

Trading update for 1 January – 31 March 2024

Promising start to the year with continued business improvements

Highlights

- Organic growth was 6.0% in Q1 2024 (Q1 2023: 12.0%). Total revenue for the quarter amounted to DKK 20.1 billion (Q1 2023: DKK 19.3 billion).
- The organic growth development was mainly driven by successful implementation of price increases to offset wage increases and general cost inflation and volume growth.
- The operating margin developed in line with plan. This was mainly driven by continued operational improvements and efficiencies. Costs related to mobilisation of contracts won in 2023 have been incurred in the quarter.
- During the first months of the year, ISS has secured several smaller and mid-sized local IFS contract wins and extended contracts with Nordea and a global bank.
- In the beginning of April 2024, the divestment of ISS France was completed. Financial leverage remains broadly unchanged following the divestment.
- ISS has strengthened its position in the Swiss market with the bolt-on acquisition of gammaRenax, which adds scale within prioritised service lines and customer segments. The transaction will add around 0.6% to Group annual revenue and was completed at the end of April 2024.
- The arbitration process with Deutsche Telekom is progressing according to plan. As described in the Annual Report 2023, Deutsche Telekom is withholding certain payments to ISS related to the services delivered. This situation is currently unchanged.
- On 3 June 2024, Mads Holm will take up the position as Group CFO and member of the Executive Group Management Board.
- The 2024 outlook is confirmed for all three financial KPIs. Organic growth is still expected to be 4 – 6%, and the operating margin is still expected to be above 5%. Free cash flow is still expected to be above DKK 1.8 billion impacted by timing effects including certain payments being withheld by Deutsche Telekom.

Kasper Fangel Group CEO, ISS A/S, says:

"I'm pleased that we had a promising start to the year with robust organic growth and continued business improvements. We have strengthened our operational execution in our markets and the expected financial outcomes are being realised. This is a testament to the professionalism and dedication of our more than 350,000 employees worldwide, without whom ISS would not be the company we are today. Creating opportunities for our people goes hand in hand with achieving commercial results, and this is why we are now advancing our efforts in social sustainability even further. For instance, through initiatives such as our new 'Education for All' programme in India, where ISS is funding employees to complete their 10th to 12th grade education."

Revenue overview

DKK million	Q1 2024	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Revenue	20,090	19,284	19,052	19,973	20,372
Organic growth	6.0 %	12.0 %	10.9 %	9.3 %	7.1 %
Acquisitions & Divestments	0.7 %	0.3 %	0.4 %	0.6 %	0.8 %
Currency & other adjustments	(2.5)%	(1.4)%	(6.5)%	(2.8)%	(4.0)%
Revenue growth	4.2 %	10.9 %	4.8 %	7.1 %	3.9 %

Business update

The execution of the OneISS strategy continued in the first quarter of 2024. Following last year's review and prioritisation of strategic initiatives, ISS is focusing initiatives on building and maintaining a strong commercial pipeline and further strengthening its foundation across functions, operations and technology. With the sharpened focus, execution power has been strengthened to drive value creation.

The distinct focus on customer retention was maintained, leading to a retention rate above 94%. In the office-based segment, financial services is a key commercial focus area, in which contracts with Nordea and a global bank have been extended. These contract extensions leverage ISS' strong value proposition and expertise in the banking sector.

In February 2024, ISS initiated a share buyback programme of DKK 1 billion to be executed over a 12-month period. As of 26 April 2024, ISS has bought back 1,673,558 shares with a total value of DKK 209 million.

Acquisition and divestment

The divestment of ISS France to Onet was completed in the beginning of April 2024. The financial results for ISS France will be recognised under "Net profit from discontinued operations" in H1 2024. Following the divestment, financial leverage remains broadly unchanged.

ISS continues its clear and disciplined approach to acquisitions to enhance value creation. The recent in-market, bolt-on acquisition of gammaRenax in Switzerland has a strong strategic fit with a country-wide footprint and generates operational synergies to ISS. It adds scale predominately within cleaning and technical services in prioritised customer segments. The transaction will add around 0.6% to Group annual revenue, and was completed by the

end of April 2024. The integration process is expected to be concluded by the end of 2024.

