'll dive into the details of each of the three KPIs that make up our outlook.

Next slide, please. In all of ISS markets, there are plenty of opportunity to grow our business. And with our investments and strengthening of our commercial function, we are confident in an organic growth guidance range of 4% to 6%. Do note that 2025 will be back end loaded due to the contract exits from mid-2024 combined with the startup of the DWP contract in October 2025 and the startup of the other new wins that we won here in '25.

In 2025, we expect price increases to be the main contributor to organic growth, driven by mainly Turkey, but also as we implement price increases in other markets to protect our margins.

Furthermore, as explained in the strategy section, one of our commercial initiatives going forward is to grow with our existing customers. And we do expect to see contribution in 2025 from this. Lastly, we expect a positive contribution from net contract wins.

And as you might recall, we've already announced a number of new contract wins this year and we still see positive health in our pipeline. For the margin, we are guiding above 5% and we do want to stress that our overall profitability target is to grow the nominal level of EBITDA rather than focusing on adding few bps here and there. We focus on increasing the absolute earnings power of ISS

while sustaining a high cash conversion. This we see as the best driver to create shareholder value.

Let's turn to slide 23 for a look on our free cash flow guidance. We expect the strong underlying cash flow generation to be maintained in '24. The guidance of DKK2.6 billion is in line with the 60% cash conversion before adjusted for the DKK200 million negative impact from 2024 prepayments.

We still expect payment from DTAG bringing our reporting free cash flow above DKK3 billion. Please turn to the next and final slide 24 please. I want to finish by saying that ISS has a solid foundation. The underlying business has improved significantly over the past years as a direct result of an increased focus on the things that really matters to our customers and people. Fewer initiatives, better alignment, all of which is creating an improved spirit and enthusiasm around the future of the company.

With our latest refinements, our operations are now fully aligned to accelerate growth and capture the opportunities ahead. 2024 represents another positive chapter in ISS' journey towards becoming a company that is growth-orientated, people-centric and performance-driven.

Before I conclude, I would like to take a moment to extend a couple of thank yous. First, to our more than 325,000 placemakers. They are the true magic of ISS. And although, I had the privilege of presenting these results, these outcomes belong to them. Their hard work, dedication and commitment to serving our customers with excellence in every interaction every day are what makes ISS great.

Finally, to our customers, thank you for placing your trust in us and allowing us the opportunity to earn your business. Our commitment to you is to continue working together to create workplaces that fosters belonging, community, creativity, sustainability and engagement.

With that, I've concluded the presentation and we will now open the floor for Q&A, where we'll be joined by our Investor Relations -- IR team to address any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mads Andersen, DNB Markets.

Mads Brinkmann Andersen DNB Markets - Analyst

Maybe just if we start on the on the top line for '25, how should we think about organic growth phasing in '25? Sorry if I missed it. And then separately on that, how confident are you in the underlying volume and the new -- net new guidance or the building blocks that you have in your presentation? As I guess, at least previously, you've been maybe a bit optimistic if -- to begin with in the year, and then during the year you've sort of taken those estimates down a little bit. That will be my first one, please.

And then on the margin, I mean, first of all, congrats on being back above 5%. I know it's not a lot above 5%, but congrats. I think it's great work compared to just thinking about where you were a few years ago, so it's great work. But if I'm just playing devil's advocate here a little bit. Obviously, you did OneISS last year, and I guess, a very crude math, it should lead to a 20 basis points tailwind this year.

Why is it? I know you mentioned some investments in Q4, but maybe just some of the building blocks in terms of why we aren't getting to the 5.2%, for example. And it's -- I mean, obviously, playing devil's advocate, but it's just to understand the sort of real sort of margin potential in the business and how far you are and how far you've come. So any color on that, please? And then maybe just on the margin as well, how should we think about the phasing?

Seasonality was wider this year than it has been in the past. Should we think about the margin seasonality being closer to 200 basis points again next year between H2 and H1, or are we back more to sort of a normalized 150? And then, sorry, the last one, I guess, you didn't say a lot on the US, but any sort of comments on, I guess, Mr. Quick has been in his chair for a few months now, so any sort of takes on his early findings and how you want to proceed in the US?

