Company Name: ISS A/S
Company Ticker: ISS DC
Date: 2016-03-02
Event Description: Q4 2015 Earnings Call

Market Cap: 43,446.36
Current PX: 234.00
YTD Change($): -14.70
YTD Change(%): -5.911

Bloomberg Estimates - EPS
Current Quarter: 3.180
Current Year: 14.555
Bloomberg Estimates - Sales
Current Quarter: 18916.500
Current Year: 80189.533

Q4 2015 Earnings Call

Company Participants

- Nicholas Richard Ward
- Jeff Olsen Gravenhorst
- Heine Dalsgaard

Other Participants

- Staffan Åberg
- Kristian Godiksen
- Michael Vitfell-Rasmussen
- Emily Charlotte Roberts
- Matthew G. Lloyd
- Rory E. McKenzie
- Jonas Guldborg Hansen
- Paul D. Checketts

MANAGEMENT DISCUSSION SECTION

Nicholas Richard Ward

Ladies and gentlemen, good morning. This is Nick Ward, Head of Investor Relations at ISS, and I would like to welcome you all to our Q4 2015 Results Teleconference. Please be aware that the announcements, the annual report, as well as the slides used for this call can also be found on our website. And later today, a replay will be available and we'll post a transcript of the call as soon as it is ready.

I'd like to draw your attention to slide number two regarding forward-looking statements. The agenda for the call is outlined on slide three.

And presenting today will be Group Chief Executive Officer, Jeff Gravenhorst; and Group Chief Financial Officer, Heine Dalsgaard. We'll open up for Q&A at the end of the presentation.

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

Jeff Olsen Gravenhorst

Thank you, Nick, and welcome to our full year conference call. Can I please ask you to turn to slide number 5?

Creating value for shareholders is of course our priority at ISS. And in 2015, I can say that we achieved this. We generated revenue of almost DKK 80 billion, with organic growth of 4.4%. Our operating margin improved by a further 10 basis point, maintaining the momentum we've seen for the past nine quarters.

We have yet another year of excellent cash conversion with a cash conversion of 99% and almost DKK 2.9 billion of free cash flow generated. This combination of growth, margin uplift and strong cash conversion allows us to reduce our leverage to 2.1 times by year-end, thereby delivering on our commitment at IPO. However, we've also been proactive in the capital market. In November, we issued another €500 million bond under the existing EMTN program. This has increased our fixed rate borrowings to 81% of funding structure at highly attractive rate and has given us an attractive and extended maturity profile.

Finally, we are returning capital to shareholders through our ordinary dividend. We proposed a dividend of DKK 7.40 a share, equating to a payout ratio of approximately 50%. This is a 51% increase on our 2014 dividend and is a clear sign of our commitment to allocate capital responsibly, as well as our confidence in the future. Our intention to return additional funds to shareholders above and beyond our ordinary dividend remains unchanged. These results reflects the successful ongoing execution of our strategy. Again, this is entirely in-line with what we've communicated at IPO, and have continued to communicate in subsequent quarters.

Our initiatives around customer segmentation continue. In 2015, revenue from key accounts and large and medium customers amounted to 91% of group total, up from 87% in 2014.

Integrated Facility Services, IFS, had another strong year with 11% constant currency growth. In the fourth quarter alone, IFS accounted for 36% of group revenue.

Partly supporting this development has been the continued success of Global Corporate Clients, likewise delivering 11% constant currency growth. This was driven by one new customer launch in April and significant expansions of existing customer relationships.

Emerging Markets has also had another strong year, generating 25% of the group revenue in the year and growing organically 8%.

We sharpened our focus on customers. We have introduced a new delayered and strengthened group organizational structure that is improving alignment and support across regions and countries. We selectively rolled out our Project GREAT restructuring initiatives across new countries reducing head count and infrastructure but better aligning our business with target customers. These restructurings comes at a cost, but there's a clear benefit to our margin and, more notably, our revenue potential. Recent major contract wins in the UK, Denmark and Norway, all of which has benefited from project grade restructuring in 2014, a testament to that. Our excellent projects including procurement and business process outsourcing continue to deliver in line with expectations. They're clearly contributing to our profitability.

Finally, we'll continue to improve our revenue mix via selective acquisitions and divestments. The acquisition of GSO has proven highly successful with further revenue synergies delivered since we updated you last. We've made six divestments, the largest being our call center activities in Turkey CMC.

2015 has been a very good year for ISS, but this not has been without challenges, both macroeconomic and operational. However, we've overcome these and at the outset, I would like to thank every one of my 504,815 colleagues for their commitment, endeavor and support in generating this strong financial performance.

Please turn to slide 6. 2015 was a year where ISS delivered against stated objectives. We delivered against our former guidance on organic growth, operating margin and cash conversion. We also strengthened our balance sheet and successfully completed and integrated our first acquisition of [ph] note (05:33) in five years.

Whilst our leverage was 2.1 times at year-end, please remember that our leverage objective takes seasonality into account. In December is always a seasonal low-point for our leverage, and our net debt will rise in the first half of 2016. I will come back to this later.

We are very pleased with what we have achieved in 2015. The opportunity ahead of us remains considerable. We started 2016 with a new vigor and purpose. Please turn to slide 8. I will now focus on our Q4 2015 performance and start, as always, with a global overview. In the fourth quarter, we saw good organic growth in both developed markets at 4% and emerging markets at 9%. Our margins were 20 basis points higher year-on-year in developed markets and remained stable in the emerging markets. Our group organic growth in Q4 was 4.8%, in line with what we delivered in the third quarter and in second quarter.

At the Q3 investor call, we stated our belief that Q4 organic growth was likely to be below Q3. A slightly stronger-than-expected end to the year was driven by project works, our non-portfolio revenue within our IFS contracts. The visibility and timing of these projects is a little lower. We do not believe this increased activity is macro-related, but more reflects our emphasis in customer segmentation and increased focus on key account management. This has driven stronger customer relationships and subsequently, an increased share of customer wallet.

Now, let's look into the region starting with Western Europe on slide 9. Western Europe ended up 2015 on a strong note with organic growth of 6%. We had a full year-on-year benefit from some of our major contract launches, including UBS and Homerton Hospital in the UK, Vattenfall in Germany and Swisscom in Switzerland. Growth relative to Q3 also benefited from annualization of the loss of [ph] Imperial (07:47) college healthcare contract from 1st of November onwards.

In addition, organic growth in Turkey increased versus the third quarter, largely reflecting the timing of the annual Eid Festival.

In certain other countries, conditions were more challenging. However, whilst Netherlands still saw a negative year-on-year growth in Q4, the business is showing signs of stability, thanks largely to the effort of our new management team.

For the full year of 2015, the Western European margin increased by 10 basis points. For the fourth quarter, the margin was down 30 basis points year-on-year with some negative impact coming from the rebalancing of revenue across regions within our HP contract. We gave details of this change in November. But to be clear, the overall impact on the group level is zero. Otherwise, we've seen margin improvements in Switzerland and Germany, some of which relates to our project GREAT initiatives.

