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PRESENTATION

Operator

Welcome to the ISS Trading Update for Q3 2023 Conference Call. For the first part of this call, all participants are in a listen-only mode. Afterwards, there will be a question-and-answer session.

(Operator Instructions) I'm pleased to present Jacob Johansen, Head of Investor Relations. Please begin.

Jacob Schmidt Johansen ***ISS A/S - Head of IR***

Good morning, ladies and gentlemen, and welcome to this conference call following the release of ISS' Q3 2023 trading update. As said, my name is Jacob Johansen, and I'm Head of Investor Relations. And as usual, I'm here at our global headquarters in Soborg, Copenhagen.

With me in the room today for this call is our Group CEO, Kasper Fangel, as well as Kristian from IR.

Before we start, I will ask you all to pay close attention to the disclaimer on Slide 25.

With this, I will hand over the word to you, Kasper, and Slide #3, please.

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you, Jacob, and good morning, everyone. In the third quarter, we progressed the execution of the OneISS strategy. And from a financial perspective, the strong organic growth continued in the third quarter.

It's also encouraging to see that the underlying margin improvements are coming through. We are following the plans that we presented at the Capital Markets Day almost a year ago.

Today, we are also updating the full year outlook for all 3 financial KPIs. It is now almost 3 years ago since we launched the OneISS strategy, and therefore, it's only natural to take a moment and review the effectiveness and financial outcome of the initiative that was initiated in 2020.

The majority of our initiatives are benefiting our business as expected, but we also have a few areas where we can improve compared to how we are operating today, and I'll come back to that later in my presentation.

Lastly, our M&A processes are progressing in line with plan, both the divestment in France and the acquisition of Grupo Fissa in Spain, which we have completed in September.

Please turn to Slide #5. The promise of the OneISS strategy that was launched in December 2020 was to bring the power of the whole enterprise to our customers' door steps in every interaction, every site, every country, every day. That same promise delivers value to our placemakers and shareholders by taking advantage of our size and scale in intelligent ways, resulting in jobs and economical value creation.

This requires us to think both global and local and to make sure that we invest in high-impact items that deliver global standardization without losing local relevance. It's an important balance. Ensuring that we draw benefit from both autonomy and alignment is the journey we have been on and the journey will continue.

Now we are 3 years into the strategy, and when looking back at any strategy implementation, it's always the case that some items will hit the market, while others may not impact exactly as intended.

So as a natural next step, we have been reassessing, if we are still focusing on the things that really matters for ISS. So over the last couple of months, we've done an in-depth review of our strategic progress on OneISS and the adjustments we're announcing today are anchored in a couple of basic principles.

Continue to embed the OneISS strategy that's crucial. Calibrate the quantity and the pace of change with the degree of absorption and embedment in local markets; Stop and defund the areas that haven't provided the impact we envisioned or that perhaps should be done at a later stage of our evolution; Increased focus on areas and initiatives that is supported by a real business case and where we have seen real evidence of value creation in the last 3 years.

The review is expected to bear a one-off cost of around DKK 200 million to DKK 250 million here in the second half. The costs are related to severance payments and general cost adjustments. It will also drive financial improvements, and we expect benefits from operational improvements and cost savings of the same level of around DKK 200 million to DKK 250 million. The majority is expected to have effect already in 2024.

As we haven't finalized and executed the review yet, we can't be more specific on the different elements, but we'll provide full transparency in the Annual Report for 2023 when we announce that in February next year.

Before we move on, let me stress that I'm absolutely convinced that these changes will make us more focused, resulting in a higher performing ISS. It's a good time to be in our industry, and it's a good time to be us. The market wants what we're trying to sell, and we have plenty of opportunities to become even more impactful.

Please turn to Slide 6. Sustainability is a key component of the OneISS strategy and both environmental and social sustainability are key strategic priorities. During 2023, we have made robust progress on our commitments and our near-term targets are expected to be validated by the Science Based Targets initiatives during Q4.

We have committed to reduce both waste and emissions from our food service, and here we have made significant progress. This is done through our global food sustainability program, where we've optimized our food procurement planned menus and have had an increased focus on changing consumer behavior patterns just to mention a few examples.

We are a people company. And on social sustainability with our more than 350,000 placemakers, we can really make a difference in society. As an example, in India, every placemaker that has been working for ISS for more than 2 years are offered up to 3 years of higher education.

