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HALF YEAR 2025 ISS A/S EARNINGS CALL

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Mads Brinkmann** *Joh Berenberg Gossler & Co KG - Equity Analyst*
- **Remi Grenu** *Morgan Stanley - Analyst*
- **Kristian Godiksen** *SEB - Analyst*
- **Allen Wells** *Jefferies LLC - Analyst*
- **Nicole Manion** *UBS AG - Analyst*
- **Klaus Kehl** *Nykredit A/S - Equity Analyst*

PRESENTATION

Operator

Welcome to ISS trading update for Q2 2025. Today's call is being recorded. (Operator Instructions) Today's speakers are Group CEO, Kasper Fangel, and Group CFO, Mads Holm. But first, I will hand it over to Head of Investor Relations, Michael Vitfell-Rasmussen. Please begin your meeting.

Michael Vitfell- Rasmussen *ISS A/S - Group Head - Investor Relations*

Thank you, and good morning, everyone, and a warm welcome to our conference call. We appreciate you joining us to discuss our first half results, which were released earlier today. I'm Michael Vitfell-Rasmussen, heading up Investor Relations here at ISS. Joining me in the room is our CEO, Kasper Fangel; our CFO, Mads Holm; and our IR colleague, Anne Sophie Riis.

Before we begin, please take a quick view at the disclaimer, and then I will hand it over to Kasper to start the presentation. Please move on to slide number 4.

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

Thank you, Michael, and good morning, everyone. I also appreciate you taking the time to join us today for the presentation of our first half results for 2025. We've delivered a first half in line with expectations, marked by continued progress on our strategic priorities, focus on commercial execution and operational discipline. While there is still room for improvement, we're encouraged by the underlying momentum across the business.

Let's begin with an overview of our progress and the key drivers behind the financial results. We're starting to see some early results from our efforts to strengthen the commercial engine. I'm pleased in our progress to secure new customers. But even more importantly, we expanded a meaningful number of contracts with existing customers. I'll return to this in more detail later in the presentation.

Obviously, there is a strong interest in the current arbitration case with Deutsche Telekom, and that's entirely understandable. We are progressing as planned. The oral hearing has been completed, and we are now awaiting the final ruling from the court. Our position on the likely outcome remains unchanged since our last update in connection with Q1. We continue to firmly believe that we are well positioned in the arbitration process.

As you know, we've dedicated time and effort to strengthening our platform in the US, a market with significant potential and high strategic importance to us. We've upscaled the management team and built the foundational infrastructure. In other words, the platform is ready to absorb growth. With a surgical focus on execution, we believe growth will follow over time, although it remains difficult for anyone to predict the exact timing of results.

Mads will take you through the financials in more detail shortly, but I would like to briefly highlight a few key points. Overall, we performed in line with our expectations, and I can comfortably state that we are keeping our 2025 full year guidance on all three KPIs. Our first half results on organic growth came in line with expectations, and we are maintaining a strong focus on the pipeline. We delivered a margin of 4.2%, a 20 bps improvement versus last year.

Lastly, we delivered solid results on our free cash flow, an area where Mads, together with finance and operations, has dedicated significant efforts. Due to strong underlying performance and strong cash flow, we have decided in line with our capital distribution policy to increase our share buyback program with DKK500 million.

Let's turn to slide 6, please. Let me start the business update with a status on DWP. As you all know, DWP is set to go live in a few months. It's the largest public institution in the UK, serving over 20 million customers and one of our larger contracts with annual portfolio revenue of DKK1.2 billion. Thanks to our existing footprint in the UK, we are seeing meaningful synergies between our current operations and the new DWP sites we'll be serving. I'm very pleased with the team's efforts so far. The mobilization is progressing as planned. And I'm happy to share that we are now entering the final phase of the ramp-up, and we are looking forward to serve the customer in October.

Please go to slide 7. Since we last spoke, we've continued doing what we do best, helping customers to create unique service moments at their workplaces. Our focus remains on consistently delivering exceptional customer experiences at site level through our self-delivery model. Combining our service mindset with our commercial initiatives has translated into both new wins and meaningful expansions. So far this year, we've announced 15 contracts, six new wins, eight expansions and one scope reduction. The majority of this year's announcements are set to ramp up gradually during the second half of the year.

While we are still focusing on the larger opportunities, I want to highlight the value of midsized contracts around DKK100 million. That often are faster to mobilize and less complex. Expanding with existing customers is also a strong strategic focus area for us. Growing with customers we already partner with also often means lower complexity, faster mobilization and, most importantly, it confirms a great customer satisfaction.