As we suggested in November, fourth quarter organic growth in the Nordic region was lower than Q3. On the positive side, our Danish business saw the steady ramp-up of contracts with Danske Bank and Danish Railways. However, Q3 organic growth in Norway was boosted by the year-on-year strength in the Norwegian hotel sector, which, due to seasonality, was not repeated in Q4. Meanwhile, Sweden's Q3 performance was boosted by project works within the nuclear segment, again, not repeated in Q4. Moreover, our business in Finland is suffering from a major IT customer undertaking a significant de-scaling of its activities in the region.

The year-on-year margin performance was impacted by timing considerations between the quarters. And as such, the full-year improvement of 30 basis point is more indicative of the underlying strength. This improvement has been driven by efficiency gains largely related to our strategic initiatives and principally in Denmark and Norway where we restructured the businesses under the project GREAT initiatives in 2014.

Please turn to slide 10. Our business in Asia ended the year on a strong note. We saw healthy, double-digit organic growth in Singapore, Indonesia, and China, but growth rates across the entire region were generally high. The region also benefited from stronger than expected project works or non-portfolio revenue at the end of the year and this was largely driven by our global corporate clients including HP, Barclays and Foreign & Commonwealth Office, the FCO contract.

We have some excellent businesses in the region and a great platform for future growth. As yet, we're seeing no negative impact from macroeconomic development and are confident that we will see further strong growth in 2016. Our margin performance was strong across the region with some notable improvements seen in India and Indonesia. We saw a final one-off positives Singapore related to a final assessment of contractual obligations. So, once again, looking at the full year margin, development of 50 basis points is more insightful.

As we flag consistently through to 2015, the Pacific eventually saw a sharp slowdown in growth in Q4. Earlier in the year, we won our first Queensland based remote-site resource contract but this was more than offset by contract loses elsewhere within the resource segment that impacted our revenue from end of Q3. The transition of two further mining sites and construction to production which we have also highlighted earlier will impact us in Q1 2016. Whilst we have retained this business, the transition leads to a natural reduction in demand for our services.

There is one further contract loss in the remote-site in Pacific which we expect will impact us from Q2 in 2016. So, the growth outlook for Pacific is undoubtedly tougher right now, but the pipeline is still good. There remain a number of interesting opportunities within the Resources segment and in the Healthcare segment.

The region delivered an excellent margin performance in Q4 and for the full year of 2015. This was driven by our strategic initiatives which led to contract efficiency improvements within Resources, Healthcare and Aviation and also some improvements in our above unit cost. We aim to hold on to these margin gains in spite of the tougher revenue outlook for 2016.

Please turn to slide 11. 2015 was a slightly frustrating year in North America from a growth perspective, but a good year from a margin perspective. Progress within IFS has been positive, driven, to a large extent, by our Global Corporate Clients business. However, new sales development proved slightly disappointing and insufficiently strong to offset contract rationalization elsewhere.

There's no doubt that our revenue mix in North America has improved through 2015, and this trend will be maintained in 2016 as we start work with Rolls-Royce amongst others. This contract will further enhance our credentials within integrated facility services in North America.

The operating margin was distorted by timing differences between Q3 and Q4. Once again, the full year margin improvement of 60 basis points is fully reflective of the underlying progress we've made. The U.S. has also benefited from restructuring under the Project GREAT initiatives. We've reduced our [indiscernible] (13:25) and cut costs.

Our new regional Head of the Americas, Dan Ryan, started at ISS last month. Dan joins us from G4S where he ran the Asia and Middle East region. Before that, he worked at APL. Dan has a wealth of relevant experience, and we are delighted to have him on board.

In Latin America, we still managed 4% organic growth despite the clear challenges within Brazil while the situation has deteriorated further and continues to impact the regional margin. Customers are looking to downsize further and we are faced with the cost of reducing our head count. To put this into perspective though, Brazil today is about 1.6% of our group revenue.

The performance elsewhere in Latin America remains good. We delivered healthy organic growth in all other countries during the Q4. And in Chile, in particular, generated strong results throughout the year. For the full year 2015, all countries outside Brazil delivered margin improvements.

Finally, in Eastern Europe, we have tough year in 2015. The performance has been quite varied across the group. Again, Eastern Europe generates 2% of our group revenue. Our biggest country is the Czech Republic where we suffer from some contract losses through the year end – through the year and weaker-than-expected activities and new startups.

Organic growth elsewhere has been quite good particularly in Slovakia and Russia. We also have some notable success in Poland within the food processing industry where we have grown our business with both [indiscernible] (15:05), which is a part of [indiscernible] (15:03); and Animex, part of Smithfield. Our focus on cleaning excellence has proven highly attractive here as customer health and safety needs have risen.

With that, I would like to hand over to Heine who will take us through a more detailed review of our financials.

Heine Dalsgaard

Thank you, Jeff, and good morning, everyone. Please turn to slide 13. In Q4 2015, our revenue increased by 8%. This comprised a minor impact from divestments and [ph] our ONE (15:35) acquisition a 3% positive impact from currency and 4.8% organic growth which is completely in line with the previous two quarters. The main currencies impacting our revenue growth were British pounds, U.S. dollar and the Swiss francs.

For the full year 2015, our total revenue growth was 7%. This includes a 4% positive from FX and a 1% negative from divestments and [ph] our ONE (16:07) acquisition. Looking at our revenue development on an LTM basis you can see the impact of our divestments over recent years, most notably in 2014. Over the past four quarters, we have replaced this divested revenue principally through our strong organic growth performance. As you've heard from Jeff, our full-year 2015 organic growth was 4.4% compared to our most recent guidance from November 2015 of 4% to 4.5%, so fully in line with our recent guidance.

From Q1 2016 and onwards, we will report our regional revenue and operating profits along new lines. It is a requirement under IFRS for us to report our financials externally in a manner that is consistent with the way we manage our business internally.

So, moving forward, we will report four geographical regions. One, Northern Europe comprising of the Nordics and UK and Ireland. Two, being Continental Europe comprising the rest of our European operations. Three, Asia-Pacific as it is today, and then four, Americas comprising North America and Latin America. In the appendices to these slides, you will find a full breakdown of the last eight quarters of this new regional split.

Please turn to slide 14. If we look at the developments of our full-year operating profit in 2015, it is clear that the main upside came from Western Europe and Asia. However, the Pacific and North America operations also made notable positive contributions. The performance in the Nordic region reflects both negative FX developments and the impact from divesting our personnel and services business in September 2014. Organic growth and margin progressed were both positive in the Nordic region in 2015. Latin America saw an overall reduction in profitability, principally relating to Brazil.

Corporate costs increased from 0.7% of revenue in 2014 to 0.8% in 2015. This was in entirely in line with our expectations and largely reflects the full year impact of being a listed company. And in particular, increased costs relating to our LTIP so long-term incentive programs and investments in certain group functions including IR, people and culture and procurement.

In 2016, we expect corporate costs to remain at approximately 0.8% of revenue. Our LTM margin performance is illustrated on the right-hand chart. Our strategic initiatives, including customer segmentation, organizational structure and excellence initiatives such as procurement and BPO lie squarely behind this performance. We have now delivered nine consecutive quarters of LTM margin improvement. We are very satisfied with this performance and expect the journey to continue.