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

Thank you, Mads. Good questions. Thanks for that. Let me take them one by one here. So first of all, in terms of top line expectations and our confidence in the different components that we will see in '25.

So as you heard me talking about when I went through the outlook, we will get a significant contribution from prices in '24 that we know, because we see that have landed. It's lower than what we have seen in '24, but it's higher than what we've seen historically.

Then we are comfortable that we will see underlying growth in the business coming from both a positive contribution from net new wins and also from growing with existing customers. And it's correct that there is a phasing in that, as you alluded to yourself, because we're going into the year with a negative position. You saw that it's -- our net new wins it's negative in Q4 of 1.5%. It will continue to be negative in the first half. But then we're expecting it to turn into a positive number as we'll be starting up DWP in the UK.

And you will also see these startups of the contracts that we have announced here in January 2025, that will kick in, in the second half of this year and accumulated for the full year. We expect that to be a slightly positive contribution to growth. And same goes for volume.

We have grown in '24 with our existing customers, and we expect that to continue in -- this year and even increase a little bit. Then on the project side, we expect that to be slightly negative in '25 versus '24, and that is purely due to comparison with the significant volume that we've seen, particularly in the US and above-base work in Q4 2024.

But if you add all of that up, that's where you get to the midpoint of the guidance of 5% for '25. And just to be precise, the growth is back end loaded, so we're going to start out with a lower growth in the first half, and then we're expecting that to improve in the second half of this year.

Then to your question around margin, totally fair questions. Thanks for raising that. Mads spoke to it. We have done the right things for the business here at the end of '24. And what I mean with that is that, we have executed on some initiatives that is adding value to us, but that has also caused some additional costs and that's why you're seeing that the margin is coming in, in line with our guidance, but slightly lower compared to the number that you alluded to.

Specifically, that's related to an acceleration of our shared service journey in a number of countries where Mads has done a great job in pushing that agenda further. And secondly, we do have some costs related to the strategy review that I alluded to around some consultancy costs. But also with this significant change to the executive group management team, we have decided to pay a few incentives to key people to make sure that we have them in a good position on this important chapter that is ahead of us.

And the last thing that I will mention is, again, an acceleration on the mobilization of the DWP contract in the UK. There are certain things that we have done in late 2024, which is setting us up for a very good position when we go live with that contract later in '25.

And you can see, just to be a little bit technical on that, our capitalized mobilization cost has not increased year-over-year. So these cost has all been expensed in '24 and is, of course, impacting negatively slightly the margins for '24.

Lastly, you had a question around the US and how that is going? It's going according to plan. And what I mean with that is that, the team is in place in the US. Our strategic plan is ready and designed and that's, of course, in line with what we're doing from a strategic perspective from a group point of view, and now it's about executing. And we feel confident that we will start to see the -- some positive signs on that over the course of this year. So overall, in line with expectations.

Then you had a very last one, I think, which was the seasonality on margin. And you should expect that we will have the normal approximately 1.5% seasonality in the margins between first half and second half. And then due to the EGM changes that we have made here in January, you should also expect that the usual restructuring cost that is included in the guidance is frontend loaded this year. So you will see the majority of these costs hitting the first half.

But overall, for the full year, it's still within the range of the DKK100 million that you know we have also guided and expected previously.

Operator

Remi Grenu, Morgan Stanley.

Rémi Grenu Morgan Stanley - Analyst

The first one is on the 6% of sales, which are for renewal this year. I think you said it's related to two large customers. So can you run us through a little bit more -- can you give more details on the process for these 2 renewals? Is it an open and competitive standard process? And I know that sometimes you're renewing these contracts a little bit earlier with the customer, so should we see any risk in -- for these two specific contracts?

So that's the first question. The second one is on the above-base work you did in the US. Interested in understanding if there was any significant difference in profitability for this specific contract and if it had an impact at growth level or not? And the third one is on the cash you're returning to shareholder in 2025. So combined, that's DKK3.1 billion versus the DKK2.4 billion free cash flow.