Operational development

In Q1 2024, the operating margin developed in line with plan driven by expected operational improvements and efficiencies partially offset by incurred costs related to the mobilisation of large contracts won in 2023.

The tight management of cost inflation was maintained. Wages are generally adjusted annually through collective agreements and minimum wage adjustments. The impact of wage increases was passed on to customers in accordance with contractual agreements or offset by implementation of operational efficiencies. In combination, this contributed positively to organic growth, while the margin in general was unaffected.

Deutsche Telekom

As disclosed in the Annual Report 2023, ISS and Deutsche Telekom (DTAG) have certain contractual disagreements, and in December 2022, ISS initiated the establishment of an Arbitration Tribunal under the German Institute of Arbitration (DIS) to decide on these disagreements. The arbitration proceedings are expected to complete with a final and binding ruling by mid-2025, and the process is progressing according to plan.

In the proceedings ISS and DTAG have exchanged claims against each other. ISS has claimed remuneration for services performed, and DTAG has disputed the claims. As described in the Annual Report 2023, DTAG is withholding certain payments to ISS related to the services delivered. This situation is currently unchanged, and the daily operation of the contract is unaffected.

Group performance

Group revenue

January – March 2024

Group revenue in the first three months of 2024 was DKK 20.1 billion (Q1 2023: 19.3 billion), an increase of 4.2% compared with the same period last year. Organic growth was 6.0%, acquisitions and divestments, net increased revenue by 0.7%, while currency and other effects had a negative effect of 2.9%. The net impact from the hyperinflation restatement in Türkiye (IAS 29) was positive 0.4%.

Organic growth of 6.0% (Q1 2023: 12.0%) was driven by portfolio revenue, which grew organically by 8.5% due to implementation of price increases and volume growth as a result of increased activity levels among customers and contract expansions across the Group. Revenue from projects and above-base work declined 7% organically.

In line with contractual agreements, price increases have been implemented to mitigate the impact of wage increases and general cost inflation. This contributed positively to organic growth by around 6.5%-points, of which around 3%-points were related to price increases in Türkiye.

In Q1 2024, volume growth contributed around 1.5%-points. The development was driven by a combination of increased activity levels at customer sites and expansion of contracts with current customers.

The contribution from net contract wins was negative by around 1%-point. During 2023, ISS lost some larger contracts and also decided to exit certain contracts, and this had a negative contribution in Q1 2024. The contracts with DEFRA in the UK and The Danish Building and Property Agency are currently being mobilised and will be fully operational during April and May 2024, respectively.

Revenue from projects and above-base work showed negative organic growth of 7%, and thereby had a negative impact on organic growth for the Group of around 1%-points. The decline was broad-based, driven by lower demand for deep cleaning and disinfection services and projects related to customers' refurbishment programmes as well as a negative contribution from contract exits and losses. Despite the negative organic growth in the quarter, revenue from projects and above-base services remained well above the pre-pandemic level and accounted for 15% of Group revenue.

Across the regions, organic growth was robust. Central & Southern Europe reported the highest organic growth, mainly driven by Türkiye, where price increases contributed significantly. On the other hand, Americas reported negative organic growth due to contract exits and losses having full impact in the quarter.

Revenue and growth

DKK million	Q1 2024	Q1 2023	Organic growth	Acq./ div.	Currency & other adj.	Revenue Growth
Northern Europe	7,528	7,150	5%	(0)%	0%	5%
Central & Southern Europe	6,642	6,127	12%	3%	(7)%	8%
<i>Central & Southern Europe, excl IAS 29</i>	<i>6,555</i>	<i>6,106</i>	<i>12%</i>	<i>3%</i>	<i>(8)%</i>	<i>7%</i>
Asia & Pacific	3,521	3,489	5%	(1)%	(3)%	1%
Americas	2,242	2,335	(2)%	-	(2)%	(4)%
Other countries	168	192	(15)%	-	2%	(13)%
Corporate / eliminations	(11)	(9)	-	-	-	-
Group ¹⁾	20,090	19,284	6.0%	0.7%	(2.5)%	4.2%

¹⁾The net impact from hyperinflation restatement in Turkey (IAS 29) was 0.4% on Group-level, that has been included in Currency & other adj.