Please turn to slide 15. With regards to our income statement, I would like to make a few points. We saw net other income of DKK 162 million in Q4 2015 this was driven by DKK 349 million of gains on divestments, mostly relating to the non-core call center activities in Turkey, the CMC activities. This was partly offset by DKK 65 million of restructuring expenses relating to our ongoing Project GREAT initiatives, by DKK 44 million relating to senior management changes post introducing our new group organizational structure, by DKK 36 million of losses on divestments and, finally, by DKK 10 million of additional integration costs relating to the acquisition of GS Hall.

The year-on-year reduction in our net financial expenses reflects reduced borrowings, lower rates and lower margins. Remember that Q4 is our seasonally strong cash quarter, and this has some impact on the average net debt during this three-month period. From March this year, so from 2016, we will see a further 20-basis-point reduction in the margin on our Term Loan B and our revolving credit facility now that our leverage is below 2.5 times.

However, this will be broadly offset by higher interest costs from replacing the €500 million of our Term Loan B with a new five-year fixed bond we issued at the end of November 2015. In 2016, we expect net financial income and expenses of approximately DKK 550 million, excluding any potential impact, of course, from FX moves.

Our effective tax rate in Q4 2015 was impacted by the non-taxable profits on the divestment of CMC. This resulted in a full year effective tax rate of 28%. This was fully in line with our expectations if we take the effect of non-taxable income from divestments into account. However, due to our continued focus on tax, we now expect to be able to maintain our effective tax rate at around 28% also in 2016. Finally, we took a non-cash goodwill impairment charge of DKK 77 million in Brazil during Q4. All goodwill relating to Brazil have now been completely written off, and the remainder of the goodwill impairment for the full year, you can see in the P&L, relates to our two minor completed divestments in Belgium and Portugal.

Please turn to slide 16. With regards to our cash flow statement, I would like to highlight a few points. The Q4 2015 working capital inflows reflect the seasonality of our business. This is entirely consistent with our performance over many years now. On an LTM basis, our cash conversion remains strong at 99%.

In addition, our days of sales outstanding has been reduced compared to last year. The Q4 2015 net interest payment included the annual coupon payment on our 10-year bond. In January this year, we paid the annual coupon on our five-year bond maturing in 2020. And the first interest payment on the 5-year bond maturing in 2021, which we issued in November 2015, we'll pay interest first time in January 2017.

With regards to tax, I remind you that Q4 2014 includes a sizeable one-off impact from changes to the timing of on-account tax payments in Denmark, whereas Q4 this year, so 2015, includes significant tax refunds in several countries.

Finally, the full-year 2015 cash flow from investing activities reflects a lower level of divestment than we saw the year before and also includes the acquisition of GS Hall in January 2015.

Please turn to slide 17. By way of an update, we have here illustrated our capital structure and our policy considerations. Sustaining an optimal balance sheet structure is utmost in our consideration. And as we have said repeatedly, our aim is to maintain a pro forma that is in line with being investment grade and to target a leverage below 2.5 times, taking into account the seasonality of our cash flow throughout the year. We also aim to ensure adequate liquidity and optimal balance between fixed and floating rate financing, diversified funding sources and, of course, a smooth maturity profile.

We will remain proactive at exploiting any opportunity supported by the capital markets, and we demonstrated this in late November 2015 by moving swiftly to issue another €500 million bond under our existing EMTN program.

As Jeff mentioned earlier, now, some 81% of our funding structure is fixed at highly attractive rates. In addition, we have extended our maturity profile, putting our balance sheet in a very strong position for the foreseeable future. We are very satisfied with our current funding structure, both in terms of fixed versus floating rates and also in terms of the maturity profile.

Please turn to slide 18. As we explained at our Capital Markets Day in September last year, maximizing our cash flow growth in a sustained way over time and then allocating capital optimally are central to our value proposition to our shareholders.

Let's start with our free cash flow in the left-hand chart. At this time, we're looking at free cash flow pre-interest, but after all investing activities excluding acquisitions and divestments. In 2015, some 15% of this free cash flow was allocated towards our net financial expenses. This compares with 32% in 2014, so from 32% to 15%. There are, of course, as we've been discussing, a number of drivers behind this reduction. Obviously, the decrease in our borrowings and the combination of lower rates and margins has greatly reduced our interest expense. However, in addition, our free cash flow has strengthened driven by the revenue growth and margin improvement we have discussed as well as the reduced cash tax expense.

We saw a modest net cash inflow of DKK 31 million from net acquisitions and divestments. And then we paid a dividend of DKK 901 million in April 2015. The remaining cash was largely, not entirely, but largely used to repay our debt. In addition, please remember that we spent DKK 204 million in 2015 in acquiring [indiscernible] (26:34) to hedge obligation arising under our LTIP program.

Today, we have announced an additional 150 million share buyback program with exactly the same purpose. This is of course unrelated to our future plans to return surplus capital to shareholders. But it is a necessary cash payment to fund our LTIP, so long-term incentive program commitments.

Our leverage at year-end 2015 was 2.1 times pro forma adjusted EBITDA. Whilst this is some way lower than our below 2.5 times target, the natural seasonality of our cash flows will take leverage back up towards the 2.5 times level in the first half of 2016. This is what we have explained consistently over recent quarters and why we have said in the past that any additional shareholder returns above our ordinary dividend commitment and LTIP funding obligations will not be considered until the second half of 2016 at the earliest.

Our intentions with regards to additional shareholder returns are completely unchanged. No decision have been taken on timing, size and methodology. You should not expect any further detail here until we are ready to go live. What we have announced today is a proposed dividend of DKK 7.40 per share, equivalent to DKK 1.374 billion and a payout ratio of approximately 50%. This total dividend payment is more than 50% higher than last year, reflecting the strong increase in our profit before intangibles.

With that, I hand back to Jeff.

Jeff Olsen Gravenhorst

Thank you, Heine. Turning to slide 20, you can see some of the major developments for ISS in 2015, which includes some of our largest integrated sewer services contract launches. These IFS contracts may result from either expansion of existing relationship, by geography, for example, Vattenfall and UBS, or by service, for example, Swisscom or Danish Danske Bank, other simply new contract with new customers such as Huashan Hospital in China or Homerton in the UK.

I would like to make reference again to the GS Hall acquisition. We're very pleased with this acquisition and the subsequent integration within our European business. In the appendix to these slides, we've updated the information we first showed at our Capital Markets Day and illustrate some additional revenue and cost synergies we have secured.

Please turn to slide 21. As for major contract launches in 2016, we again have a mixture of contract expansions, so Novartis and PostNord, and the brand-new customers like Rolls-Royce. Novartis is a very important development for ISS, and we have announced a significant expansion across Europe that will build momentum in the first half of the year. I will come back to this story on the next slide.