I just want to understand if we should conclude from that payment of cash to shareholder that you got increased confidence regarding the DKK600 million of payment withheld by Deutsche Telekom there. And also, yes, I saw that on one of your slides, you're calling it a timing effect, I think. So, yes, just want to understand what's your thinking around that DKK600 million.

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

Thank you, Remi. So in terms of the 6% that I commented on in my presentation that is up for renewal this year. Then there are two big ticket items in these 6% and they both expire at the very end of the year, so end of December '25. These are customers. These two customers are customers that has been with us in a long period of time, and we have a strong partnership with them.

We've also grown business with them also recently. And there's no red flag that is coming up in these conversations with the customers. But of course, we're always hyper focused on that until the process is closed. But no significant risk to flag around the 6%. The above-base work in the US in Q4 is coming in with group average margins, so not dilutive, not accretive. It's a ballpark average to group average.

And in terms of the DKK600 million that you alluded to, which is the negative cash impact from Deutsche Telekom withholding certain payments in 2024, our position has not changed at all compared to what we have communicated to you recently and also in November. We still remain confident in our case, and we see that DKK600 million as a timing issue, so no change in that position. We remain confident.

Operator

Allen Wells, Jefferies.

Allen Wells Jefferies - Analyst

Allen Wells, from Jefferies. Just three for me again, please. I just want to go back to the margin guidance from the original question on this call. The over 5%, I guess, is broadly in line with what you guided for last year. And as I think about those building blocks, you should have some tailwinds from the ISS strategy.

You should have some benefits from contract exits. And I think the general feeling was that the margin at a basis point level would probably progress year-on-year. So can you maybe just talk a little bit about the offsets that are coming through? Obviously, DWP, the contract ramps, we kind of knew about those. So is there anything that's actually changing in that in terms of the way you're thinking about focus or is this an element of conservatism in the way you're guiding for that?

So that's the first question. Secondly, just to kind of go back to above-base again. I think at the start of the year, you guided that above-base would be a headwind to growth or slightly negative, I think, was the wording. It's at 1% again. I think it's basically been a tailwind to growth every year since the pandemic.

Could you maybe just comment is there something structurally changing in the way that customers want to contract? Do they want a bit more flexibility, or is this each year something very, very specific that you're seeing that's driving that change?

And then finally just on Deutsche Telekom, the guidance was DKK600 million of payments being withheld, that's been met now. But I'm guessing that there may be more payments that withheld between now and July. So does that number increase, or are you just not doing any more work that's related to the areas that are being challenged?

And then maybe just linked to that, could I just check, should you be successful on getting this DKK600 million back? Does that potentially change the amount you could return to shareholders?

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

Yes. Thanks, Allen. So first on the 5%, I just want to point towards your attention, we're saying above 5%. We're not going to be more precise than that because what matters to us is that we have the flexibility to do the right things in the business. And we're not focusing on a few basis points on incremental increase of 10 bps year over year.

It's key that we're doing what it takes to have a sustainable strong growth in the company because that is what is creating the nominal profit and therefore, improving the free cash flow -- strengthening the free cash flow further. So that's it on margins.

On above-base, we don't see anything structurally that is changing on above-base. As you heard me allude to when I answered Mads' question, we're expecting a slight decrease in above-base, and that's simply due to the comparison in Q4, due to this significant project that we had in the US, but nothing structurally that has changed. Of course, above-base, and you gave the data points.

It is, by nature, hard to predict. And therefore, the data points that you're giving there, we can't be more exact than that. But structurally not. And I'm also pleased with the fact that our new Commercial Operating Officer, Carl-Fredrik Bjor, is going to run some commercial initiatives that is pushing the -- our commercial focus all the way down to site level, so that our site managers will start to have strong incentives to generate above-base already here from the beginning of '25 and going forward. So I'm looking optimistically at that.