Commercial development

In the first quarter of 2024, ISS benefitted from increased customer activity levels and engagement.

The commercial pipeline for integrated facility services solutions remains attractive and is mainly driven by local and regional opportunities. In the first three months of 2024, ISS secured several smaller and mid-sized IFS contracts. Commercial discussions continue to be more complex than pre Covid-19, but in general they progressed well. ISS maintains strong pricing discipline in commercial processes and uncapped inflation risk is not accepted.

In the first months of the year, the tight focus on customer retention was maintained. Beside the contract extension with Nordea, a global bank and a global Industry and Manufacturing customer, ISS successfully extended several smaller and mid-sized local IFS contracts. As a result, the customer retention rate remained at a high level, above 94% (LTM) in the quarter.

Revenue from key account customers was 71% of Group revenue in the first three months of 2024 (Q1 2023: 72%), and generated 5% organic growth. For the rest of 2024, ISS has 3% of Group revenue with large key account customers up for renewal.

Major key account developments ¹⁾	Countries	Segment	Term	Effective
Extensions/expansions				
Professional Services Customer	UK	Business Services & IT	1 year	Q1 2024
Industry & Manufacturing Customer	Global	Industry & Manufacturing	2 years	Q1 2024
Energy & Resources Customer	Sweden	Energy & Resources	2 years	Q1 2024
Nordea	Nordics	Business Services & IT	5 years	Q1 2024
Healthcare Customer	Singapore	Healthcare	5 years	Q1 2024
Banking Customer	Spain	Business Services & IT	3 years	Q1 2024
Healthcare Customer	Türkiye	Healthcare	3 years	Q1 2024
Healthcare Customer	UK	Healthcare	5 years	Q3 2024
Exits/losses				
Healthcare Customer	Türkiye	Healthcare		Q1 2024
Professional Services Customer	UK	Business Services & IT		Q2 2024

¹⁾ Annual revenue above DKK 100 million.

Regional performance

Northern Europe

Revenue amounted to DKK 7,528 million in the first three months of 2024, which was an increase of 5% compared with the same period last year. Organic growth was 5% (Q1 2023: 6%). The effect from acquisitions and divestments, net and currency was neutral.

In the quarter, organic growth was driven by price increases implemented across the region and volume growth from higher activity levels at customer sites. Portfolio revenue benefitted from this development and grew organically by 5% while organic growth from projects and above-base work was slightly positive. The organic growth development was broadly distributed across countries and segments in the region with the Netherlands reporting the highest growth rates driven by mobilisation of contract wins and continued growth in food services. In the UK, the mobilisation of the contract with DEFRA continued with the first phase going live in February, and a corresponding positive contribution to organic growth.



Central & Southern Europe

Revenue amounted to DKK 6,642 million in the first three months of 2024, which was an increase of 8% compared with the same period last year. Organic growth was 12% (Q1 2023: 20%), while acquisitions and divestments, net increased revenue by 3% related to the acquisition of Grupo Fissa in Spain. Currency effects impacted negatively by 7% and the net impact from hyperinflation restatement in Türkiye (IAS 29) was positive 1.1%.

Türkiye continues to be the main contributor of organic growth primarily due to implementation of price increases to offset the high level of cost inflation. In the beginning of 2024, another round of price increases was successfully implemented towards customers. Across the region, the development was robust as a result of price increases, and underlying volume growth due to increased customer activity. As a result, portfolio revenue grew by 17% organically. Revenue from projects and above-base work showed negative organic growth driven by reduced demand for refurbishment projects as well as deep cleaning and disinfection services.



ISS Türkiye is jointly owned by private equity fund Actera (39.9%), management of ISS Türkiye (10%) and ISS (50.1%) being the controlling shareholder. The shareholders' agreement between ISS, Actera and management establishes the rights and obligations, including exit rights, of the parties. Please refer to page 23 in the Annual Report 2023.