For us, growing with existing customers is just as important as winning new logos. It's a low-risk way to scale our business. That's why we put in dedicated sales resources across the organization to grow our customers across borders. I'm also pleased to see that we are growing within our targeted segments. We choose these segments for a reason. They are segments where the quality of the workplace truly matters and where we can create unique service moments to a level which differentiates us from the competition. Looking ahead, our focus is on converting prospects in our healthy pipeline, including both new wins and growth opportunities with existing customers.

Let's take a closer look on slide 8. Our 2025 expiries have decreased from 5% to 3% since we last spoke in May. I can add that negotiations on securing the remaining extensions are progressing well so far, including the two larger contracts we have mentioned before coming to extension towards the very end of the year. We also had one scope reduction during this period, which is, of course, disappointing, but also the nature of our business. Looking ahead, we remain confident in the underlying strength of our business to generate long-term sustainable growth at a level higher than what we have historically seen at ISS.

Please turn to slide 9. As ESG continues to gain traction among our customers, we are proud to help bring greater substance to the S, the social dimension in ESG. Facility management has traditionally been a low wage industry, but at ISS, we see our people as our greatest asset. That's why we invest in them, not just to strengthen our business, but to create better opportunities for our placemakers. For some countries, minimum wage limits opportunities in life, but we know we can change that. By paying a living wage and helping our people grow, we can improve their quality of life. And in turn, we believe this leads to greater engagement, pride and quality in the work they do.

We're proud to be leading the advancement of living wage across our industry, a commitment we made in 2022 and a target we have exceeded since '23. We've developed a global benchmarking process to assess wage levels across markets and guide our future actions to making living wage a reality for more of our placemakers.

We're equally committed to supporting our people in building meaningful careers, both inside and beyond ISS. One of the ways we do this is through qualifications. By providing recognized education and training, we open doors for our people, equipping them with the skills and credentials they need to pursue new opportunities and achieve more. It's not only the right thing to do, it makes us stronger. These efforts improve attraction, retention and service quality, while bringing our employee value proposition to life. I'm proud of the progress we made and even more proud of the impact we are having on people's lives.

Now I will leave the word with Mads. Please turn to slide 11.

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

Thank you, Kasper. Let me walk you through our financial performance for the first half of 2025. I'm pleased to share that the first half of the year has progressed as planned with solid financial performance. Organic growth ended at 4.1% and was driven by price increases and above-base activity. I will elaborate further on this shortly. The improvement in the operating margin continued in the first half, where the margin was 4.2% compared to 4.0% in the same period last year. Lastly, our free cash flow also developed as expected and was negative DKK600 million, which also is an improvement from last year's performance. Overall, we are satisfied with our financial performance in the first half, and we're well positioned to deliver on our full year financial outlook.

Please proceed to the next slide for regional performance breakdown. All regions, except Americas, delivered positive organic growth in the first half of the year, in line with our expectations. In Northern Europe, we recorded half year organic growth of 2%, mainly due to the annualization effect from DEFRA and the Danish Building and Property Agency, which went live in second quarter 2024. The margin improvement was driven by tight cost control. We continue to see growth in Central and Southern Europe, primarily driven by price increases in Turkey.

Additionally, we saw solid growth in above-base during the period, supported by increased demand for refurbishment projects. The margin improvement reflects a general robust development, most notably in Switzerland and Spain. In Asia Pacific, we achieved organic growth of 6%, with especially Pacific, Hong Kong and Singapore running at fast pace.

Lastly, performance in America was in line with our expectation, reflecting the deliberate exit of two larger contracts during first half 2024. Margin was, as expected, impacted by continued commercial investments aligned with our strategic ambition to strengthen and expand our footprint in the US. These initiatives are progressing well. And as Kasper highlighted earlier, we keep a relentless focus on execution, which over time will pay off. While we do expect to see a gradual improvement in second half, remember that fourth quarter will face a tough comparison due to the one-off restoration work following last year's hurricane.

Please turn to slide 13. We delivered organic growth of 4.1%, driven primarily by the successful implementation of price increases, which contributed by 4.5%. Turkey was slightly below half of that increase. This underlines the resilience of our business model as we continue to successfully pass on inflationary pressure to customers, particularly wage-related cost increases, and we are able to protect our margins. Volume growth had a positive contribution of around 0.5%, primarily driven by increased activity levels at customer sites, mainly in Northern Europe and APAC as well as scope increases across the regions.