Please turn to Slide 8 for a look at the commercial development. The commercial pipeline within our focus segments remains attractive. Among the larger contracts we have, since the first half report, won a new contract with the Turkish healthcare customer. Again, in this quarter, activity with extensions have been high, and we've also been successful in expanding the scope with a public and banking customer in the U.K.

Despite us being unsuccessful in extending the contracts with 2 customers in the industry and manufacturing segment, the customer retention rate is maintained at record high level of 95%, in line with our midterm ambition.

I'm also pleased to say that we have now successfully extended all our contracts up for renewal in 2023. For 2024, we have 6% of revenue up for renewal. This is a normal level going into the new year.

Please go to Slide 10 and the financials. With 9.3% organic growth in the third quarter, the strong growth development continued. And for the first 9 months, the double-digit level was maintained. The drivers behind the development are broadly unchanged.

We remain successful in passing on price increases to our customers, and we continue to see underlying volume growth from higher activity level at customer sites. Organic growth from projects and above-base work remained flat, as expected, but the revenue level continues to be above pre-COVID-19 levels.

Please turn to Slide 11 for the regional development. All regions reported solid organic growth rates in Q3, with 5% Northern Europe maintained the level from H1. All countries reported positive organic growth.

Central and Southern Europe reported the highest growth for the quarter. Turkey was still the main contributor, but the development across the region remained solid. In Asia Pacific, organic growth improved in Q3 due to underlying volume growth from solid customer activity and price increases implemented across the region.

In Americas, organic growth was 10%. The activity level continued to improve and price increases have been implemented. As expected, the growth rates are lower compared to earlier in the year as the comparison base is getting tougher.

Please go to the next slide. Although Q3 is a trading update, I would like to briefly comment on the margin development. With the execution of the OneISS strategy, the operating margin has improved significantly from the 0.5% level in 2020 to 4% in 2022, and we are well on track to deliver a margin of above 5% in 2024.

The underlying improvements continue to come through, and we are fully on track with the plans that we presented at the Capital Markets Day 1 year ago. For 2023, we expect an underlying margin of around 4.6%. The one-off costs that we expect to incur here in the second half of the year is purely related to the outcome of the review of the OneISS initiatives.

On the following slides, I will go deeper into the drivers of the outlook. Please turn to Slide 13.

We've updated the 2023 outlook for all 3 financial KPIs. Organic growth is now expected to be around 9%. Operating margin is expected to end up within the previous range of 4.25% to 4.75%, with the underlying margin expected to be around 4.6%. And including the one-off costs from the OneISS review, the reported margin is expected to be around 4.3%.

Following the high organic growth outlook, we now expect free cash flow to be around DKK 1.8 billion. On the coming slides, I will go through the drivers behind the development.

Please turn to Slide 14. Organic growth is now expected to be around 9%. We have successfully implemented price increases, which is expected to have a positive contribution to the organic growth of around 5.5% for the full year. Underlying volume growth is still expected to have a positive contribution of around 3.5%.

The expectation for net new contract wins as well as projects and above-base work is unchanged compared to previously. As you know, Q4 is the most difficult quarter to predict on projects and above-base as customers typically make late decisions on out-of-scope services.

Please bear in mind that projects and above-base was extraordinarily high in Q4 last year. We have assumed a reduced level compared to last year, although it's higher than what we have seen before the pandemic.

Please go to the next slide and the margin outlook. The drivers behind the underlying margin development are unchanged. It is driven by continued improvements in the U.K. and on the Deutsche Telekom contract, and the benefits from OneISS efficiencies and operating leverage from higher revenue. As previously mentioned, the underlying margin is therefore expected to end the year at around 4.6% and around 4.3%, including the one-off costs related to the OneISS review.

Please turn to Slide 16 for the free cash flow guidance. Following the upgrade of organic growth to around 9%, we expect free cash flow at around DKK 1.8 billion. This is in line with our expectation and communication in the last few months as the current extraordinary high growth is impacting working capital negatively.

The cash flow generation here in the third quarter has developed as expected, seasonality effects between H1 and H2 and the gradual normalization and reduction of growth rates in Q3, reduced the negative effect from changes in working capital. This development is expected to continue in Q4.

Please turn to Slide 17, where I provide some concluding remarks. Q3 was another good quarter for ISS. The strong organic growth momentum was maintained and the underlying operational performance continued to improve.