Asia & Pacific

Revenue amounted to DKK 3,521 million in the first three months of 2024, which was an increase of 1% compared with the same period last year. Organic growth was 5% (Q1 2023: 6%), while acquisitions and divestments, net was negative 1%, and currency effects reduced revenue by 3%.

The positive organic growth in the quarter was driven by implementation of price increases and volume growth across the region. This development contributed to 9% organic growth for portfolio revenue. All countries reported positive organic growth, with the strongest growth seen in Australia and Indonesia, driven by generally increased activity levels at customer sites and price increases implemented to offset cost inflation. Revenue from projects and above base work showed negative organic growth due to lower demand for deep cleaning and disinfection services, especially in Hong Kong, Singapore and Australia and negative effects from contract exits.



Americas

Revenue amounted to DKK 2,242 million in the first three months of 2024, which was a decrease of 4% compared with the same period last year. Organic growth was negative 2% (Q1 2023: 22%) and the effect from acquisitions and divestments, net was neutral, while currency effects impacted growth negatively by 2%.

The negative organic growth was primarily driven by contract exits and losses from 2023, including deliberate exits, having a full effect in the quarter. This was only partly offset by price increases implemented and volume growth due to continued increased activity levels across the region. This development positively impacted food services, and this service line reported positive organic growth. Portfolio revenue declined organically by 1%, while revenue from projects and above-base work declined organically by 7%, impacted by contract exits and losses. The negative organic growth was predominately driven by the US, however partly offset by Mexico and Chile reporting robust organic growth rates.





Management changes

On 11 April 2024 at the Annual General Meeting, Henriette Hallberg Thygesen was elected as a new member of the Board of Directors.

On 3 June 2024, Mads Holm will take up the position as Group CFO and member of the Executive Group Management Board of ISS A/S registered with the Danish Business Authority, which going forward will consist of Group CEO Kasper Fangel and Group CFO Mads Holm.

Other

Due to limited trading, ISS has decided to terminate the company's sponsored American Depositary Receipt (ADR) programme, and the termination will take effect on 4 July 2024. After the termination date, holders have 6 months to surrender their ADRs for cancellation and to take delivery of the underlying ISS shares. The cancellation process ends on 6 January 2025.

Outlook

Outlook 2024

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

In Q1 2024, the organic growth developed as expected, driven by price increases and volume growth, while the contribution from net contract wins and project and above-base work was slightly negative. The operating margin and free cash developed in line with plan and thereby the 2024 outlook is confirmed for all three financial KPIs.

The outlook assumes that macroeconomic and geopolitical uncertainties remain high. ISS has robust operating processes and is well positioned to operate in this environment. The execution of the OneISS strategy will continue and enhance the operating model, strengthen competitiveness, and increase focus on growth initiatives. The outlook is excluding any effects of hyperinflation (IAS 29).

Organic growth is still expected to be 4 – 6% for 2024 (2023: 9.7%). Growth will be driven by price increases implemented across the Group as the tight management of cost inflation will be maintained. In addition, positive volume growth from increasing activity levels at customer sites and contract expansions is expected, as well as a positive contribution from net contract wins. The impact from projects and above-base work is expected to be neutral to slightly negative.

Operating margin is still expected to be above 5% (2023: 4.3%). Compared to the 2023 underlying margin of 4.6%, the main drivers of the increase are continuing operational improvements and efficiencies across the Group as well as operational benefits and cost savings generated from the review of the OneISS initiatives.

The expectation for **free cash flow** is still based on an underlying free cash flow of above DKK 2.4 billion, equalling a cash conversion of above 60%. However, in 2024 free cash flow is expected to be above DKK 1.8 billion (2023: DKK 1.8 billion), adversely impacted by timing effects including certain payments being withheld by Deutsche Telekom.

