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PRESENTATION

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

Good morning, everyone, and welcome to ISS conference call following the release of the 2021 Annual Report. My name is Jacob Johansen, and I'm here at ISS headquarter in Soborg with our Group CEO, Jacob Aarup-Andersen; Group CFO, Kasper Fangel; Group CIDO, Markus Sontheimer, as well as my IR colleagues.

Before handing the word over to Jacob, I'll ask you to pay notice to the disclaimer in the appendix and turn to Slide #3. Jacob, please?

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you very much, Jacob, and good morning, everyone. Let me start off with the executive summary first.

In 2021, the OneISS strategy really came to life despite the volatility that the industry faced from COVID-19, we have executed according to our plan. And what we've especially done is we've delivered on important operational and financial milestones. In 2022, we now turn to the next phase of the strategy execution, and I'll come back to that later.

COVID-19 has been and will continue to be during 2022, a significant external factor that impacts our markets. We will continue to stay agile and flexible as we face continued uncertainty. Mandatory return to office programs are generally delayed and timing is uncertain in key geographies. But the trend is clear, employees across the globe are returning to their workplaces. The Omicron variant may have delayed the full-scale return for some months, but even during Omicron, we've seen a gradual return in a number of countries.

Our financial performance is improving. For 2021, we are today announcing financial results fully in line with our upgraded guidance. For 2022, we are confirming the positive momentum. We enter a year where we guide for improving organic growth and continued improvement in our operating margin. As such, we are firmly confirming our turnaround targets for 2022.

Please turn to Slide 4 for an update on sustainability. Because sustainability is a key part of the OneISS strategy and it's a must-win battle for us as a team going forward. Our starting point is strong, which has also been recognized by external agencies. ISS is a people company, and social sustainability has always been in our DNA. In this field, we make a difference every single day to the benefit of our employees, our customers and society as a whole. We are one of the largest contributors to social mobility in the world, which is something we are immensely proud of.

On environment, we recently launched our net-zero greenhouse gas emission targets. We commit to reach net-zero for Scope 1 and 2 by end of 2030 and for full scope emissions by 2040. That's a significant commitment when you consider that 90% of our emissions happen via our more than 90,000 suppliers and more than 40,000 customers.

Our commitment is backed by several concrete initiatives such as reduction of our CO2 footprint from Food Services, electrifying our global fleet of more than 20,000 vehicles and reducing water and cleaning services. We're proud to take a leading stance in the industry on this crucial topic, but we also recognize that it comes with a lot of hard work in the coming years.

Diversity and inclusion are strongholds for us, and our strategy is driven through 5 dimensions: generation and age; cultures, race and ethnicity; pride; abilities; and gender balance. Within each dimension, there are multiple initiatives and KPIs, and they are all sponsored by an EGM member.

Please turn to Slide #6 for a strategic update. During 2021, we made progress on the OneISS strategy. The turnaround of the underperforming hotspots is on track. Exit of the Danish Defence contract is progressing according to plan. The U.K. is very close to reaching the turnaround target, and France and Deutsche Telekom are in line with plan. The restructuring initiatives and COVID-19 recovery are also yielding positive results. Finally, the divestment program is nearing completion, and we have reached 90% of our net proceeds target of DKK 2 billion.

On the operating model, our foundation has been established. The new organizational structure is now in place in the countries and in the group. Core elements of the structure are the operations performance function, the new global commercial team and the establishment of our Hub in Warsaw. The executive group management team has also been strengthened, which I will come back to.

During the year, we launched our new IT & Digitalization strategy, which our Group CIDO, Markus Sontheimer will introduce shortly.

With the progress and the solid results, we are now turning to the next phase of the strategy. The strict focus on the turnaround initiatives will remain, but we have refocused our priorities. More on that on the next slide.

We're now at a stage where we can narrow our OneISS strategy to 5 key priorities that will make a real difference for ISS in the years to come. Our first story is to improve our commercial momentum and achieve segment leadership. Our efforts are centered around our key customer segments, headed by experienced industry leaders. We will improve our customer relationships, leverage global competencies and strengthen our bid process further.

Our second priority is brilliant operating basics. On our core operational performance, our financial processes and our way of operating, we want to be industry-leading. We are in many areas, but there is a significant upside from leveraging global best practice.

Our third priority is to develop high-quality, consistent service products based on best practice from across the business. Technology will be key, and Markus will come back on some of the specific initiatives.