ISS is in a good shape, and we are on the right track. We have the right strategy and with the review of the -- of our strategic initiatives, we continue to build an even stronger ISS. Our financial targets for 2024 and beyond are unchanged, and we are well on track to deliver on targets in 2024.

I would also like to express a deep appreciation of the hard and dedicated daily work by our more than 350,000 placemakers and not least, the warm welcome and support I have received as the new Group CEO.

And with this, I will open up for the Q&A session, where I will be supported by Jacob from IR. Operator, over to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Kristian Godiksen from SEB.

Kristian Godiksen ***SEB, Research Division - Analyst***

I have 3 main questions. So firstly, on the free cash flow guidance, Kasper, if you could -- would be nice if you could elaborate on the around in the free cash flow guidance of the DKK 1.8 billion. So wondering what is the range around the EUR 1.8 billion? And hence, can that be DKK 1.750 billion? Or what is the range compared to, obviously, previously, when you had the range guidance for the organic growth, you had DKK 1.8 billion to DKK 2.2 billion. So curious on that one.

Secondly, on operating margin, I know it's a bit premature going into 2024, but how should we think about the guidance? You previously had more than 5% operating margin going in for 2024 and beyond. And then obviously, now with these additional positive contribution of around 0.3 percentage points, how to think about that, because you were confident in reaching the -- more than 5% before you made these additional cost savings?

And then thirdly and lastly, what would make you not initiate a share buyback in connection with the full year results if you generate the DKK 1.8 billion in free cash flow this year, and that all as equal is set to improve further in 2024.

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Let me address these 3 questions in the order that you raised them. So if we end the year above 9% organic growth, then it will be due to a higher-than-expected above-base revenue. And as above-base revenue is usually delivered by subcontractors, we can match the payment terms that we have with our customers. We can match the payment terms with suppliers and customers.

So that also means that in conclusion, if we grow more than the 9%, it will come from above-base work, but it will not be a drain to our working capital. And therefore, the DKK 1.8 billion is a good number also with slightly higher growth this year.

On the -- the question on the 2024 margin, I mean let's just start in the helicopter view. We are following the plans, and we can see, as I said in my presentation that the underlying improvements are coming through, and the plans that we have in place in local markets are giving us the traction that we expect. And obviously, the adjustment of cost that you alluded to, are expected to yield a significant incremental benefit already next year, as I said in my presentation. And that means that the above 5% target for next year is, of course, derisked.

But as you mentioned yourself, and you alluded to it, Kristian, I will not start to give detailed outlook guidance for next year at this point in time. That's something that we'll come back to in February when we're releasing the results for the full year.

And on the share buyback question, I mean, our position is the same. We remain fully committed to our capital allocation policy. And I understand your question, because you can do the back of an envelope calculation with the outlook for this year that we have provided. And obviously, that means that we will end with the leverage in the range of our target, the 2.0x to 2.5x.

We have been very clear with you and that remains the same. That you should not expect any transformational or significant M&A deals. And that means that we will also have excess capital at the end of the year. And that, of course, we remain committed to our capital allocation policy, and therefore, it's also a good expectation to expect that there will be a share buy program being launched.

Kristian Godiksen ***SEB, Research Division - Analyst***

Maybe if okay, just 2 follow-ups for the 2 first questions. So when you say a good number, is that translating -- could that also be DKK 1.7 billion to DKK 1.9 billion? Or just to understand what good number is in -- for you? And then on the follow-up on the other one. So you mentioned the target is derisked. Can you maybe then -- and I know it's premature, I understand that. That's fair. But could you maybe just confirm then that you would be comfortable that you would also have reached more than 5% if you had not done these additional cost initiatives?

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

So when I say DKK 1.8 billion is a good number, then it's because I believe that we will hit a free cash flow of DKK 1.8 billion for the full year. So that's what it means also with a higher growth, because it's generated, as I said, by above-base revenue and then we will match the payment terms, as I explained, between what we are -- our customer payment terms and the supplier payment terms. And yes, I can confirm, if we had not done the adjustment on the cost base, then we would still deliver on our targets for 2024.

Operator

The next question is from Michael Rasmussen, Danske Bank.

Michael K. Vitfell-Rasmussen ***Danske Bank A/S, Research Division - Research Analyst***

Also 3 questions from my side. And well done Kasper on your first quarterly results. Let's see if you can keep this strong organic growth momentum.