I've made reference to Rolls-Royce, which primarily drive revenue growth in North America with some additional business in Asia and Brazil. This 5-year agreement will be fully operational from April. During second quarter, we will see our Nordic region benefit from the expansion and extension of our relationship with PostNord. PostNord has reduced around 1,000 subcontractors to one main partner, ISS.

Finally, our expanded relationship with the Norwegian Armed Forces is due to commence on the 1st of May. This is a seven-year cleaning contract across the whole of Norway, thereby adding to our existing catering services.

Please turn to slide 22. At our Capital Markets Day in September, Andrew Price detailed how we have driven significant growth for the existing global corporate clients over several years as those customers have placed higher value on our service proposition and given us more and more responsibility.

Novartis is another one, another great example of this. Our relationship with Novartis started in 2012 in four countries, Germany, Austria, Switzerland and Slovenia. The map illustrates how our geographic [ph] Remid (30:46) has expanded in the subsequent years. Last month, we announced a further significant expansion, adding another 16 countries. As such, we now service all of Novartis' provinces across 24 countries in Europe. The latest contract runs until 2019.

In the right-hand graphic, we illustrate the range of services we are delivering to Novartis. The key performance indicates a base on outcomes rather than input specifications. The commercial terms of the contract rewards ISS for delivering the optimal blend of cost savings, compliance and end-user satisfaction. This partnership model is known as a vested-outsourcing model, which with both parties focusing on shared values and goal to create mutual benefits with – via service excellence and cost optimization.

Please turn to slide 23. I would like to just explain some of the benefits arising from our restructuring projects using the ISS Germany as an example. In the left-hand chart, you will see the historic revenue and margin development in Germany. We also illustrate the annual organic growth rates in red. The introduction of Germany's Agenda 2010 under Chancellor Schröder gave major liberalization of the German cleaning market with massive increase in number of cleaning companies in the period after 2009.

It became very difficult for ISS to sustain positive accounting growth at acceptable margins. However, there were two developments of note. First in 2006, we acquired DaimlerChrysler. In-house facilities management business, DEBEOS. This gave us access to a key customer, but also enhanced our credentials in areas such as technical services and catering. Second, we started to work with HP in 2008 which helped us to improve the ISS concept in the German markets.

In 2010, we leveraged our capability in the automotive industry by securing a major contract with BMW. At the same time, we started to restructure the business and completed the divestment of Vatro, our damage control business in 2011. Work with Novartis started in 2012.

However, our organizational structure was still suboptimal. We lack flexibility, innovation, and customer focus. So, in 2014, ISS Germany analyzed and planned a major restructuring which was implemented in 2015. The new organizational structure is consistent with our great initiative and follows the ISS blueprint – country blue print.

It combines an industry-focused key account setup with geographically-managed specialized services. We've taken out cost in this process, reducing management layers and empowering local decision making. The margin improvements in 2015 in part reflects this. However, the major reason for this exercise was to strengthen our relationship with customers and prospective customers. We have become more relevant and more responsive to those customers. We've driven better employee and customer feedback scores, and reduced above unit costs. Today, 78% of ISS Germany revenue comes from key account customers well ahead of the group average. We remain a relatively small player in the German facilities service market in revenue terms, but our industry recognition today is far higher than our local size would suggest. ISS Germany is ISS's 13th largest country by revenue but the potential for growth over the coming years is significant. We are now far better placed to capitalize on this.

Please turn to slide 24. Technology is becoming increasingly important tool in our service offering and a major differentiator for ISS. And let me try to illustrate this over the next couple of slides. As a start-up, we have developed an integrated IT platform we call FMS@ISS. This provides the end users with a single global portal. Among other things, this allows them to make and track helpdesk requests. This could be booking meeting rooms or request of technicians to adjust air conditions, requesting cleaning staff to clean up after slippage and so forth.

But in addition, we've also used FMS to lock the details of hundreds of thousands of customer assets. These assets may include HVAC systems, lightings, elevators, escalators, fire alarm systems, power generators, et cetera. This data and transparency then allows us to work proactively with our customers to optimize life-cycle planning and scheduling of maintenance. This drives increased uptime, better compliance and lower cost.

We also leverage the benefit of FMS by making heavy use of handheld technology and mobile work order management. By way of industry-specific examples, this is a major differentiator within our Singapore Healthcare business where we've cut patient turnaround times by around 70%. As soon as the patient has been released from hospital, our cleaning staff are notified by mobile devices of the exact bed that needs to be stripped, cleaned and turned around. As soon as they complete their task, they confirm completion and again use their mobile devices so the nursing staff can immediately reallocate bed to the next patient.

Please turn to slide number 25. Finally, and perhaps the greatest value in our business intelligence application, INSIGHT@ISS. First, INSIGHT provides clients with a total transparency of our operational delivery. This allows them to reduce their internal management needs because we now have a tool that allows them to view our service performance levels on a real-time basis. It allows them to review our delivery outcomes across their regional or even global property portfolios.

Second, the wealth of data we collect with INSIGHT allows us to benchmark performance at the site, country and regional levels. This offers customers unrivaled analysis of cost and performance. This, in turn, gives us the requisite business intelligence to drive change, better service standards and better levels of productivity. We view this as a leading edge tool in our industry, and INSIGHT certainly excites customers during our sales ventures.

Please now turn to slide 27 where I will detail our outlook for 2016. So, regards to our outlook for 2016, we are targeting organic growth between 2% and 4%, and an operating margin that is above the 5.7% we realized in 2015 and cash conversion above 90%. With regards our organic growth, this will be driven by continued expansion of our existing portfolio and the launch of the new contracts won in recent month, especially within IFS. We do not expect overall GDP growth across the IFS countries to improve versus 2015. And as such, we remain cautious on the likelihood of a pickup in non-portfolio services.

The annualization of our contracts with Swisscom and Vattenfall will have a notable impact effect, and we anticipate organic growth in Q1 will be around the middle of our range of the 2% to 4% range for the full year.

With regards to our operating margin, the positive drivers in 2016 will be similar to those in 2015. Ongoing benefits from customer segmentation, including our focus on key accounts, and further upside from changes to our organizational structure. We also expect to see further cost savings coming from our Excellence projects, notably procurement and business process outsourcing. The margin will be negatively impacted by the divestment of CMC. Needless to say, our focus on maximizing our cash flow will remain a key priority.

2015 has been a very good year for ISS. Our financial performance has been driven by our strategic choices and successful execution. We've generated almost DKK 2.9 billion of free cash flow, reduced our leverage from 2.6 times to 2.1 times, and increased our dividend by 51% to DKK 7.40 per share. We remain excited about our future potential. And with that, I would like to open up for a Q&A.

Q&A

Operator

Thank you. [Operator Instructions]. And the first question comes from the line of Staffan Åberg from Handelsbanken. Please go ahead. Your line is open.

<Q - Staffan Åberg>: Thank you. So, 6% organic growth in Western Europe and this was partly driven by non-portfolio sales which normally is a high margin business. Still the margin was 33 basis points lower than in Q4 last year and the adjusting for the disposed C&C operation around 15 basis points lower. Why is that? And how much of that was driven by the changes in the HP contract?