And then we need to accelerate on our efforts on environmental sustainability. We've increased resources significantly and made an ambitious net-zero commitment. Our many initiatives have a dual purpose as they aim to improve our own footprint in society as well as our customers.

Finally, safe, diverse and includes workplaces -- inclusive workplaces are basically social sustainability. As a people company with more than 300,000 employees and over 40,000 customers, we are making a significant impact on people and societies. That can be a real competitive advantage for us. And as earlier described, we have a clear strategy in place with clear responsibilities.

Please turn to Slide 8 for an update on our divestment program. As mentioned earlier, we are nearing completion of our divestment program. We have rescoped the program and are continued evaluation of our optimal footprint. We've decided to reclassify Chile back to the continued operations and remaining assets to be divested have been reduced to 3 countries and 2 smaller business units only.

Even though we will be divesting fewer assets, total net proceeds are still expected to amount to DKK 2 billion, which is a testament to the strength of our disposal process over the last 12 months. ISS is a large global portfolio company, and there will, of course, always be adjustments to the portfolio as for any large company, but structured divestment programs are now concluded, and focus will be on growth from here.

Please turn to Slide #9 for an overview of recent EGM changes. In December, we announced a strengthening of the EGM to further support the OneISS strategy development and execution power. To move EGM closer to the business and enhanced commercial and operational execution, the management of the previous Europe region was split into 2; Northern Europe and Central & Southern Europe, both headed by experienced senior leaders and members of the EGM. Furthermore, we created a new position as CEO of Global Key Accounts to enhance our strategic focus on our largest customers.

With that, that concludes my review of the strategic development. As you know, we have ramped our focus on technology as part of the new strategy. A key lever in that has been the significant amount of new tech talent coming into ISS over the last 12 months. The most important tech addition has, of course, been our Group CIDO, Markus Sontheimer, who is leading the build-out.

So let me hand it over to Markus for some words on our IT and digitalization strategy and Slide #10.

Markus Sontheimer ***ISS A/S - Chief Information & Digital Officer***

Thank you, Jacob. Good morning from my side as well. My name is Markus Sontheimer. I'm the CIDO and I have been with ISS since June 2021. I joined from my role at CIDO of DB Schenker, which I did for more than 5 years. Before that, I was heading -- leading IT position at Deutsche Bank and Daimler.

With the next couple of slides, I will present our new ISS, IT and digital strategy. We turn to Page 11. Our ambition is not less than to become the technology leader in the FM industry, focused on generating a clear competitive advantage to our customers and for ISS as a whole.

The strategy focuses on 3 pillars. We will develop the right digital applications for our customers and employees. Until now, we have relied on standard market solutions with limited own IP for ISS. Going forward, our digital ecosystem will be a combination of market solutions and differentiating ISS software components.

We will create first-class experience through applications with a recognizable ISS digital brands. We will increase the efficiency for our placeholders through digitization. And with intelligence means algorithmic, mathematics, we will continuously improve operations.

Secondly, we will build a scalable and cybersecure Cloud First infrastructure. We have a strong position in cybersecurity after the malware attack in 2020. We have invested in state-of-the-art, in-house capabilities in that critical area. We had in 2021 welcomed 39 new cybersecurity experts, and we have established a dedicated security operation centers by 7 days, 24 hours. We will still strengthen our position further with our Cloud First journey. This is necessary to achieve a scalable, agile, compliance, and in addition, increase the security further.

On the third dimension, everything we do will be developed and managed by ISS global technology teams and 650 employees are now working in global IT. In 2021, we moved from segregated country organizations in IT into one global IT family. We welcomed 70 additional colleagues in new positions during the year. And as we aim to increase our capabilities further, we are looking to hire additionally 100 people during 2022. We have, during the year, nearly doubled our central teams focused on cybersecurity, IT operations, IT project management, IT leadership and furthermore.

Please turn to Page 12 for a presentation about first deliverable. The test applications are already in the market. It was very key that we really show an effect. We are piloting an ISS dinner application, which you see on the right -- left-hand side, that provides an uncomplicated way of ordering and picking up food from a preselected fridge in the office. That is developed together with our users, the kitchen teams and our technology team. We now deliver a user-friendly solution and built an ISS digital brand and experience. Today, this is piloted at a few accounts and the effect is already visible. Sales have more than doubled compared to an average in 2021 in this pilot. This shows the power of well-built customer applications.