As expected, net contract wins had a negative contribution of around 2% in the first half, largely reflecting the contract driven and deliberate contract exits last year, particularly in the Americas. Projects and above-base activity contributed around 1% and grew organically by 7% in first half 2025. Growth was mainly related to customers' refurbishment programs and other above-base work, both in Europe and APAC.

Let's go to next slide for our operating margin development. Please turn to slide 14. ISS has been on a margin recovery journey over the past five years, and I'm pleased to see one more period moving in the right direction. The margin for first half ended at 4.2% and is a direct result of our focused execution of the OneISS strategy, emphasizing selective tenders, driving profitable growth and consistently managing costs. The margin was also positively impacted by a one-off related income from the UK in first half. However, in first half last year, we also had a similar one-off, positive one-off.

As per normal seasonality, our margin is always back-end loaded. And furthermore, this year, our ordinary restructuring costs are weighted towards the first half of the year. This year, restructuring cost includes, among other things, costs related to the EGM changes earlier in the year. Most important, we still have the room and flexibility to invest into contract start-up and reinvest in the business, while remaining on track to deliver on our full year margin outlook of above 5%.

Let's turn to next slide for a closer look at our free cash flow development. Free cash flow for the first half of 2025 was negative DKK600 million, an improvement of DKK500 million compared with the same period last year. This was mainly driven by improvement in operating profit and a positive development in net working capital. In line with normal seasonality, changes in working capital in the first half had an outflow of DKK1.6 billion. Compared to last year, this is an improvement of nearly DKK300 million.

Since joining ISS, a key focus of mine has been to reduce the seasonality in our cash flow, and we remain committed to drive further improvements. It's encouraging to see the progress we have achieved so far, and thanks to the great effort of the entire team. I also want to highlight a slight decrease in the usage of factoring. All in all, a free cash flow in the first half according to plan. Therefore, our guidance for the full year of more than DKK2.4 billion remains unchanged.

Next slide, please. According with our capital allocation policy, we are increasing the share buyback with DKK500 million driven by strong underlying performance and robust cash flow. This means that when combining the dividend and the total DKK3 billion in share buyback, ISS is delivering a payout yield of 11% for 2025. This yield reflects our disciplined approach to capital allocation. Rather than sitting on excess cash, we consistently deploy it where we can create the most value for our shareholders. We closed the first half at 2.5 times net debt EBITDA, a slight improvement from the first half '24 and a level I'm comfortable with.

Please turn to slide 17. Since 2020, we have deleveraged our business significantly. We remain on track to deliver within our full year target range. Our total shareholder return for the year now stands at DKK3.6 billion, and we will revisit this figure later in the year as part of our ongoing evaluation. Let me also reiterate that our capital allocation policy remains unchanged. Our key capital allocation priorities are maintaining leverage within our target range while keeping the business well invested, pay annual dividends and carefully balancing value-creating opportunities such as bolt-on M&A against share buybacks to ensure the best possible return for our shareholders.

That concludes the financial update. I'll now pass it back to Kasper, who will walk us through the outlook. Please turn to slide 19.

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

Thank you, Mads. With the first half behind us, I can reconfirm our guidance for 2025. The first half year delivered as planned, supporting continued sustainable growth. In all of ISS markets, there are plenty of opportunity to grow our business. And with our investments and strengthening of our commercial function, we are reconfirming our organic growth guidance range of 4% to 6%. In 2025, we still expect price increases to remain the main contributor to organic growth, primarily driven by Turkey, but also reflecting the price increases already implemented in other markets in the beginning of the year.

Furthermore, as explained previously, one of our commercial initiatives going forward is to grow with our existing customers. And we now expect to see a slightly higher contribution in 2025 from this. We have adjusted the contribution from net new wins slightly. This is due to timing and phasing into 2026 as a larger part of our net new wins and pipeline prospects are to start up early 2026 or late 2025. For the margin, we're also on track and reconfirm our guidance of above 5%.

Let's turn to slide 20. We also reconfirm our cash flow guidance for the year. We still expect the strong underlying cash flow generation to be maintained in 2025. The guidance of above DKK2.4 billion is in line with the above 60% cash conversion, adjusting for the DKK200 million negative impact from 2024 prepayments. We still expect payment from Deutsche Telekom, and providing it is received in 2025, that will bring our expectations to the free cash flow, including Deutsche Telekom cash at above DKK3.0 billion.