<A - Jeff Olsen Gravenhorst>: So, the effect in Western Europe from the HP contract was also a few percentage points. I think when you look at Western Europe, you have to look at the full year performance there are timing differences between the quarters. Western Europe is up at 10 basis points for the full year and I said, with any given quarter, you will have ups and downs.

<Q - Staffan Åberg>: Okay. The [indiscernible] (40:58) states that there will be no further comments on this but I'll try anyways. How should we think about the potential for broader buyback program in the second half of 2016, I mean the cash conversion will most likely remain and the gearing is structurally lower.

<A - Jeff Olsen Gravenhorst>: So, I will say that our desire to return surplus funds to our shareholders by share buyback programs or special dividends is completely unchanged from what we have communicated at the Capital Markets Day, and indeed what we have communicated ever since the IPO. We have consistently said that our priority is to reduce our leverage to below 2.5 times, taking seasonality into accounts. We ended, you're right, 2015 at 2.1 times but we will see seasonal cash outflows in Q1 and Q2 that will take our leverage up towards 2.5 times by the end of second half. This is exactly in line with what we have communicated earlier.

So, as such, and again, as stated on previous occasions, we will not stop the process of returning surplus funds to our shareholders before the second half of 2016 at the earliest. And to be honest, at this point in time we have nothing more to add on the likely timing, size, or methodology of additional shareholder returns. We would – so, you should not expect any further details until we are ready to go live.

<Q - Staffan Åberg>: Okay. Thank you. And just finally, given the market dynamics and your position in the Nordics, how large share of your sales in the Nordics are regarded as IFS, and also if you were to speculate freely, where do you think the share of IFS contracts in the group can be in, let's say, 5 years?

<A - Jeff Olsen Gravenhorst>: Yes. Overall, the ratio of IFS in the Nordics is 26%. So, that is below the group average. The reason why it's below is because this is actually where we have the historic or the legacy business basically. So, we do have a number of very large, single-service and very good, actually, contracts. So, those, of course, are potential turnarounds or conversions into integrated facility services over the coming years and we've seen that also in the past two years with Danske Bank, Nordea, PostNord also that will come up next year. So, we will see a potential conversion into more IFS business also in the Nordic region, that's for sure. Overall, what is the limit? It really isn't that important. But I do know it will grow every year. There's a big demand for the simplicity from a customer perspective on a combined service solution where there's one-stop shopping option. And, of course, with that, it generates also a number of synergies that can be shared with the customers. So, this is quite an attractive offering to our customers, hence, the reason why we've grown it so significantly over the last many years.

In Q4, we're up at 36% of our revenue [ph] group (44:26) overall is about at third. I think we will see it slowly gradually move towards the 50%. But it's difficult to say exactly when it's going to pan out. There's still a good market for single service business, and we're still growing in our single service business. There, our focus on key accounts is important.

So, when you have specialized cleaning needs or specialized catering needs or specialized technical needs, we will still be pursuing the single service offering. So, it's not as if it's a worse business than IFS. We just know that the simplicity of the IFS solution is driving bigger growth from the single service. But we will focus on both.

<Q - Staffan Åberg>: Okay. Thank you so much.

Operator

And the next question comes from the line of Kristian Godiksen from SEB. Please go ahead. Your line is open.

<Q - Kristian Godiksen>: Yes. Good morning, gentlemen. A couple of questions from my side. So, you mentioned a 28% tax rate for the 2015 should be sustainable into 2016. Can you comment on any further potential going forward? As I recall it from your Capital Markets Day that you said that this would be an ongoing process over the years. That was my first question.

The second question is, if you could give us some – what should we think about main assumptions regarding your guidance, regarding the low-end and the high-end scenarios of the 2% to 4% such as contract wins, GDP growth non-portfolio business? Maybe if you can elaborate a bit on that.

And then just thirdly, I was wondering why the non-portfolio business within the ISS contract, which you achieved in the fourth quarter? Shouldn't that continue going into 2016? Are there any specific explanations for that? And yes, that was the first three ones. Thank you.

<A - Jeff Olsen Gravenhorst>: Yes. So, if we start with the effective tax rate that was 28% for the full year, our guidance for 2016 is to be around the same level for 2016. Going forward, beyond 2016, what I can promise you, Kristian, is that we will continue to work diligently with optimizing our tax position and also ensuring tax compliance. But we do not give any specific guidance beyond 2016.

<Q - Kristian Godiksen>: Okay, that's fair enough. Maybe I hadn't expected you to give a clear answer on that. But maybe if you can just comment on all the potential, all the leverages you see there where you can get some potential from the tax. Are they still present or are they all included in your 2016 tax rate assumptions?

<A - Heine Dalsgaard>: There are a lot of moving parts when it comes to tax. We will continue to work diligently on tax initiatives that are targeted at reducing our effective tax rate. At the same time, we will, of course, focus on ensuring compliance. And what we see, as I've said previously – we've said previously is also what we see tax authorities across the globe becoming more and more tax-aggressive. So, there are a lot of pluses and minuses, and we will continue to work on optimizing our tax position both in terms of effective tax rate and in terms of compliance. That's all you get.

<Q - Kristian Godiksen>: Okay. Fair enough. Thanks.

<A - Jeff Olsen Gravenhorst>: In the growth assumption Kristian, obviously, there's a number of things that we've put into the assumption, and the range, of course, is 2% to 4%. First and foremost, we will see the annualization of the Swisscom contract, Vattenfall contact; both of them quite significant, started at 1st of January last year. Secondly, as we have also mentioned earlier, we do see a weaker growth in the Pacific region driven by the mining industry resource sort of macroeconomic crisis, so there, we will see weaker growth than we saw in 2015.

This, combined with some expectations on the macroeconomic level where we can just see that we don't expect that to pick up compared to 2015, is still a pretty blended picture out there, but the growth outlook is probably around the 2% GDP growth when you look at the countries where we have positions.

And then again, I just have to say it is early in the year. We're looking at some strong performance from last year, good contract wins, and we will of course – we have the assumption that just went through with the big contract wins we see for 2016. We have a good pipeline, and we expect that we'll continue to have a good performance for next year. But as I say, it is early to predict. And that will – I will combine with the last question you have, why would the non-portfolio from the strength of Q4 not continue into Q1? There is always a little bit of year-end sprint for some projects that needs to be done within, you can say certain budgets and so forth from a client perspective. So, there are always a little bit more attention if there is room for it. But again, we will also have to say that the transparency on non-portfolio project work is a lot shorter. So, the assumption is that we will see the same sort of prudent development in a non-portfolio part of the business for next year.

<Q - Kristian Godiksen>: Okay. Just a quick follow-up regarding on your assumptions for the organic growth. Just to maybe, if you can get a hint on what's the different -what is your main assumptions for the 2% growth compared to the 4% growth? Is that mainly GDP, because you mentioned Swiss [indiscernible] (50:10). That's just one number for those two contracts which has annualization effect.

And you can say obviously the weak growth in Pacific could vary a bit but Pacific is only 5% of group revenue. So, I guess is it primarily the macro which is the main differentiator between 2% and 4% or how should we think about it?