Outlook 2024

	Annual Report 2023	Trading update Q1 2024
Organic growth	4 - 6%	4 - 6%
Operating margin ¹	Above 5%	Above 5%
Free cash flow	Above DKK 1.8 bn ²	Above DKK 1.8 bn ²

¹) Based on operating profit before other items

²) Underlying free cash flow: Above DKK 2.4bn

Financial targets

At the Capital Markets Day in November 2022, new financial targets were announced for organic growth, operating margin and cash conversion. From 2024 and beyond, ISS targets to deliver strong growth at attractive and sustainable margins:

- Organic growth of 4 - 6%
- Operating margin above 5%
- Cash conversion above 60%

Expected revenue impact from divestments, acquisitions and foreign exchange rates in 2024

Acquisitions and divestments completed by 1 May 2024 (including in 2023) are expected to have a positive impact on revenue growth in 2024 of around 1%-point.

Based on the current exchange rates, a negative impact on revenue growth of around 2%-points¹⁾ is expected in 2024 from the development of foreign exchange rates, excluding any effects of hyperinflation (IAS 29).

¹⁾ The forecasted average exchange rates for the financial year 2024 are calculated using the realised average exchange rates for the first four months of 2024 and the average forward exchange rates (as of 1 May 2024) for the remaining eight months of 2024.

Forward-looking statements

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

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

The Annual Report of 2023 of ISS A/S is available at the Group's website, www.issworld.com.



Contacts

Conference Call

A conference call will be held on 2 May 2024 at 10:00 am CET. Presentation material will be available online prior to the conference call.

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<https://issworld.eventcdn.net/events/trading-update-for-q1-2024>

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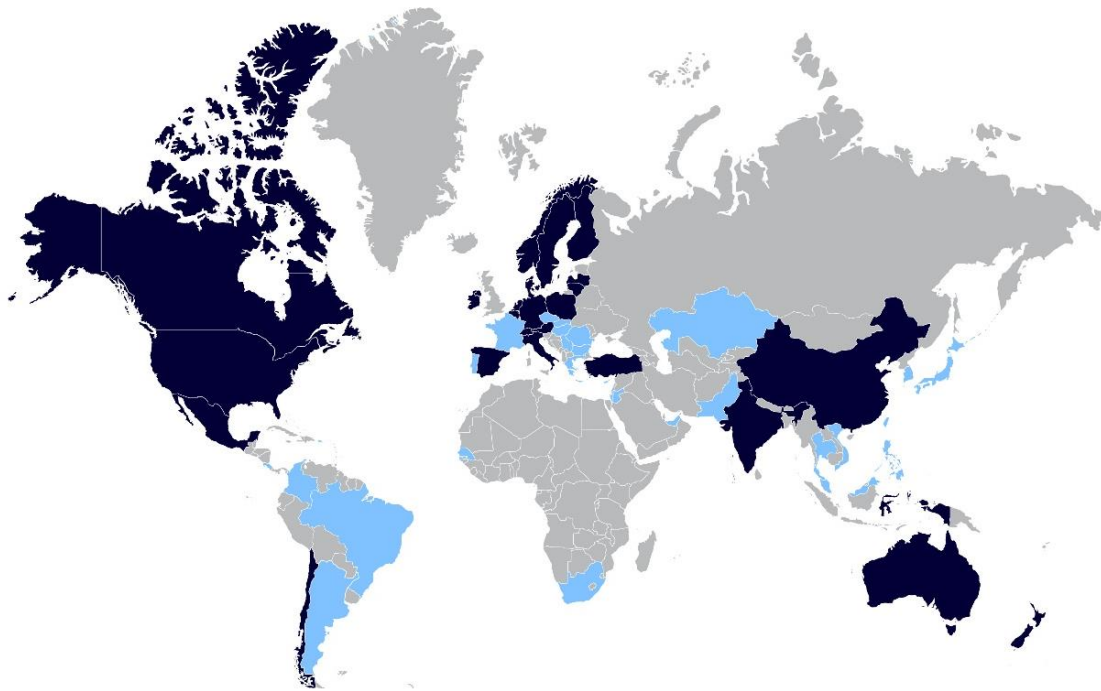
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Our global footprint



ISS is a leading, global provider of workplace and facility service solutions. In partnership with customers, ISS drives the engagement and well-being of people, minimises the impact on the environment, and protects and maintains property. ISS brings all of this to life through a unique combination of data, insight and service excellence at offices, factories, airports, hospitals and other locations across the globe. In 2023, Group revenue was DKK 78.7 billion.