Please turn to the next and final slide 21. The first half of 2025 represents another positive chapter in ISS' journey towards becoming a company that is growth-orientated, people-centric and performance-driven. We found the right avenue guiding us in the right direction, and I'm pleased with the current speed of execution. To our 318,000 placemakers, thank you. You are the foundation of our success. Your commitment to excellence and the care you show in every service moment is what defines ISS and earns us the trust of our customers. And to our customers, thank you for your partnership. We remain committed to support you delivering on your desired outcomes.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Mads Brinkmann, Berenberg.

Mads Brinkmann *Joh Berenberg Gossler & Co KG - Equity Analyst*

If I could start on the margin, please. Really quite strong margin, especially considering how impacted the Americas margin was. And I know you mentioned a couple of commercial initiatives and a few other items. But please, could we just double-click on that and maybe you could add a little bit of color on what you've done in the Americas, but also how we should think about the margin for the remainder of the year?

I think you said we should expect some recovery in organic growth, which I think is well understood and flagged. But maybe just on the margin and where we should think about that for the remainder of the year? And maybe just on that, finishing off Americas, if you could confirm if the margin would have been at least flat or up slightly if you hadn't done or taken these -- pulled these levers or initiatives on the commercial side in Americas?

And then I think on the second question, any sort of color -- I know you touched upon it briefly, Kasper, the shift between underlying volume growth and net new wins, or at least the building blocks that you provide. But just playing devil's advocate here, I think at least over the last couple of years, as far as I can remember, net new wins has been the one that's been, you could say, at least adjusted downwards a couple of times throughout the years. I mean, have you just been a little bit too bullish going into this year? Or is it, I mean, like you say, purely just phasing? Or is it essentially a factor of yes, you've won a lot of new contracts, but they start later and maybe you haven't won enough this year or with start dates this year to sort of for that initial guidance to come to fruition?

And sorry, but finally, I need to ask on Deutsche Telekom and the final ruling. I mean, when can we expect this? Is it fair to expect this within a couple of months? Or is this more likely to come in next year? And maybe just as well, during this phase, if there's been any change in communication between you and Deutsche Telekom, if there's been any attempts by either side to find common ground? That would be my initial ones.

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

Thanks, Mads. Why don't I go first and then Mads will talk to the margins in Americas here shortly. So first on underlying growth and specifically around volume and net new. I mean we have visibility now and we've announced it to you as well with the expansions that I also spoke about in my presentation, which will start up gradually over the course of the second half of this year. And that also means the contribution from volume is going to improve gradually over the course of the second half compared to the position in the first half.

And on net new win, we will see a gradual improvement in the second half as well for three reasons. The first reason is that the comparison is getting easier. So the comparison is getting easier in Q3 and even easier in Q4. And then we are starting up a number of new wins with new customers gradually as well over the course of the second half. So that's the second reason. And the third reason, of course, is DWP that is starting up in the beginning of October in base volume that is more than DKK1.2 billion. So all in all, a positive contribution from underlying growth in the second half. It will be a gradual improvement where Q3 will be better than Q2 and Q4 will be better than Q3.

If we go to DTAG, then as I said in my presentation, Mads, the process has progressed as expected. And we still believe that we have a strong case. There's nothing that has changed our view during the hearings or after the hearings. In terms of timing, so when we will get the ruling, it will be pure speculation if I start to give an exact time line around that. So I will not do that. But as I said last time on the call, of course, we have a strong trust and belief in the fact that the German legal system is working in an effective way. So hopefully, we will get the ruling soon, but I can't give you any commitment around the exact timing of that. Mads, do you want to speak to the margin in Americas?

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

Yes. So Mads, first of all, what we see in the US is completely aligned with the US strategy that Steven Quick presented and the direction that we are going. So as Kasper also alluded to, so in the US, we are investing in people and in infrastructure to ensure commercial success over time. And I think this underpins really our focus to invest in profitable growth for ISS. We don't guide on margin for regions on that note. But what we see here in the US is completely in our forecast. And we're also happy to confirm that we still expect, as we have said all the time, a margin above 5% for the full year.

Operator

Remi Grenu, Morgan Stanley.

Remi Grenu *Morgan Stanley - Analyst*

Two on my side, which are somehow related. So the first one is on the very strong free cash flow generation in the first year. So if you can elaborate a bit on the working capital improvement and whether you think this is part of a structural improvement that can be delivered over the full year? Or is it mainly about reducing the seasonality in cash generation between the first and the second half of the year? And against that question, can you give us more details on why you've decided to keep the free cash flow guidance for the full year unchanged, the thought process around that, given that you're running DKK500 million ahead of what you were -- what consensus was expecting for the first half?