On the right-hand side, you see our new frontliner application called MyISS. It's the first global platform that aggregates services, news, tools and information for all in one place for all our 350,000 employees for frontliners and for the office people. We finished our proof-of-concept stage with 255 active users in the U.S. and Germany. And for the year, we are looking for rolling that out to 4 additional countries.

Please turn to the next page, where I present the approach around digital innovation. Becoming the technology-leading industry demands to lead with innovation. We define innovation in 2 dimension.

Places, here the innovation centers around equipping facilities with innovative, intelligent solutions like IoT and leveraging the data to boost operational productivity and easy sustainability of the places.

People, to empower ISS workforce and our customers, people with the right technology to support better health, wellbeing and create a sense of belonging with applications like MyISS or our workplace application and furthermore.

Before handing back the words to Jacob, I will sum up with 3 key learnings. Firstly, we will become a cloud-based company. Secondly, we will have unique in-house developed software components at ISS. Thirdly, we will transform from a local IT unit to a global delivery machine.

This concludes my part of the presentation. I will hand back the word to Jacob and Slide #14.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you very much, Markus. I have to say it's a very exciting journey and something that can really make a difference to our employees and our customers.

Please turn to Slide 15 for a business review. The revenue recovery continued in the fourth quarter as we saw a gradual return to offices, especially in the early months. The emergence of the Omicron variant did lead to some reinforcement of restrictions, but it had limited impact on our revenue in Q4. Overall, organic growth accelerated compared to Q3, both year-over-year and on a 2-year basis.

Our Food Services represented the largest improvement in the quarter and went from Index 67 in Q3 to Index 72 in Q4. When looking at our food business also in the context of broader comparisons, it's important to keep in mind that contrary to most peers, our food business is mainly office-based, which, of course, means that we see a clear link between return to office and our food recovery. Even though the Omicron variant has postponed some recovery potential later into 2022 with a number of countries seeing restrictions in January and February, we expect a gradual positive development to continue.

Please turn to Slide #16 for an update on inflation. Managing inflation is an integrated part of our business model, and we've been dealing with inflation throughout our 120 years of history. The majority of our workforce is unionized, where wage adjustments are known well in advance. When entering a year, this gives us good visibility on the wage inflation pressure that we will be facing.

Inflation is historically high at the moment. We have several mechanisms in place to cope with the pressure. In the majority of our contracts, we can legally pass inflation on to customers. In reality, we engaged in commercial discussions with our customers to find solutions which satisfy all parties. This leads to scope adjustments, change of service frequency or even open cross-selling. As such, we are confident that we can protect our margin through a combination of price increases and scope changes.

The work with customers and scope adjustments, of course, also means that you cannot expect inflation increases to automatically drive extra top line growth, as part of the growth will be mitigated by these changes. The key for us as a management team is that we will protect our margins in that process.

Please turn to the next slide for a look at our commercial development. Since the Q3 report in November, we have won a long-term contract for a global key account customer in the production-based segment. That account has annual revenue of around DKK 250 million. In addition, and not on this slide, we last night won a contract on Vienna Airport of above DKK 100 million a year for 9 years.

When we look at renewals, we have done multiple extensions, including the 2 largest expiries for 2022, which is HPE and a global pharmaceutical company, which has significantly derisked our top line in the coming years. After these extensions, we have 5% of revenue expiring in 2022 with a lot of renewal activity ongoing. This quarter has been one of the strongest renewal quarters for many, many years. Looking at our pipeline of new contracts, it looks very solid, and we are in final negotiations on some interesting opportunities.

That concludes my part of the presentation, and I will hand over the word to Kasper to go through the financials. Slide #19, please.

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

Thank you, Jacob, and good morning all. It's apparent that 2021 has been an eventful year. Despite a challenging environment, we have moved on our strategic priorities and improved both our operational and financial performance. We were, as such, able to upgrade the outlook twice during the year, and today, we present results in line with this upgraded outlook.

Please turn to Slide 20 for more details. In Q4, the gradual recovery and return to office continued. Restrictions were lifted in many countries, and organic growth was 5.8%, higher than expected when we announced our Q3 results. The positive development was driven by both portfolio and above base revenue. Demand for COVID-19 deep cleaning and disinfection work continued and was very strong. In addition, we saw demand for the traditional project work towards the end of the year. The Omicron variant led to some reinforcement of restrictions in December, but the effect on our business was limited.