<A - Jeff Olsen Gravenhorst>: It's the main – obviously, it's, as again, it's early in the year so it's difficult to predict what's going to happen. But it's not really, the macroeconomics is not going to make a major difference to the numbers. I think it's more about timing. When does contract start, when do they actually stop, when you have wins and losses that is very difficult to time exactly as it is with the non-portfolio work. So, our best guess right now is a range between 2% to 4%.

<Q - Kristian Godiksen>: Okay. Thank you.

Operator

And the next question comes from the line of Michael Rasmussen from ABG. Please go ahead. Your line is open.

<Q - Michael Vitfell-Rasmussen>: Thank you, and well done on a good end to the year, guys. A couple of questions from my side. If we start up in terms of talking a little bit about the – how the timing is, I mean Jeff you showed a chart of contract wins in the beginning of the year now, I obviously understand [indiscernible] (51:26). But you do also have a fairly [indiscernible] (51:29) in the first quarter, and you probably know quite a lot on the first couple of months of the quarter. So if you could add a little bit of flavor on organic growth over the year.

Secondly, you haven't really talked much about your cost initiatives. Could you please confirm the numbers to us, and also how they're impacting to 2016 numbers?

And then finally on your guidance on the margins. Could you just please confirm that the CMC is 7 basis points on a full year negative impact? Well, I know that one part of that was the outcome in 2015 and then the three-fourths of that will be the negative impact in 2015 – sorry, in 2016. Are there any seasonality in that number? Thank you.

<A - Jeff Olsen Gravenhorst>: Okay. Thank you, Mike. If we take – start with the phasing off of [indiscernible] (52:27), I don't have a lot more to add that what is just said. We said that we'll expect the first quarter to be the middle of the range what we can see and basically then for the full years between two and four. So obviously, no more comments to it than that because it is early in the year and as I said just before.

On the cost initiatives, clearly, and on the margin development, the reason why we can actually deliver or expect to deliver more than we've delivered in 2015 is of course, because of all the initiatives that we have. So, we expect of course to see the procurement programs come through. As you recall it, we are now up to wave three and we have altogether – sorry, we have an additional DKK 100 million in the latest – with three programs of course, we expect all of these three wave taxes to come through for the – during this year and actually going into 2017 as well. So, this is of course one of the main drivers of our proven market. On top of that, the IFS businesses will continue to take a pick a part of our business and that you can argue is also a cost initiative because of the great restructuring. We've taken out some layers of the organization to be more meaningful to our clients but again this is also our driving growth.

And then the last one I will confirm that CMC does have an impact full year impact of 7 basis points and again that will have an impact throughout the year as well the cost initiatives and cost savings.

<Q - Michael Vitfell-Rasmussen>: Great. Thank you very much. And Heine, congrats on the new job. We're looking forward to talking to you.

<A - Jeff Olsen Gravenhorst>: Thank you.

Operator

And the next question comes from the line of Emily Roberts from Deutsche Bank. Please go ahead. Your line is open.

<Q - Emily Charlotte Roberts>: Hi. Good morning. A few from me please. So, first on the split between the portfolio and non-portfolio business. You've alluded to the fact that it was perhaps a bit stronger in Q4 but it'd be interesting to see how that has split within your organic growth. So, what portion of organic growth has come from non-portfolio business through the year and then coming into 2016?

The second question is have you got any update from the succession plans for Heine? And looking for a candidate, anything you can share about that?

And then finally, obviously you've had a very strong year for IFS this year, looking ahead, are you – how does your level of confidence change versus this time last year. Looking ahead, are you having – do you have more conversations with customers coming up where you have opportunities to convert or do you think last year was outstanding in terms of the number of people who are up for – up to have discussions about converting from single service to IFS, please? Thanks.

<A - Jeff Olsen Gravenhorst>: Yes. Thank you. If we start with the split of portfolio, it hovers around 80/20. It's the same thing as we said before, I think actually it's about 82% that's not portfolio right now. So we have slightly higher organic growth on our portfolio growth than we have on our portfolio growth, which is actually okay, and that is representing the fact that we can up-sell and actually, sell into our key accounts. So, expect this to continue to come through as we get better and better the key account focus in – through the organizational structure and through our development and education programs of key account managers across the world.

So, if you look at it from, is it meaningful different going into the year? It was actually a little bit higher than we expected at the fourth quarter, but it was actually at level with the third quarter. So, it's not as if it's mainly very different. But we just had a little bit more than what we expected at – when we did the Q3 call.

On top, if we just jump to the confidence and then I'll end up on Heine thing. I'm actually quite – I think we have a very good year in 2015, a very strong year. And the confidence that I have in our future is based on the satisfaction levels of our customers and the satisfaction levels of our employees, and the engagement levels as well.

We have, for the past five, six years, done global surveys on this. And we measure both engagement and NPS scores I'm sure you know of and they continue to increase. And our focus on the key accounts also gives us better retention of key accounts that we have had before.

With that, you get better references and with better references we've been able to land some of these major accounts that we had. So, all in all, I am very confident and I know that customers are asking for one-stop shopping convenience, and one of the major thing is compliant service deliveries across the world.

We still have some work to do with this and that's why we make the restructuring of the organization as we have where we can be better, and faster, and innovative services, but also in delivering consistent best-practice services across our contract. So, with that and with those efforts and initiatives we've done in the countries over the last few years and particularly in the group over the last year, I'm very confident that we can continue the growth within key account and integrated facility services going forward.

And if we then end up with your last question which is about the CFO position in ISS, of course, we are going through a search. We have, obviously, very strong candidates in the pipeline. But it is a process that we will take due time to find the right person. We have a very strong finance organization and of course, Heine has done a good job, but it's also a very good organization behind him. So, we are not in any rush. We need to make sure that we get the right person on board and that process is following due process.

<Q - Emily Charlotte Roberts>: Great. Thank you very much.

Operator

And the next question comes from the line of Matthew Lloyd from HSBC. Please go ahead. Your line is open.

<Q - Matthew G. Lloyd>: Good morning, gentlemen. Two questions, just I noticed the prominence of the GS Hall sort of commentary. Is technical service something that you see as a viable sort of new string to the ISS [ph] bow (59:00)? And then, secondly, it's a very dull question, but in the UK, what percentage of your workforce are non-British EU nationals? It's a Brexit question.

<A - Jeff Olsen Gravenhorst>: Right. Firstly, on Technical Services, Technical Services has been a big part of our focus for a long time now. And particularly on the larger ISS accounts, it's quite an important part of our business and we do have more than 5,000 engineers across the group. So, it's not a new service for us, but it is an area where, country by country, the strength we need to – overall, we need to strengthen that, and that's the reason why we bought a business which we could actually get across Europe. This is the GS Hall acquisition.

So, it is one area which we will continue to look at. It's also an area where we have said before that we are looking to add competencies within Technical Services. So, acquisitions within Technical will be something that we're looking at both in Europe and in North America.

And on the second part, on the Brexit question, clearly, we don't split between whether you're Brit or non-Brit. To run the business, this is not the way that we need to look at it. We need to look at whether you have a work permit or not, and we rate the employees in the way that we should in any way, shape or form to be compliant. And with that, of course, the Brexit, we don't actually see as a major issue for us from that perspective.