So joking aside, it's actually related to that. So Kasper, when you look at the current momentum in the business and more like the portfolio business as we go into Q1 '24, you are facing some rather difficult comps from Q1 '23. Do you think that you'll be able to grow 4% to 6% in every quarter or is that kind of the full year ambition here? So that's my first question.

My second question is, are you starting to see any of your customers just slowing down a little bit? Just putting their foot on the brake a little bit or maybe asking for price reductions just given the side on macro outlook?

And then my final question here is just in relating to these DKK 200 million to DKK 250 million in one-off costs. I noted that you say the cost -- the cash flow impact of that will be insignificant in 2023. Can you please explain why severance costs are insignificant or have an insignificant cash flow impact? And also if this means that we will get a drag on the free cash flow in 2024 from this?

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Yes. Thank you, Michael. So first of all, on your question on organic growth for next year, I see no reason why we shouldn't be able to deliver an organic growth next year within the targeted range of 4% to 6%. I don't want to provide any quarterly guidance. But for the full year, 4% to 6%, I feel very, very comfortable with that.

In terms of pressure on customers. No, we don't see any changed pattern there, to be honest. I think it's evident that office space is a theme that has moved up significantly on the priority list across all companies. And generally, companies want their staff back and that also means you need to have some appealing factors that makes it attractive for staff to come back.

So we see that in our discussions, we've also seen a number of customers that are reducing their square meters, but the spend per square meters -- the lower square meters is higher. And just as an example, the investments that are going in to create attractive food solutions to your staff is significantly higher than what we have seen previously.

And the last question on the cash impact of the DKK 200 million to DKK 250 million this year. That's simply normal, pure accounting that you provide for severance and then you pay out accordingly as the period are progressing. So there's nothing unusual in that. And I can confirm that the impact on free cash flow this year is immaterial. And next year, it's a neutral impact because you will have the cash outflow, but you have corresponding benefits that is awash against that cash outflow and therefore, a neutral impact for next year's free cash flow.

Operator

The next question is from the line of Annelies Vermeulen, Morgan Stanley.

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

I have 3 as well, please. So firstly, on some of those return to office trends. Based on the conversations you've had with your customers, do you think this has now stabilized? Have we reached the new normal in terms of office working and homeworking or do you think there is still more incremental upside and the sort of theme of getting people back into the office is still continuing? I'm just wondering how much more benefit we might see from that in the organic growth?

And then secondly, on your pricing increases, if we exclude Turkey, are the price increases across the rest of the business in line with the wage inflation that you're seeing in those geographies? Or is there any mismatch there?

And then lastly, you said on France, but obviously, the due-diligence process is ongoing with some potential buyers, and do you think that France is something that would close before the end of this year? Or do you think it's more likely to be next year?

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Yes. Thanks Annelies. I think on your first question, I can't give a generic statement. It depends country by country. But I think if I consolidate it, I think there's still some benefits to get from return to office. It's not fully scaled up to where we're expected to end, and I think that will happen gradually over the next 3 to 6 months. That's what we hear when we have our conversations with customers, they still want more staff back.

Of course, as I said, the hybrid model will stick, especially in the capitals where there is a significant commute. We won't see people getting back into the office 5 days a week. But generally speaking, I think there's a little bit more to come on that, and I think we'll see that over, as I said, the next 6 months or so.

In terms of price increases, and if I exclude Turkey, yes, it's broadly in line with what we're seeing from a wage increase perspective. Remember, we don't compromise on that in any way, shape or form. So when there is an increase to our cost base, then that is being priced through to our customers. And I think that's what we've proven over the last 2 years. So there is no margin drag, and we don't accept that to happen on any contracts, and we're very disciplined and rigid around that.

On the France divestment, it's going exactly according to plan. You're right. Currently, the potential buyers are doing due-diligence. And I don't want to be specific on when we are closing that deal. We can go faster than what we have in our internal timetable. But you also know with these sort of things around transaction and can also drag out. But so far, so good and following the plan that we expected.

Operator

The next question is from Peter Sehested, ABG.

Peter Sehested ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

Just a couple on my side, please. First, on the search for a U.S. CEO, how is that progressing? And furthermore, could you give us an update on your thoughts about the U.S. You previously indicated that you are, of course, focusing on some attractive niches, but also that M&A come into play.