Please turn to Slide 21 for some words on the margin. A key priority in our turnaround plan is to improve the margin. The positive development since the launch of the OneISS strategy continued in the second half, where the operating margin was 3.4%. Improvements in the underperforming countries and contracts were the main contributor to the margin increase. But we also saw results from the different restructuring initiatives across the group. With the results achieved in 2021, we are well on track to deliver on the turnaround target of above 4% run rate margin when entering 2023.

Please turn to the next slide, where I'll go through our underperforming entities. In the fourth quarter, we made continued progress as illustrated by the development of the (inaudible). In the U.K., the solid development continued. The restructuring initiatives are yielding results, processes are improved, and the U.K. is very close to reaching the turnaround target for 2022. For France and Deutsche Telekom, the turnaround is on track, and the development is broadly in line with plan.

Contract compliance and operations have improved on Deutsche Telekom. We are working structured on the comprehensive plan to get the contract to break even by the end of this year. We now estimate that 75% of the turnaround target is achieved, and we are entering 2022 with a run rate margin of just above 3%. There's still a lot of work and challenges to be solved, but we have moved significantly during 2021.

Please turn to Slide 23. Free cash flow amounted to DKK 1.7 billion. In the beginning of the year, we communicated that we would have a laser-sharp focus on managing working capital, and I'm obviously pleased that it has yield results. Working capital was an inflow of DKK 1.1 billion. We generally consider the inflow to be structural and therefore, you should not expect a reversal in 2022.

Payables were the main driver as payment terms towards suppliers improved. And as communicated at the first half results, we received a prepayment from a global key account customer in connection with the contract renewal.

Receivables increased marginally despite the positive organic growth towards the end of the year. The underlying quality of the receivables improved and DSO was 47 days compared to 50 days at the end of 2020. Cash-out related to payments of restructuring and one-offs incurred in 2020 and was around DKK 0.5 billion.

Please turn to the next slide for a review of the net debt and leverage. With the free cash flow and proceeds from the divestment program, net debt decreased by DKK 2.4 billion. In a combination with improved earnings, financial leverage now stands at 3.8x compared to 7.1x at the end of 2020. We are, therefore, well on track to meet our turnaround target of a leverage ratio below 3x.

That concludes the financial part of the presentation. Please turn to Slide #26 for the outlook. For 2022, we expect the return to office and COVID-19 recovery to continue. The recovery will be gradual over the year as the spreading of COVID-19 has delayed large-scale return to office programs.

Organic growth is expected to be above 2%. Growth will be driven by the continued revenue recovery from COVID-19, price increases with net effect from inflation and growth from contract wins and expansions achieved during 2021.

These drivers will be partly offset by an expected lower level of above base revenue and a negative impact from the exit of the Danish Defence contract. We expect operating margin to be above 3.5% as the turnaround initiatives and COVID-19 restructuring will continue to yield results, taking the run rate margin above 4% by the end of this year.

Please turn to the next slide for the free cash flow outlook. Needless to say, our focus on healthy cash flow continues. Our free cash flow outlook is above DKK 1.3 billion. The graph at the top shows the bridge from the operating margin guidance to the free cash flow. Here you can see that the free cash flow includes cash outflow from 2020 restructuring and one-off charges. Adjusted for these, the underlying free cash flow is expected to be above DKK 1.8 billion for the year.

The lower graph shows the free cash flow bridge from 2021 to 2022. The main moving items are, one, the increased operating profit; and two, changes in working capital as no further inflow is expected in 2022. Finally, we expect CapEx to be higher as we invest in the business. All in all, ISS is a cash-generative asset and will continue to increase in the coming years as the margin increases and restructuring payments laps.

With that, I will hand the word back to Jacob for some closing remarks on Slide 28.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you, Kasper. So to sum it up, 2021 was a volatile year, still overshadowed by the pandemic. But we kept focus on the things that we can control, and we executed on our plans and even had the ability to upgrade our financial expectations during the year.

We owe our progress to the dedicated daily contributions from our more than 350,000 colleagues across the world. And I want to send a special thank you to all of our colleagues across the globe for every day making a difference for our customers and the societies that we are part of.

Now the focus is on 2022. We aim to continue the progress with a diligent focus on executing our strategy, hard work on daily improvements with a relentless focus on our customers. As you know, we are satisfied with our progress, but we see much more potential in this business. And 2022 will be another step in that direction.