<Q - Matthew G. Lloyd>: Okay. It's just a lot of companies in your sector have a very high proportion and almost an even higher proportion of hiring. So, new hires coming from that EU free movement advantages, and I just wondered whether an end to that free movement would be a constriction on your business?

<A - Jeff Olsen Gravenhorst>: I don't think it will and the reason why – first of all, I don't want to speculate about Brexit. So, let's just say that we still have those free movements around, that's one part. Then the question is how free will the movement be in the future, second. But the most important thing is that is a market place where, of course, things have to adjust. If certain changes happen in the market, we still need to do the cleaning, the catering, the technical maintenance, et cetera and what we're focusing on is how can we do this smarter? How can we do this with less labor? How can we do this in a way that we could take out synergies through integrated facility services, through technology, through robots, et cetera. So, this is the same challenges you'll have everywhere else in the world where the population is aging.

<Q - Matthew G. Lloyd>: Okay. So, you have a lot less – so, I think the UK average is 10% of cleaning work force in the UK and maybe 20% in London on non-EU and you think you're lower than that. Is that right?

<A - Jeff Olsen Gravenhorst>: As I've said before, this is not a measure that we actually use, so I will not be guessing a number – give you a number that I don't have in front of me right now.

<Q - Matthew G. Lloyd>: Okay. Thank you.

Operator

And the next question comes from the line of Rory McKenzie from UBS. Please go ahead. Your line is open.

<Q - Rory E. McKenzie>: Yes. Morning, everyone. A few from me, please. Firstly, on the margin, so you said the journey will continue even if I quantify it for this year, so [indiscernible] (1:02:31) the biggest drivers within that. So, firstly, can you talk about plans to extend customer segmentation program beyond Nordic and Asia. And where else that can go and how much of impact do you expect there? And secondly, the BPO projects, where you are with that at the moment and what of kind of savings or efficiencies you're targeting from there? So, those two questions first, please?

<A - Heine Dalsgaard>: Rory, so, if we started with the BPO program, remember, the program started in the Nordics just a few years ago. We will continue to roll out. It's now live in Netherlands in addition to the Nordics, in Netherlands, in Belgium and in Australia. We will continue and are in the process of implementing it in Germany, in Austria. And once that's done, we will continue the journey towards other countries and also other regions.

The benefits that we have discussed before are coming through. And remember here that the benefits on the BPO initiatives are two-folds. One is, of course, cost savings which basically is labor arbitrage, we do see that, and that is included in our numbers and included in the strong performance we saw – have seen in the Nordics. So that's the one part of it. And the other part is to strengthen our procedures, our controls, our systems as a lever and as a prerequisite to drive further standardization across the globe in our financial processes and systems and procedures.

So, that is the plan. We will continue the journey and the benefits are coming through both in terms of cost savings and in terms of strengthening our processes, our systems as a lever to standardize further.

<A - Jeff Olsen Gravenhorst>: On the margin expansion, I've already alluded a little bit to it. I mean, of course we'll have a negative impact from the fact that we divested CMC. But we also have good confidence in the fact that our initiatives on the procurement, which is now altogether DDK 450 million, DDK 550 million altogether on the three programs is coming through. The above unit cost restructuring is, of course, also coming through and as we just talked about the BPO benefits are coming through. So, all of these added off, we still believe that when – and with of course, a normal competitive world where some of these goes to the customers, we expect that we can do better in 2016 than in 2015 from a percentage margin point of view.

And that of course, is also based on the fact that we continue to do a customer segmentation program. I just want to make sure it's not only in the Nordics and in Asia, we've actually done this across the world, covering some 60-odd percent of our revenue now. So, splitting our businesses into a very strong key account focus and in some countries even industrial focus of course are segmented.

And into a direct business which is more focused on the small accounts has actually some very good customer focus benefits and actually also employee engagement benefit which will drive better upsell opportunity but also better references. And through that, of course, better sales over time and higher margins. So, we will continue that program. It is a success so far. That is one of the main drivers for our success in 2015.

<Q - Rory E. McKenzie>: Great. And maybe just one follow-up on that. So, in the year ahead as you said you got the CMC going against that. So, in 2017, would you expect the pace of margins to accelerate as all these drivers are still ongoing but there's some fewer drags?

<A - Jeff Olsen Gravenhorst>: I think it's far too early for us to say right now, but of course, we will be on the journey. We are looking for expansion year-on-year. And I think we are also looking for programs to improve, but we are also realistic that this is a competitive market and you need to become more relevant to the customers both from the services but also from a value perspective i.e. costs.

<Q - Rory E. McKenzie>: Okay. Great. And then one on cash flow, please. So, working capital was good especially given the organic growth, your credits and debt today is coming down after they had expanded last year. So, what's the outlook for that into this year particularly on the payables where you saw a good improvement?

<A - Jeff Olsen Gravenhorst>: So, in terms of cash, you're right. We closed the year with a very strong cash conversion of 99%. If you take the average of the last 10 years, I think we are at 99%. Our guidance for 2016 definitely is unchanged to be above 90%. So, we will continue – Rory, we'll continue our focus on working capital optimization. We'll continue our focus on days of sales outstanding and our guidance remains the same as it's been for the last few years to be above the 90%.

<Q - Rory E. McKenzie>: Okay. Thanks.

Operator

And the next question comes from the line of Jonas Guldborg from Carnegie. Please go ahead. Your line is open.

<Q - Jonas Guldborg Hansen>: Yes. Good morning. One question on – I got a little confused on the non-portfolio business and its share of revenue both in 2015 versus 2014 but also on the Q4 2015 versus the same quarter the year before. So, just clarify that for me.

<A - Jeff Olsen Gravenhorst>: Sorry. The split on – how much it – the split between portfolio and non-portfolio is around 80/20. So, I think at the year-end here it's about 82% is on non-portfolio. We got to remember that when we sell off certain businesses, they have a non-portfolio character to it. Then, of course, that has an impact into the numbers.

<Q - Jonas Guldborg Hansen>: Perfect. That was all for me. Thank you.

Operator

And the next question comes from the line of Paul Checketts from Barclays Capital. Please go ahead. Your line is open.

<Q - Paul D. Checketts>: Morning. I've got three questions, please. The first is coming back to the cost savings point. At the Capital Markets Day, Jeff, you gave us that chart which showed cumulative savings from pages 1 and 2, which was just shy of 70%. Are you able to give us what that number would be on a sort of actually realized in the year rather than an annualized basis?

And then the second question is just a couple of clarifications on guidance. What are you expecting restructuring costs to be in 2016 at this point? And on the interest charge, Heine, you said DKK 550 million guidance. Did that include the amortization of fees?

And then my final question is can you give us any color on the pipeline of bids for the IFS GCC business? Thanks.