The Deutsche Telekom, the DKK600 million you alluded to, as I've said before, we feel we have a good case. We remain confident in our case. As I said earlier, also in my presentation, it's an ongoing legal case, so I can't go into too specific details around that in terms of your specific question on payments. But what I can tell you is that I feel very confident in delivering a cash flow for this year of above DKK2.4 billion no matter what happens with the DTAG case.

And then on the DKK600 million which was the amount that was withheld in '24 and whether that is going to be returned back to shareholders when DTAG is paying that. Well, we have a crystal-clear capital allocation policy. And as you know, we remain cautious in M&A, as Mads also mentioned. So don't expect transformational M&A, small bolt-on acquisitions similar to what we have done in the last two years.

And we've just announced the dividend today or that we proposed to AGM. So to assume that incremental will come back to shareholders through increased share buyback program is not an unreasonable way of thinking.

Operator

Nicole Manion, UBS.

Nicole Manion UBS - Analyst

Just a couple of questions, please, on the contract wins and pipeline. Firstly, I think you had a comment in the slides about being more successful in winning bids where the focus is on attracting and retaining employees rather than sort of squarely on cost reduction. Can you talk a bit more about this maybe? Does it have any implications for service mix and complexity of the contracts you're signing? Are you sort of naturally doing more projects type work within those contracts or not really?

And then secondly, there, obviously, has been a slight pickup in contract momentum over the last few months, all been on the sort of smaller end. I'm just wondering how much of this you'd attribute to the changes in the market or tender environment versus how much you've maybe put down to some of the changes you've made in your own commercial focus and so on over the last sort of six months.

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

Thank you. So let me try to explain these two in one. I mean, first of all, what we see as a global trend across current customers, but also with potential new customers is that they are all trying to solve for one thing, which is to make sure that their staff is engaged. And it's quite a big issue. The numbers I gave in my presentation around Gallup shows that disengagement among people today is creating a significant hit to global economy.

And we can help our customers with solving that problem by our people being engaged and coming in to the customer's workplace and creating a workplace that generates fantastic service moments and a place where the customers staff wants to get back in, not to be pushed back in, but they want to get back in because they like being there.

And therefore, also automatically are more engaged and working in a more productive way and delivering better outcomes for their -- in their jobs, for the companies that they are working for. That being said, and we do that, of course, with our people.

And we do that very well, because we have well-trained people. We have people that are engaged. We have people that know what good service looks like, and they have the empowerment to do what is right at site level for the customer.

But that being said, we shouldn't lose sight of the fact that there are also two other parameters that are very important. And price is a parameter that cannot be neglected. So if we are not competitive on price, then we don't qualify to continue in the process. So price is also something that is important and hence the productivity initiatives and the -- what I mentioned around the shared service center is a crucial priority for us.

And the last thing is ESG as a theme. Our customer is expecting us to help them drive their ESG agenda, and we have strong programs in place for that. When we're getting these things right, that's also when we are winning new contracts. And these has been the key parameters that has been the determinant factors in the wins that we have announced here recently.

Operator

Kristian Godiksen, SEB.

Kristian Godiksen SEB - Analyst

I have a long list of questions, but I'll limit myself to the three initially. So first of all, curious to hear your view on the increase in the National Insurance, where one of your competitors has been very outspoken on the expected impact on their margin of 50 basis point on an annual basis. So hope you can provide your view and your view on this. And maybe also share your view of the share of contracts where you automatically can pass on the costs and where you need to negotiate? That would be the first question.

And then, secondly, on the retention rate, that came down in 2024 due to the contract losses/exit. So wondering what is your view on the retention rate in 2025, also when contract losses, exits annualize? And then thirdly, just coming back to the DTAG payments of the DKK600 million in 2025. It seems like, obviously, consensus to not expect this to happen. And based on your wording in the presentations, I'm curious to hear whether DTAG agrees that they owe you the DKK600 million.

And in that connection, what is the timing of the final outcome after the final oral hearing in mid-July 2025? I'm not super sharp on the German arbitration process.

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

Kristian, thanks for good questions. Much appreciated. So first on the UK and the National Insurance. I mean, it can be boiled down to a few data points that will be worth sharing.