With that, let us open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question will be from the line of Bilal Aziz from UBS.

Bilal Aziz ***UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst***

And 3 from my side, please. Firstly, just on the phasing of the organic growth, clearly the guidance of greater than 2%. But you got -- it sounds like you've got good momentum in the catering business, which is recovering. So just can you hit the building blocks and potentially a range around that theme?

And then secondly, just on -- very similarly on the phasing of the margin to -- and you've got clear guidance on where you'd like to exit, but just how that would phase between 1H and 2H.

And then secondly, as you approach your leverage target of 3x, Jacob, how should we think about the restoration of the dividend eventually?

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you, Bilal. Why don't I start with the leverage target and then Kasper can speak to the phasing, both of growth and margin. You are right that it's a very good conversation that we can have here, given that a year ago we were looking at more than 7x net debt to EBITDA. We are now even more firm on the fact that we will be delivering on our turnaround target on the leverage side of below 3x.

We -- there's no doubt that we know that we will owe you later in the year to come back and talk about what our views on capital structure and the allocation of excess capital now that we enter the span of being within our leverage limits again.

I don't want to give you any new answers today. You know for now, there will be no distributions before we are below 3x. The moment that we enter that territory, we will come back with a firm view on how to distribute and how to allocate those excess resources.

But I think we made it very clear that the leverage target is around those levels. We are not about to go out and significantly change our view on what leverage this business can carry. But in terms of what that means, in terms of allocation between different means of allocating the capital, we will come back later in the year.

On the phasing of growth and margin, I'll hand it over to Kasper.

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

Yes. I think there are 2 things in your question. The building blocks, adding up to the above 2% and the phasing on both margin and organic growth. So let me just start with the building blocks for the full year guidance on organic growth and give a little bit more color there.

There are pluses and minuses impacting this year's organic growth. Inflation is expected to have a positive impact. And as listed on the presentation. Our global inflation index is approximately 3% to 4% in our context. However, as Jacob also mentioned, all of that is not passed directly through to customer. Obviously, they also have a budget that they need to deliver on, and therefore, are seeking scope adjustments, which obviously is reducing the positive growth impact.

Another building block is COVID-19 recovery, and we also expect that we'll have a positive from that this year. As you know, the big-ticket item for us is food, which is expected to gradually come back over the year. The phasing of the recovery is, by nature, of course, difficult to predict.

In terms of the underlying growth, we do expect that, that will give us a positive impact this year, but it's important to stress that the new wins does not have a full year impact this year. And then, of course, we also need to factor in the negative impact from the Danish Defence contract, which is expected to be exited in the first half of this year.

Then the last building block that is important to understand is a project work. And the project work in 2021 has been record high, as you know. I do not expect that to be at the same level this year. I don't expect it to decrease to the '18 and '19 level, but I expect it to be lower than 2021.

And maybe an interesting data point is just a bit of sensitivity on the project work because it is super important. A decrease of project work to the '18 and '19 level will actually provide negative organic growth of 2.5%. But let me stress, I don't expect such a dramatic decrease, but I expect a lower level in 2022 compared to 2021.

So in summary, if you add these building blocks up, that is what sits behind the above 2%. And in terms of the phasing of that, there's no doubt about that both COVID-19 and the commercial momentum will build throughout the year.

On your question on phasing of margin, I think a good starting point is to take the annual run rate exit position, the above 3% at the end of 2021. If you convert that into a first half number adjusted for seasonality, then that would be 2.25%. And I'm basically just adjusting for normal seasonality.

But then, of course, we will have underlying improvements coming through, and therefore, we expect margins to be higher than 2.5% in the first half this year. And that will obviously mean that we will have a higher than 4.5% margin in the second half of this year. Aggregated, that will give us a margin for the full year, which is greater than 3.5%.

Operator

The next question will be from the line of Michael Rasmussen from Danske Bank.

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

Yes. Three questions from my side as well here. First, 2 questions on the IT side. So maybe Markus would like to answer some of those. So on the new IT strategy, basically, how long do you expect this to be before it kind of gives some kind of impact on the commercial agenda. How long do you basically expect to take ISS from in line with peers' average on IT to ahead of peers?

My second question is more relating to costs. So must recognize that the corporate costs were a bit of a surprise to me in the second half. So if you could add some thoughts on that also maybe, Kasper, both in terms of what we should see going forward versus maybe history on IT spending? And also how much the 100 extra staff that Markus mentioned will be taken?