<A - Heine Dalsgaard>: Hi, Paul. So, if I start with the interest of the net financing expenses for 2016, so if you take the Q4 2015 net finance expense of DKK 161 million, remove the finance charge of DKK 27 million and the FX loss, then you arrive at an underlying sort of run rate of around DKK 130 million. Then, you have to take into account that from March 2016, we will see a 20-basis-point reduction in our margin on the TLB and the revolver due to the lower leverage.

However, this is then, on the other side, offset by replacing the €500 million of Term Loan B with a fixed bond, and also taking into account the Q4 benefits from the fact that it was a seasonally strong quarter. So, yes, you're right, everything is included in here except for, of course, potential FX impact. So, net financials of around DKK 550 million is including everything, excluding, of course, potential FX impact that we don't know for good reasons.

If I take the other one, you have in terms of restructurings, then, first of all, as Jeff also said before, we have seen clear benefit from the implementation of GREAT, both in terms of margin but also in terms of top line growth. And our restructurings will continue into 2016 as we continue to implement GREAT. But we do not give – and this is in line with what we said before and I'm sure not going to be surprised, we do not give any specific guidance on other expenses or restructuring projects into 2016. And the reason is we do not see these as part of our ordinary operations but more one-offs in nature, which, for good reasons, they're not difficult to plan with. So, that's it.

<A - Jeff Olsen Gravenhorst>: All right, Paul and then on the procurement program with the cost savings questions, is of course difficult to give an exact number for that, but of course we have three waves and when you go into 2016 we expect that to be wave one, this is close to fully implemented, wave two where we are sort of half way through and wave three of course is still early days. So, we don't give a specific target a number on it, but we have to remember again that this also makes us more competitive. So, we do not expect to see all the benefits of these programs to hit the bottom line, it's part of including small relevant to the market, more competitor in the market at the same time to help us improve the margin year on year as you've also see in 2015 as well also expect for 2016.

<Q - Paul D. Checketts>: Thanks. I've just got one thing I'd like to clarify, which is on the restructuring costs. What is the threshold for something to be classified within that?

<A - Heine Dalsgaard>: It has to be something that is not part of the ordinary business. It's disclosed in the annual accounts. So, it has to be something that we do not consider to be part of the ordinaries and ongoing ordinary operations.

<Q - Paul D. Checketts>: So, if you are outsourcing a particular role that the cost of making that person redundant would go in there? If you were just reducing head count more generally, it wouldn't?

<A - Heine Dalsgaard>: So, if it's part of the – most significant part of the restructuring projects, we have are relating to the implementation of GREAT. So, you're right that head count reductions related to the implementation of GREAT, and also including – related to the implementation at the BPO project, they are charged to restructuring. Yes.

<A - Jeff Olsen Gravenhorst>: With normal ordinary business reduction of employees whether it's on contracts, et cetera, or not. They are ordinary business, so they have to be extraordinary. Something related Project GREAT, for example.

<Q - Paul D. Checketts>: Understood. Thank you.

<A - Jeff Olsen Gravenhorst>: And Paul, you asked about – the answer is the usual, of course, we have good, as I said, very good pipelines at the moment. We don't comment on the specific number. But the interest, as I answered a little bit earlier, is still growing. I think the IFS product is definitely there to stay. That's for sure. We can show that by now being more than a third to our business running IFS contracts, renewals coming through, expansion of existing contracts, et cetera. So, a good healthy pipeline is also in front of us now.

<Q - Paul D. Checketts>: Thanks.

Operator

And we have a follow-up question from Kristian Godiksen from SEB. Please go ahead. Your line is open.

<Q - Kristian Godiksen>: Yes. Thank you. Just a couple of questions from my side. You mentioned that you see signs of stability in the Netherlands, could you perhaps elaborate a bit on that? And secondly, you mentioned also the higher share of technology in your services. Can you comment on how much of this is a barrier to entry and how widespread is this in your contract as of today? And also, and maybe, in a percentage of new contracts?

And then just thirdly, I was wondering for how long you can continue this margin expansion of around 8 to 10 basis points a year? As I recall, you guided a medium term margin target of 6.5% in connection with the IPO you pursued back in 2011. So, where will the journey end for the margin? Thank you.

<A - Jeff Olsen Gravenhorst>: Yes. If we take Netherlands first, the stability simply is that we have a strong management team. We've got some good wins actually, of a couple of major accounts which of course, gives us a good tailwind also coming into 2016. Apart from that, we have good control of the business. We have identified the problem areas, some of them has been either improved by operations or there's a small business that we also divested during the year that impacts us.

So from an overall perspective, stability means that, it means it's still not back to what the full potential is of a country like Netherlands, but it's going in the right direction. And I have full confidence that we will get that up to the normal levels of ISS countries.

On the technology development, basically, all major contracts has this as an element. We don't sell big contracts without an element of technology. So, it is a differentiator. Big data, knowledge centers, how to control the services and the contractor is absolute key. Obviously, the whole thing about registering all assets is becoming more and more important for all of our clients. And so, it is part of every given contract that we are rebidding or bidding today. And that means of course, when you look into the key account part of our business of 60-odd percent of our business, it will be included in one way, shape or form, on most of those contracts as we speak today.

Of course, this is an area that will expand. Technology, digitization, so forth is something that we used to become more cost effective, but more importantly, also to become more relevant to the customer. So, again, as you saw at Capital Markets Day, I think [indiscernible] (1:17:50) actually took us through that on the day, it is how can we – will less costs generate better value to the customer is purely by finding the real touch points, where does it make sense to make – to spend more money and more resources and where does it make sense to take it out? That's digitization as well, sensoring on a whole building and making sure we have preventative maintenance so you don't get accidents and so forth, that can actually take down costs. So, it's quite a very important part of the business. And your last question?

<A - Heine Dalsgaard>: Margin expansion.

<A - Jeff Olsen Gravenhorst>: Margin expansion. So, yes. Just really absolutely sure. The 6.5% was including a very large pest control business which had very good margins. So, just please remember that Kristian when you think back at 2011. So, of course, you need to adjust for that. Having said that, we're now at 5.7% we sort of plan to expand. We do have initiatives. We are still on the journey here. We can still see that with the GREAT structure as we've done it, we will continue to harvest benefit from that. So, I don't actually want to give a longer-term target on this. I'm just saying that we'll expand it again in 2016.

<Q - Kristian Godiksen>: Okay. Many thanks. Just one quick follow-up regarding the Netherlands. Just so, I understand you correctly, so what you're saying is that it has improved and all that, but it is still a bit margin-dilutive compared to the average of the Western European market?

<A - Jeff Olsen Gravenhorst>: Yes. It is, and we are still working hard to get that up.

<Q - Kristian Godiksen>: Okay. And is that in 2016 you expect that to reach the average level for the region?

<A - Jeff Olsen Gravenhorst>: We will take the first step in 2016 and we will continue from there.

<Q - Kristian Godiksen>: Okay. Perfect. Many thanks.

Operator

And as there are no further questions registered, I hand the call back to you, speakers.

Nicholas Richard Ward

Great. Well, thank you, everybody, for dialing in and for your questions and your interest. For those of you who have any follow-up questions, Martin and myself will, of course, be available to take those. So, I wish you all a good rest of your day. Many thanks.