You recently stated on the call here that we should probably looking for some share buybacks as the M&A activity will be muted. So my question is on when and if do you expect sort of to see increased M&A activity in the U.S. and also some update on your CEO plans? And also, by the way, on the CFO.

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you, Peter. So, absolutely you're right. U.S. is a target market for us in ISS. If you look at the competition, the competition has really managed to crack the nut, so to speak, in the U.S. and it's been a significant swing factor from many of our competitors that have grown profitable business in the U.S. And the good thing is, there is room for both us and the competition to grow significantly in the U.S., just given the opportunities.

But to us, it's about focus and it's about making sure that we focus in the areas where, one, the opportunities are and where we have the capabilities to be unbeatable. And that's exactly what we are planning for now.

And in there, a part of that, of course, is leadership. And that's linking to your question around the U.S. CEO. I just want to say we have a very, very strong interim solution. So it's not that we don't make momentum, even though that we don't have a permanent CEO. So a strong interim solution, I feel very comfortable with that.

And that also means that we don't have any rush on recruiting the CEO in the U.S. It's quality that is important and the capabilities and the right fit to ISS. But the process has started, and we're going through that with the utmost diligence to make sure that we are landing the right permanent position as a CEO for that important market for us.

And your question around -- so just to stay on the people side, on CFO. That process, obviously, also has been initiated a while ago. And we're running both an external track and an internal track. We have some very interesting and capable candidates in both of these tracks, and we are evaluating that as we speak. So that process is also following the plan and the time line that we have.

Then in terms of M&A, and you linked that to the U.S., and I also think you mentioned it more generally across the enterprise. I mean, our thinking is exactly the same as we have socialized with you several times before. We are interested in M&A at this point in time, if we can do bolt-on acquisition that lifts up to the criteria that we have highlighted several times before in markets where we have strong management and we can see that we can embed the business quickly and leverage the benefits quickly. But don't expect us to push the boat out in terms of risk in any way, shape or form on M&A at this point in time.

We have a massive agenda in front of us with the other things that we are going through from a strategic perspective. And before we embark on something that is risky and more transformational, it will take certainly a period of time, and it's something that, of course will also socialize well in advance.

So that's also my comment around the share buyback. I mean it's obvious. And the reason why I'm so blunt and bold about it is that, when you have a policy, obviously, you stick to the policy, otherwise, you shouldn't have a policy. And just the outlook, it's evident that we will have excess capital at the end of the year, and then you follow the policy and hence, my comment around a share buyback program.

Operator

The next question is from the line of Klaus Kehl, Nykredit.

Klaus Kehl ***Nykredit Realkredit A/S, Research Division - Chief Analyst***

Yes. Just one very simple question. Could you give us an update on the Deutsche Telekom contract and the arbitration process? And in this context, try to describe what kind of upside or downside we could see without going into a lot of details.

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Yes. Thanks, Klaus. I can certainly give an update on the arbitration that we initiated regarding certain contractual disagreement between ISS and Deutsche Telekom. I mean the arbitration is ongoing, and it is following the rules for the arbitration institute in Germany. There are no major changes since what we communicated at the first half release.

We, obviously, wouldn't have initiated this if it wasn't because we thought we didn't have a rightful claim. But I can only say with confidence that, the process is where we'd expect it to be at this stage. But in terms of speculating on outcome, I don't want to do that. Obviously, it's a confidential process, Klaus, and that will be inappropriate for me to make any detailed comments about that.

Klaus Kehl ***Nykredit Realkredit A/S, Research Division - Chief Analyst***

Okay. Then just a follow-up question. Could there in any scenario, be it downside risk?

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

I certainly don't expect that to happen. As I said before, we initiated the claim. We believe we have a strong -- or the arbitration we believe we have a strong case here. So I certainly don't see that. But as I said, the process is ongoing, and we will, of course, update you accordingly if our view is changing.

Operator

The next question is from Allen Wells, Jefferies.

Allen David Wells ***Jefferies LLC, Research Division - Equity Analyst***

A couple from me, please. I'd love to just get your kind of sense on the pipeline of new work. I noticed, obviously, in the growth guidance of 9%, sort of 0.5% of net contract wins in there. And I think if you look across some of the other areas, things like catering, the bigger catering name is lots of focus on net new there. So just wondering from a volume perspective, you can find some color what you're seeing in terms of the volume sizes in terms of the tenders that are coming through there? That's my first question.