My last question is basically as a follow-up to the building blocks on organic growth. Kasper, you mentioned that -- you said food will gradually come back during 2022. If the starting point is Index 72 from Q4, how do you expect that to evolve in your guidance over 2022?

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Jacob, here. Let me start on the food side and then Kasper will speak to the corporate cost, and then Markus will talk to the -- obviously talk to the question around where this leaves us on the commercial side in terms of the IT development.

In terms of food for this year, I think one key component that is important is to also recognize the way our food business is built. As you know, U.S. is close to half of the business. And it is -- we are more heavily exposed towards office base than our peers. So I say that because we some see comparisons that are not really comparing like-for-like in terms of mix here.

When we look at the guidance we've given here, we are assuming that there is a gradual recovery in our food business, but we do not expect that we are back at our Index 100 when we look at the way we guided this year. We do expect a continued return to the office, which will lead to the food business recovering. But on an annualized basis, we will not be at 100% on the food side this year. We will not give you the specific number, but we have assumed a gradual recovery in Western Europe and in the U.S., but also recognizing -- looking at the pattern, especially in the U.S., it is a relatively slow return to office and slow return to, therefore, also to catering. But it is one of the building blocks, but we are not assuming that it goes back to Index 100 in the guidance that you're looking at.

Kasper, do you want to do the corporate cost?

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

And a very fair question on the corporate cost. You're indeed right that has increased fully as expected and planned. And a big reason for that is, of course, related to what Markus presented around IT.

For this year, I expect on the OpEx side that we will see broadly the same level of nominal corporate cost as we saw last year in 2021. That's fully baked into our outlook and the guidance. And then as you heard when I went through the cash flow bridge, I expect that CapEx will increase this year compared to the spend that we had last year. And also a big reason behind that is the IT investments that we are doing.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

To you Markus.

Markus Sontheimer ***ISS A/S - Chief Information & Digital Officer***

Yes. So thank you, Michael, for the question. I think let me start this. I do think there's enough room for saving money in IT to reinvest in innovation. So I'm fully lined up with Kasper what we can do here, and that's why the increase on people is not going to hit additionally the P&L.

Now coming to the question of time, I think there was a clear focus from the beginning that the -- already on short notice make effects for the customers. And we see that in the bits which are coming in the many customer talks I had. So if you ask me about the impact, I think the impact is already now.

When you think about the transformation journey impact, my assumption at the moment, it will take around 3 years to transform of all different layers, move the whole country -- company to the cloud, which will have additional effect. So it's a journey, but we are driving in different dimensions, and there is a key focus on bringing outstanding customer solutions because the customer are demanding tech as a key enabler, and that's the focus. So 3 years, to your question, and we will be where I want it to be. But during that, we are already delivering on a quarterly basis, solutions and transformational moves in the IT environment of ISS.

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

Thank you, Markus. That's helpful.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

And then Markus, maybe also just from my side, just adding that I think there's a key differentiator here, Michael, in terms of the way that we now have a different muscle in terms of our commercial situations where I can tell you that I've spent a decent amount of February with Markus in front of the clients, and that also gives us a different type of edge on the commercial side. So fully agree on the 3-year journey in terms of getting to the endpoint. But as Markus also says, there's already a lot of effects coming through in our competitive positioning through this.

Operator

The next question will be from the line of Annelies Vermeulen from Morgan Stanley.

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

I also have 3. So firstly, on the 2 contracts that were renewed year-to-date and particularly on reduced contract scope sizes. I'm just wondering if that is theme that you expect to see more of going forward. I'm just wondering whether that's something you're seeing in other negotiations taking place at the moment for contract renewals or extensions and whether that is offices or other companies downsize in office spaces or needing fewer services going forward due to more flexible working, et cetera. I'm just wondering whether this is something that we'll see in other renewals from ISS going forward.

And then secondly, as a related question, on the global pharma contract that you renewed recently. The way I understand it is that some of the scope production was due to certain regions no longer being included in the scope of the contract. So I was just wondering if you could give some more color on which regions were lost. Why and who those were lost to other providers? Some color on that would be helpful.