The total exposure that we have from this is less than 10 bps on the margin -- on the consolidated margins. And we are working on mitigating that through, of course, productivity gains but also in conversations with customers.

And remember, in the UK we have a very strong setup and we have grown the business significantly from being close to the customers and establishing good partnerships with our customers. And a partnership, of course, is only a partnership if it's beneficial for both parties.

So these conversations that we're having with the customer around finding ways to mitigate this small impact it has for us at a consolidated level are going very well, and therefore, I'm also hopeful and expect that it will be a minor impact, if anything, to us

going forward.

Then in terms of the retention rate, I mean, I've spoken to the customers that are coming up for retention over the course of this year, and we feel good about that. So we see no reason why we shouldn't maintain or improve the retention rate to your comment when some contracts are rolling out over the course of this year.

And lastly, on DTAG, I mean, obviously, as I said to Allen, I can't comment on the details. It's my job and it's Mads' job to protect the interest of ISS, and we can't open up due to the sensitivity of this being a legal case. But what I can say, and then I think you can connect the dots yourself is that similar to what I said to Allen. That we feel very confident in delivering this year a cash flow of above DKK2.4 billion no matter what happens with the DTAG case.

Kristian Godiksen SEB - Analyst

And perhaps, just on the timing, on the final outcome, when is that we expect --

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

Sorry, I forgot that. Yes, I forgot that. You're right. The oral hearing is due mid-July, and then we'll be waiting for the ruling from the arbitration court. And I mean, I have all the confidence in the legal system in Germany.

So, hopefully, that will be a smooth and a quick process, but I don't know. And that would be pure speculation if I started to give an exact date for that.

Kristian Godiksen SEB - Analyst

There's more of a legal -- I have no clue whether it's a month or two weeks or six months. So it's more in ballpark figures. And on the retention rate, Kasper -- sorry.

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

No. I said it would be pure speculation. I don't want to comment on that because I don't know. But again, I have confidence that there is an effective system in Germany -- a legal system in Germany.

Kristian Godiksen SEB - Analyst

And phasing timing on the retention rate, was it correctly understood that you expect the 93% to persist until the contract losses/exits they annualize in the first half and then they -- it should move back towards the 95% level in the second half?

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

Yes. In all material aspects, I commented on the 6% previously. I can't remember who asked that question. But yes, that is -- that's a fair assumption question, Kristian.

Operator

Klaus Kehl, Nykredit.

Klaus Kehl Nykredit Markets - Analyst

Klaus Kehl from Nykredit. A question about your capital allocation. First of all, I can say that I'm positively surprised by the size of the share buyback and the total payout for this year. But, how should I then think about '26 and going forward given the solid balance sheet that you have at the starting point and your cash generation? Would it be fair to think about similar amounts assuming no major events happened for '26? Any color on that would be helpful.

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

Yes. Thank you very much, Kehl. Mads here. So first of all, what you alluded to is that we're very happy with the announcement of the share buyback of the DKK2.5 billion that we just announced today. You have to remember, we started out on the share buyback last year with DKK1 billion and we decided to increase it in the second half of the year with another DKK500 million over 2 times.

What we said today is that we start out with the DKK2.5 billion and then we will, of course, look later at the year due to the seasonality and the cash flow, not at least whether we would like to orbit at a later stage. Whether that -- I mean, we have our capital allocation policy where we're thinking about dividend from 20% to 40%.

How a '26 will look is a bit early to say. But of course, if things are modeling through, share buyback is one of the tools that we have in our toolbox where we have excess capital. And we want to follow our leverage of 2% to 2.5%.

And extra or additional capital that we're sitting on, we will deploy to investors. So that could be actually both ways. So I will not comment directly on any amount, but I'm thinking we are building a good track record.

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

Okay. And with that, thanks for all the good questions. But also thank you for all of you that have taken your time to listen in. Much appreciated. Thanks for your interest in ISS.

Obviously, our IR team will remain available for further questions. And with that, I just want to finish by wishing you all a fantastic day. Thank you very much indeed.

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