And secondly, just on the U.S., you've obviously highlighted as a focus area. I mean I remember back at the IPO, the U.S. was a focus area back then. So we've been kind of talking about this as an opportunity for a while now. I mean what in your mind, do you think is different now in terms of ISS positioning the go-to-market that you believe is confidence that the U.S. can -- you can achieve and then capture some of the opportunity in that market?

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thanks, Allen. Very good questions. So thanks for that. We do have a lucrative pipeline for sure. And -- but it's also evident that it's a consistent theme that I've shared previously, that the decision process are just taking longer. And I think that has to do with the fact that facility management services is a bigger priority among customers today compared to what it used to be.

Before COVID-19, many of our conversations was with procurement centered around price, today it's centered much more around value and you have much more stakeholders involved in the decision-making progress -- process. So it takes longer, but rest assured, strong pipeline and that goes both for global customers, for regional customers and for local customers.

In terms of U.S. specifically, obviously, it's hard for me to comment on the conversations you've had with previous management. But I'm happy to share with you why I believe and we believe as an organization that it's a massive opportunity for us. Obviously, I've been the CFO for our North American business in a 4-years period, so I know the market. And typically, the way that U.S. customers used to think about facility management services was they have a small corporate real estate team and that corporate real estate team was managing a number of smaller suppliers.

However, COVID-19 has triggered some significant changes to that model and some reflections as well. But because you can imagine the complexity during COVID-19, having to deal with 1,000 suppliers, where everybody in the beginning of the pandemic was worried about lack of liquidity. Having to call 1,000 suppliers, making sure that there's not a no show the following morning is just one example.

The consistency is another example. You want to make sure that you can give your staff the comfort that regardless of whether they are visiting an office on the West Coast or the East Coast, then the quality of services is consistent and sitting at the high same level. That's exactly what we can provide as one partner. You cannot do that with a delivery model where you are using 1,000 subcontractors.

So I think there's some dynamics there that are playing exactly into our value proposition and what we are offering our customers. Obviously, we would give you several more details, but these are just a few examples, Allen.

Operator

The next question is from Mads Andersen, DNB Markets.

Mads Brinkmann Andersen ***DNB Markets, Research Division - Research Analyst***

Maybe just returning to the, sorry, the implied Q4 growth. I just -- I'm struggling a little bit to understand -- I understand that you highlight the high above-base in Q4 and obviously the tougher comps. But I'm just struggling to understand, at least on my calculations, it seems to be 12.4% organic growth as I think, it seems overly cautious. I mean apart from the tougher comps in above-base, what makes you think that the organic growth should be so low?

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

I mean, I think there are 2 things that are worth mentioning here. The first one is a comparison. And remember, there was also -- there was a significant price increase happening over the course of last year, also in Q4. So there's even some tougher comps also as a consequence of that.

And then the other part, of course, is the uncertainty around above-base. And you're right, this will imply a Q4 growth of around 5% to get to the 9% for the full year. And that will mean that above-base work would reduce with a consolidated level of approximately 2 percentage points in Q4.

And however, we have assumed there that it's a lower level compared to Q4 last year, but still higher than what we saw before the pandemic. So I understand your question around whether this is too conservative, but this is what we have visibility to at this point in time with the uncertainty that exists around above-base work.

Mads Brinkmann Andersen ***DNB Markets, Research Division - Research Analyst***

But if we look at some of the contracts you mentioned that you have been unsuccessful in extending. I think you've mentioned some works in the report that you've been disciplined on pricing. But can you maybe just elaborate a little bit on sort of -- I know there's a few success stories in the new wins, but maybe those contracts, what are the main reasons that essentially the customers have started to go with someone else?

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Yes. I don't really see a trend or a pattern related to these 2 contracts. I'll just be specific on the reasons. The first one that we lost is a pure pricing issue. And to be honest with you, it's not a regrettable loss to us. We will continue to stick to what we have introduced several times before that we are disciplined in the process and focused around pricing and conditions. And if the customer doesn't want to accommodate that, then we're not in it anymore. So that's a pure pricing issue on the first one.

The other one is a little bit more complex, but you can boil it down to one thing, which is relationship. There was a change in management with that particular customer and the new management that came in had a strong relationship with the competition and has decided to do a deal with them. But that's not a consistent theme, it's a specific case.

Operator

(Operator Instructions) And now your turn again Peter Sehested, ABG.