And then lastly, you've spoken about wage inflation and obviously, historically, that's the beneficial to your top line when it's just the wage increase that you're passing on. I'm just wondering if you could talk a little bit about the cost of higher turn or recruitment costs and what you're doing to offset those. You mentioned some efficiencies that you're using to offset those, if you could elaborate on what those are? And also, this is still mostly a theme that you're seeing in the U.S. or where there was being now in Europe as well.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thank you very much, Annelies. Let me take those questions. So I guess, number one and two, in many ways, they are incredibly connected. So because you're referring to us having mentioned that we've seen a scope reduction, but the scope reduction is mainly in the one specific global pharma deal that you were talking about. And that global pharma deal, just to be very clear, it's still a very significant contract for us. And it is not a question of the client having changed -- sorry -- reduced its overall scope. It's a question of the client, reshuffling different types of business to different types of providers. And that did mean that we were reducing scope because we just have a completely different scope with them, not completely different but a significant change scope. And then there was some other providers that came into the mix.

It was a specific situation. We cannot say that when we look across the board that our renewals right now are -- have a major theme around scope reductions. We do not see that. There's no doubt that the reference that we made around inflationary pressures and how they would deal with, that is more a question of mitigating a top line increase by some scope reductions and that is still a net positive from a top line perspective. So this global pharma deal, I would not use as a proxy for the fact that we now renew with Novascope.

When I look across the other renewals we made and you know from the commercial Slide 17 that I think we mentioned 7 big renewals there. The pharma one is the only one where there was a real scope change. But of course, there's always pressure on price. But there's been a pressure on price for the last 120 years when we've been doing these types of deals. But it's a very fair question.

On the third one around wage inflation, in terms of extra recruitment costs, et cetera, et cetera, there's no doubt that there is an additional burden right now around recruiting for the simple reason that it is just -- it just takes a larger effort given the pressure we're seeing on the labor market.

Our overall churn this year went from 33% to 30%. I think that's an important effect to bring with you. We are working very structured across the global footprint of reducing our churn because it is, of course, a massive cost to a company of our size and with the type of -- with the numbers of churn we have -- the absolute number of churn we have, of course, reducing churn is a significant contributor. So you can say we've been funding the additional marginal cost there is in the short-term around this hot labor market by reducing our overall churn.

In terms of the efforts we are doing, you are right. The U.S. market is really a special case. It is significantly tighter than any other market we look into. And in the U.S., I think we talked about it in the past, Annelies, but it's both a combination of us having changed the way we structure our recruiting efforts, both in terms of working much more with external subcontractors, but also the work we've done on the technology side.

For example, on the AI tool Iris that we've rolled out in the U.S. where we can take clients through a significant part of the recruiting journey purely -- in a purely digital fashion via AI tools. And those types of solutions are incredibly important in the U.S. market.

If I look across Europe, it is not as broad-based. We do not see the issues we see in U.S. U.K. is the market that is the tightest on a relative scale. But here, we do manage to find the people we need. So not -- and you know the last comment I will make is that it's -- of course, it's in the guidance we've given you the -- whatever additional cost we do see on the recruiting side, but it's not moving the needle in terms of being a significant additional burden.

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

Understood.

Operator

(Operator Instructions) The next question will be from the line of Klaus Kehl from Nykredit.

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

Yes. So 2 financial questions for Kasper, I guess. Kasper, First of all, could you talk a little bit about what's going on with the tax rate in '21? And yes, any flavor for what would be reasonable to expect for '22?

And secondly, you mentioned that the improvement that you have seen in your net working capital was structural. Could you talk a little bit about what has changed that since it's a structural improvement? And in that respect, what would be reasonable to assume for ISS going forward in terms of net working capital to sales ratio.

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

Thank you, Klaus. Indeed, in 2021, the ETR was high at the 48.7% but it was affected by non-tax deductibles. Goodwill, of course, being the biggest one. As you remember, the DKK 450 million reported at the first half last year, but also some other non-tax deductible cost is driving up that number. The underlying effective tax rate is sitting at 25%. So that would be a good number to use for modeling purposes. That's the underlying position on ETR.

In terms of working capital and why I'm comfortable that this will stick, and we won't see any reversal of the DKK 1.1 billion in 2022. Then there are basically 3 components that are worth mentioning. We've done a lot of work and succeeded with it on extending payment terms with our suppliers. And therefore, the increase that you are seeing from 2020 against 2020 will continue and there won't be any reversal from that.

And then in -- we have the other component, which is wage accrual. And 2020 was a bit of an unusual year in terms of payments in certain ISS countries of biweekly paid employees. So they were paid in 2020, whereas going forward, they will be paid on the other side of cutoff. So we've gone into a normal cycle here in 2021, and that will continue going forward. And that's also why I'm comfortable that one will stick.