And the second part of the question, which is somehow linked to the first one. Can you elaborate a little bit on the decision to increase the share buyback as well? Was it always your view since the beginning of the year that you could sustain DKK3 billion of share buyback with free cash flow guidance? Or should we read into that more confidence in the outcome of the DTAG contract, the working capital improvement or maybe a decision against what you were seeing potentially as bolt-on M&A opportunities and which in the end might not have materialized? I mean, basically a discussion around capital allocation and the decision to increase the share buyback.

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

So let me start out with the last one, Remi. It's Mads here. So in regards to the share buyback, I mean, when we announced the DKK2.5 billion initially when we presented the full year '24, that was a level that we were comfortable with. We've also said at that time that we are taking a view ongoing throughout the year if we have the possibility to increase the share buyback further. We did that last year at half year. We did it again in the third quarter. So this is actually just part of our ongoing valuation that we deploy money where we believe it makes most sense for shareholders. And I think we alluded to that if we saw strong cash generation, then we will definitely consider a potential increase in the share buyback, completely aligned with our capital allocation policy.

Looking at the bridge, as you alluded to, yes, we are delivering a stronger cash flow in the first half of '25 than we did in '24. So first of all, I think it's important to note that we are delivering a stronger nominal profit overall. And then if I double-click on the net working capital changes, it relates like this that, first of all, we had DKK200 million in headwind from the prepayment of '24. We also have a factoring balance going down of DKK100 million versus the same period last year. And then we have -- there's some money related to improved payment terms on the DTAG. And then the lower growth in itself should also generate stronger cash flow. But we are in reality seeing a better collection, and that is, of course, a focus that we will maintain. So that was the first half of the year.

If I then look into the full year, I just want to allude to it is a stronger cash flow. And with the 60% cash conversion rate, which we are starting at, that leaves us to DKK2.6 billion, which were actually the number. But then you have to remember the DKK200 million that I talked about before on prepayments. And for the full year, again, higher nominal profit for the full year versus last year. We will see, hopefully improved on the payment terms on DTAG. And then we'll continue to focus on working capital improvements. And then you also have to remember, we are delivering this despite there could be an FX headwind because some of the currencies are depreciating, not that it had a big impact on the first half, but it might have a large impact on second half. And we are guiding above DKK2.4 billion and that we are comfortable with. Thank you.

Operator

Kristian Godiksen, SEB.

Kristian Godiksen *SEB - Analyst*

Kristian here. So I'll start off with the two ones. So first of all, thank you for the additional disclosure in the back of your notes, both in terms of the projects in above-base and also in terms of the share of business from small and route-based customers. Maybe could you elaborate a bit on that, on the on the differences in the regions. So for the budget in above-base, this only makes up around 10% in APAC and Americas compared to 16% in Central Southern Europe and 19% in Northern Europe. I guess, if you could talk to the upside on that.

And then also maybe on the route and small base business, obviously, that being significantly large in some of your heritage markets, in the Northern Europe 7%, 5% in Central and Southern Europe. What to expect for that? I was actually a bit surprised, to the extent that it was so large, I thought you had more or less exited all route-based businesses. So some questions on that. And sorry, some elaboration on that.

And then secondly, just a household question here on the factoring. So you lowered the use of factoring. Wonder why -- can you elaborate a bit more on why, as I guess, if there is value in utilizing that some customers have better credit rating than yourself, then why change that? That was the two initial questions.

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

Thanks, Kristian. So first on the regional question on revenue and starting with project and above-base, there's no reason why the region shouldn't be at an equal percentage. So you can't read too much into the first half. If you take an example, the project and above-base in Americas in the first half of this year was 11%. It was 17% for the full year of 2024. So there's no reason why that shouldn't be at equal percentages. And on your question of small and route-based, then please see it as that the small and route-based is linked to our key accounts. So that's the tail of retail business that we are servicing for a key account. For instance, bank branches, that's classified as small and route-based. So it is a part of the key account strategy. We don't target small and route-based in isolation in ISS. It will be in connection with targeting key accounts.

And maybe just one last thing coming back to the projects and above-base work. Structurally, we don't see any changes there. So it's not that we are seeing that customers are cutting back on projects and above-base. So there's no reason that, that shouldn't trend at the level that we have seen historically. And we are pushing internally a lot for our site managers to have both commercial understanding, so that they know at site level what is in scope and therefore, what are the opportunities for land out of scope work, and that they are not working in a too bureaucratic way, so they can take these opportunities and convert that into project work when they see them occur.