Peter Sehested ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

Actually not one -- thank you, I'm sorry, but I don't have one, I actually have 3. First one, I would like to understand a little bit of the mechanics of leverage. Could you just elaborate a little bit what it means for the leverage with -- I mean, revenues with respect to your 3 main operating line items when it comes to the impact from volume growth and also the impact from price growth, because there was a bit of, let's say, confusion or disappointment, et cetera, in the market when you made sort of the first profit -- sorry, organic growth upgrade earlier this year that the higher growth did not translate into higher margins? And want to understand that because in terms of modeling for 2024.

Secondly, a follow-up to Michael question on the momentum in underlying volume growth. You have a retention rate of 95% now. Should we expect that, because all else equal that you have a positive impact in the long term. But do you see a positive impact of the online volume growth in '24 from the higher retention rate that could potentially offset some of the higher comps?

And the third question is a little bit more fluffy, but computer manufacturers, they sort of proud themselves by putting a little sticker on the laptop saying, Intel Inside. I mean, can you imagine a world where, let's say, companies would be proud of having a sort of similar over sticker saying ISS Inside?

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thanks Peter. The 2 first, I will answer now and then you need to elaborate a little bit on the third one. So I'm not -- so I'm answering that one accurately.

So in terms of operating leverage, I think let's just divide that into 2 components. We have a platform now in -- across the enterprise, where I'm comfortable that we can add volume to the platform when we're winning new contracts without having to add overhead costs accordingly. And that goes for a country level and it goes for a group level. That's built over the last 3 years. And that's a strength that we have built. So I'm very comfortable with that. And that also means that operating leverage will obviously come through because more volume will dilute the overhead costs.

I think what you're alluding to here was the price increases. So when revenue is increasing because of price increases. And that's right that the price increases we are passing on with an uptick, which equals our ratio, and therefore, it's neutral to our ratio. So I just want to make that distinction. Price increase is neutral to ratio, but absolutely operating leverage when we are winning new business.

And then on the momentum with the retention rate of 95%. I mean, generally, I am optimistic about us growing this business. And I'm also mindful about the longer decision processes, and I'm also mindful that we are targeting bigger ticket items. And in some quarters, it's not represented to look at a quarter. It's represented to look at several of quarters in a row.

But generally speaking, we have a strong pipeline, and it's not only for our global customers, it's also at local level. So I see no reason why we shouldn't see a contribution to the organic growth next year from net new wins for sure.

And on your first question on the computer and the IT thing, just give me 2 more words on that one. So I'm answering that one accurately.

Peter Sehested ***ABG Sundal Collier Holding ASA, Research Division - Analyst***

No. I mean it is a bit fluffy and we could particularly take that tomorrow. But I mean, in essence, computer manufacturers have been proud of putting this, Intel Inside, sticker as a sort of display of the quality inside the computer.

So what I'm referring to about sticker saying, ISS Inside, on the front of the building of one of your customers, I'm, of course, referring to the overall level of quality, having an ESG responsible or a company that delivers services based on ethical principles. I know there have been some issues in the U.K. where service providers have not paid their employees, et cetera, et cetera. So it's the whole, let's say, step up in quality perception, ESG, et cetera, et cetera, around ISS that sort of would make one of your customers proud of having sticker in the front of their buildings that says ISS Inside this building. You get my point?

Kasper Fangel ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Okay. No, no, absolutely fair point. But I think, to be honest, we're already doing a lot of that. I mean just -- I will just mention one concrete example on that, and I touched upon it in my presentation. I mean, obviously, where we are contributing to society in general at a global scale is on social sustainability.

We are more than 350,000 people. And if you add family members into that equation, then we're touching on a daily basis, more than 2 million people, and we're giving our people fantastic opportunities that they wouldn't have had if ISS didn't exist. Programs in local markets around engaging disabled people, as an example, I gave the example about India.

Of course, we're doing that because, one, it's the right thing to do. But we're also doing it because our customers are expecting to do it. So that's just one example. I could continue on environmental on the ESG, where we're doing things that are helping our customers to accelerate their sustainability programs as well. So I think we're doing a lot of that, but I also agree it's a broader theme that we probably need to allocate some more quality time to cover in detail.

And with that, I don't think we have any more questions. I would like to thank you for attending the call. I would like to thank you for your questions. And as always, IR with Jacob and Kristian are available, and you can always reach out to them -- always reach out to them separately.

With that, have a good rest of your day, and thank you so much.