Mads, maybe a quick answer on the factoring to Kristian.

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

Yes, Kristian. So first of all, well noted, we are bringing -- our factoring usage is going down. The main reason for it is that we have fewer customers where it makes sense. We have also introduced an ECP program for our funding mix, but there's nothing that has changed in regards to our factoring policy. We will grow factoring at the maximum in line with organic growth, but we're only going to do it where it makes sense for us. So at this point in time, we had fewer customers eligible for factoring and therefore, you see a decrease in the factoring balance.

Kristian Godiksen *SEB - Analyst*

Okay. Perfect. Very clear on the factoring. Just a quick follow-up on the additional disclosure. So if there's no structural things that points towards the share of revenue from projects and above-base, and also, as I hear you from what is small and route-based business, if this is a tale of key accounts, then does that point to some upside on the margin for some of the other, say, less mature regions? Or was it just a first half? I believe I've only punched in the numbers for first half? And I guess when you say full year 2024, I guess, Americas is also positively impacted from the hurricane work. So just wondering if there's upside in the years to come from that.

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

But I mean, it's still only 16% of our total revenue that is project work. So it's not a swing factor for us. Typically, when we do project work, it's in two categories. There is the project work that we do with our existing workforce, and that's typically higher margin. That's accretive to us. And then there is project work where we are doing the work in partnership with a subcontractor. And there, it's typically a margin that is in line with group average that we are getting. So the margin mix is different compared to how we execute the project. So I'll not say don't expect a swing factor as a consequence of the project work improving. It's a small upside, but immaterial in the big picture.

Operator

Allen Wells, Jefferies.

Allen Wells *Jefferies LLC - Analyst*

A couple for me, please. I just wanted to follow up on the US margin movement. I guess from my side, I didn't think that the investment or the change in margin was that well flagged, or hasn't been flagged. So is that something that's actually changed in terms of your decision-making, the investment that's gone in there? Is that just more of a recent decision? Are you reacting to something? Or is this something that has always has been planned? And maybe you can just elaborate, does that investment continue into the second half or into 2026, just so we can think about how US margins may progress over time?

Second question, just on Northern Europe. If I look at 2Q, 1% growth, you adjust that obviously for the pricing trends, it does suggest that volumes are obviously reasonably negative, yet you saw some decent positive margin development. So is that margin development -- margin progression coming as a result of the reduction in any lower-margin contracts? Or is this much more around cost savings and efficiencies?

And then maybe if I can just sneak in a third, just on the one-off impact on the UK margins that you flagged in your prepared comments. Can you maybe just quantify the impact of that in the first half of '25 and then the subsequent impact in the first half of '24 as well, just so we can factor that into our models?

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

Thanks, Allen. So the investments in the US are fully planned and as expected. You also need to see it a little bit in connection with what is happening at corporate level, and you will see that our corporate costs are decreasing in the first half of this year versus the same period last year. So if you look at the net, there's still an increase, but that net is exactly as we expect. And it's related, as Mads mentioned, for us to do the right things to grow the business going forward.

And there are various components around that. The first thing is to have competent management, competent management that can both validate the plan and the design of the plan that we have in the US and execute with laser focus accordingly. And we believe we have that in place now. It is a strong country manager, Steven Quick, and he has put together his management team. The pipeline is building in the US. It's a healthy pipeline. It's too early to have a view on when that is converting into growth. But we believe that the arrow is pointing in the right direction, and we have the patience to wait for that in the US.

Then in terms of Northern Europe, the decrease in organic growth in Northern Europe in Q1 versus Q2 is purely related to comparison. Remember, last year, we started up DEFRA and (inaudible) in Q2. So the comparison is tougher in Q2 compared to Q1. And the margin improvement in Northern Europe has nothing to do with that shift in portfolio. It is simply productivity gains that are coming through from the team that are doing a very good job in working with productivity. So it's pure underlying margin improvements that are sustainable, which is really good to see. And then in terms of the one-off in the UK. That is less than 10 bps in the first half, and it's almost the exact same amount as the one-off that we had in the Asia Pacific region last year in the first half of

2024.

Operator

Nicole Manion, UBS.

Nicole Manion ***UBS AG - Analyst***

Just a follow-up, please, on the net new. I know you've clarified that there's a timing impact in terms of what's starting up in '26 rather than in the second half of this year. But even granting this, to get to the minus 2% that you've reported in H1, it does look as though there's still quite a lot of smaller contracts that are churning off outside of the bigger wins and losses that we obviously know about in the bridge. Please correct me if I'm wrong on that, but should we think about this mainly as an effect you feel in '25 rather than something that you expect to continue necessarily on the same scale into next year? I guess I'm just trying to gauge whether the slight trimming of the guide on net new has anything to do with what's still sort of churning off at the lower end or if indeed it's really timing and we could be looking at a cleaner bridge, therefore, into next year?

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

Thanks, Nicole. So no, really, that's not the case. We expect the retention rate to improve over the course of the second half compared to our position here at the end of the first half. So the decrease in net new is pure timing where we are seeing some of the contracts that we have won and some of the contracts that we expect to win that they will start later in the year in '25 or in the beginning of next year. That's really what is behind that. And you can see that the volume growth is equally up. But on the net new, it is facing timing more than anything else.

Operator

Klaus Kehl, Nykredit.

Klaus Kehl ***Nykredit A/S - Equity Analyst***

Klaus Kehl from Nykredit. Two questions from my side as well. First of all, could you give us an update on your thoughts about M&A going forward? That's the first question. And in this respect, I believe, Mads, when you talked about your capital allocation, you said something like you try to benchmark M&A versus share buyback. So how do you do that in practice? Any thoughts here? Do you look at what kind of multiples ISS is trading at and compare that to what you have to pay for acquisitions? Or do you look at EPS impact from share buybacks versus acquisitions? And yes, any input here would be great.

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

Okay. Thank you very much, Klaus. Let me take the first one. So as you might notice, from an M&A perspective, both Kasper and I have been quite clear that we don't have any big transformational M&A on the agenda right now. What we have been doing is that we are doing smaller bolt-on M&As where we believe it makes a lot of sense. We haven't done anything this year so far, but I will still say that if you take the number we have bought for the last couple of years, it still gives you some kind of estimates about what should you expect in a normalized year with these bolt-on M&As.

And then the other part is that how we then measure it? Well, it's actually, we use several metrics when we're looking at it. It is from an EPS perspective, it's on ROIC versus WACC and it's different trading multiples. So there's not one special multiple that we are using and saying this is why we are doing this versus that. It's actually a combination of a lot of things. What we are most occupied with is that we can identify whenever we do something and also want to highlight, that we're only doing M&A in very few countries, is that we do what we see provide most value for our shareholders. And this is also why we are not doing a lot of bolt-on M&As because we only pick the ones where we really see true value for shareholders versus, for instance, a share buyback. Thank you.

Klaus Kehl *Nykredit A/S - Equity Analyst*

Okay. And in this respect, could you help me what kind of capital have you allocated to small bolt-ons in the last couple of years?

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

I think we have been in the range of DKK500 million to DKK600 million.

Operator

Mads Brinkmann, Berenberg.

Mads Brinkmann *Joh Berenberg Gossler & Co KG - Equity Analyst*

A quick housekeeping one for Mads. I mean you alluded to yourself the European Commercial Paper program, which is new, but I'm just wondering what it will do to net financials. I mean I think you've loosely talked about it before that we should expect net financials on a full year basis to be slightly above where it was last year. But given where you were in the beginning of this year and you've started issuing commercial paper, is there any change to that? Or -- yes, any color that you can add on that, please?

And then I think secondly, just on the margin, I mean, you've touched upon it yourself, the seasonality. It's back-end loaded like it always is because of normal seasonality, but also you had front-end loaded restructuring costs and stuff like that. I'm just struggling a little bit to understand why we should see -- why we shouldn't expect the margin in the second half to be almost equally strong year-over-year as it was in H1 versus last year. I mean, I know you mentioned there's a lot of investment opportunities. But I mean, the main ones you've done so far has been the shared services center. And is there really that much more to invest in from that perspective? And should we not just expect the margin to be up on a full year basis of the, yes, call it, 15, 20 bps like we saw in H1?

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

Thank you very much, Mads. I can start with the first one. So when it comes to the financing cost, the bond redemption that we had this year, we issued five years ago at very low interest rate levels. So despite the ECP program, I still see that the finance cost will be slightly up. We also benefit a little bit in our liquidity investments. The ECP program, to your point, we established this summer, is another funding vehicle for ISS, where we're able to fund some of the seasonality in our cash flow in a cost-effective way and also more limited from a time perspective due to the seasonality. So I do think, over time, this will definitely benefit us from a financing cost perspective because the alternative would have been much higher. But for the year, I would still expect finance cost to be slightly up.

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

Yes. And I think on the margin, Mads, which is a fair question, you have all the building blocks you highlighted yourself, the seasonality, we expect that to come through to the same extent this year as in previous years. So an uptick of 1.5%, maybe a little bit more. And then, of course, the fact that restructuring is front-end loaded in the first half also gives us an uptick there. But that's similar to what we had last year. And the one-off that we've spoken about is also a similar phasing to last year, so a benefit in the first half.

But what is important for us is that we have flexibility to do what is right to create a sustainable, strong ISS. And it is sustainable, strong when we have full pace on the commercial engine. And that requires that we also have the ability to do what is right and invest when that is right. And this level of above 5% gives us that exact position, because ultimately, what is delivering value in ISS is that we are creating profitable growth and that converts into strong nominal cash flow. And we are doing that when the organic growth is there, and that is increasing the EBITDA. So that's the reason for that and the reason why we are not focused on improving the margins like we have seen historically in ISS with 10 bps or less than that. What matters here is the nominal dollars.

Mads Brinkmann *Joh Berenberg Gossler & Co KG - Equity Analyst*

Understood. And sorry, if I can just sneak in one last. I guess, like some of the additional disclosures that was also highlighted by someone else. I think just on North America here, I think if I note here, if I look correctly, then food and cleaning has declined meaningfully, but something like technical has increased at quite healthy levels. And just if I look -- I mean, obviously, we, yes, compare you guys to some of the catering companies, obviously, what they've seen is quite different. What's been the main driver here? Has it just been the contract exits? Or is there any other driver behind this, please? That will be my final.

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

We got to be a little bit careful with the comparison that you're -- in the direction that you're going now, because these numbers are not FX adjusted. And therefore, so I can tell you, but there's nothing structural that has changed in our view. Food is still important for all customers across all regions. It's an important component in creating an exciting office environment, and Northern Europe is not an exception to that, Mads.

Operator

Kristian Godiksen, SEB.

Kristian Godiksen *SEB - Analyst*

Yes. Just two quick ones, if I can say that. So I'll start off with the first one. Maybe on the commercial investments in both people and infrastructure in the US. Could you elaborate a bit more on what that is, and then when we could hope this could bear fruit? And then secondly, if you could speak about -- you mentioned on the slide regarding the ramp-up of DWP on the synergies of having a strong presence in the UK. Have you moved any employees, any large tenders coming up? Or can you elaborate a bit on this?

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

Thanks, Kristian. I think on the US, we've touched upon that previously, what that is. So the investment basically is to have the right people. So that's one component of it, and make sure that we have high-caliber people that can drive the execution of the important journey that we have in the US. And that we have in place now. We have increased the number of commercial people that we have in the organization compared to what we've had previously. And the quality of the people, in my view, is also better than in terms of experience and expertise is also better than what we've seen previously.

And then there is an increase related to development of products, products that we're bringing to the customers, to make sure that we are coming with a solution to them that differentiates ourselves from the competition and that is driving value for them in what they're trying to achieve in their business. And then, of course, there are smaller pockets of cost that have increased as well related to marketing. So we're coming, it's with professional material, et cetera, et cetera. All of that combined is what is giving you that increase in the cost structure in the US.

The good thing is now we also have a platform in the US, as I said, that are ready to absorb volume. And that also means that as we are winning volume, then our overhead cost will not increase accordingly. This is a platform that we have now that is ready to absorb cost and drive the operating leverage from that without having to increase overhead costs accordingly.

And in terms of timing in the US Of course, we want that to happen as quickly as possible, all of us, including myself, but we just got to be patient. And we've got to make sure that we're not rushing this journey. In my opinion, that is what we have failed previously in ISS that we are panicked because the growth is not there within a relatively short period of time. It's critical that we can see that the arrow is pointing in the right direction. The pipeline is building. We're having more detailed discussions with customers, and we can see that, that is moving in the right direction. And over time, it's also going to come through.

On DWP, all I can say is that the mobilization is in line with plan, exactly in line with plan actually. And over time, the DWP is going to be a margin-accretive contract to us in ISS. So very excited about the fact that we are following the plan from a mobilization point of view.

Operator

As there are no further questions from the conference call, I will hand it back to the speakers for any closing remarks.

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

Thank you very much to all of you. Thanks for listening in. Thanks for your interest in ISS. Very much appreciated. As always, our IR team will remain available for questions or clarifications over the course of today and also the next couple of days. And then we're just looking forward, Mads and myself, to see many of you in the coming roadshow. With that, thank you very much indeed, and have a wonderful rest of your day.

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