And the last one, which is worth mentioning is, of course, the prepayment from the customer, which is a commercial agreement that we have done, nothing new on that exactly as we explained at the first half and that one will also stick in 2022. So these are the big 3 components that sit behind the DKK 1.1 billion benefit in 2021. And as I said, I do not expect a reversal in 2022.

And going forward, in terms of working capital, Klaus, I see no reason why we should see significant swings in the working capital. I expect that to be more or less stable, of course, significant growth will impact it, but not to the magnitude that we have seen in the previous 2 years.

Operator

The next question will be from the line of [Jana Pamilu] from JPMorgan.

Unidentified Analyst

I just have one question on your ratings. You seem quite confident on causing for any inflationary pressure and your net leverage target before any dividend payment as well was very clear. Just looking at your negative outlook with S&P, are you having any conversation with the rating agencies and based on your targets that you seem to be getting quite close to. Do you expect any change in outlook there from the negative or any rating information?

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

So you are right that clearly, we are progressing ahead of plan on the leverage improvement, and that is also -- that should also be seen as a positive from the rating agencies. We are very, very focused as an institution on our relationship with the rating agencies and making sure that we also live up to the relevant rating agency metrics. But we do not want to sit on the call and speculate as to whether or not we will see a change from agencies.

We have a strong dialogue with the agencies -- both agencies that cover us, and have a good constructive dialogue and keep them fully in the loop of the development of the company. But I think it would be the wrong thing for us to sit here and speculate as to whether they would change their ratings.

Operator

The next question will be from the line of Allen Wells from Jefferies.

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

I just wanted to quickly go back to the organic growth guidance and the building blocks to get there. I think consensus for '22 was around 4 -- at or over 4%. So I'm just trying to go back to the building block to -- above 2% guidance. So typically, we look at market growth 3%. You talked about 3% to 4% inflation, let's kind of take half of that if you don't pass it along, so it gets you to 5%. The catering improvements obviously add a bit more to that as well. But then obviously, we're taking of project work, somewhat prebuilt between 1% and 2%. Danish Defence is what another percent. That still -- how it gets me to 3% plus. And we argue that you probably would outgrow the market given the debate in the past around what share, the value that an ISS has, particularly in the current market.

What am I missing there? Why is the slight conservative guidance for '22? And maybe just as a follow-on to that, are you seeing any inhibitor to that growth around labor availability, just building on that question for -- respect to labor from earlier.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

Thanks, Allen. Why don't I take those 2. Let's not go through the bridge again. I think Kasper did that very well. But I think it's a fair point, of course, to say that if you decide to have a slightly more positive tilt on the components compared to what Kasper went through, you get to a higher number. I fully agree on that.

And, of course, as we sit here in the beginning of the year and look at the growth in front of us, -- we -- you know us as a management team, we also need to reflect on the risks that we look at. And I think from our perspective, there are a number of uncertainties around how COVID will develop. We obviously have -- and we also -- as you also said yourself, we've had some very strong above base business in the last couple of years. So how will that develop as we go into the year? But we do not see -- and the 2 are linked, because we do not see any particular growth inhibitors as well.

And I have to say, of course, we entered the year with a better momentum than we entered '21. There's no doubt about that. And therefore, we are also quietly confident that we will see a good growth this year, no doubt about it. But as we sit here at the beginning of the year, there are risk factors that we want to make sure that we've taken into account and that we've taken a prudent stance on that.

But I can see the building blocks that you're putting out there, and I don't think they are as such unreasonable, but there are, in many ways, still some risk factors here. And one of them is, we mentioned that before, but Omicron is not over. And some of our Asian countries are moving into restrictions due to Omicron as we speak right now.

So there are some risks and uncertainties out there that we try to factor in, in terms of prudency when we look at this. And -- but it is not -- your second point, which is availability of labor. That is -- we do not see that as in any way holding us back in terms of commercial wins and in terms of organic growth on existing accounts. So I hope that gives you a little bit more color.

Operator

As there are no more questions, I will now hand the word back to the speakers.

Jacob Aarup-Andersen ***ISS A/S - Group CEO & Member of the Executive Group Management Board***

All right. Thank you very much. If there are any great follow-ups, then do follow up with our amazing IR team who will be always very happy to help.

It's been a good year. We're pleased with that, but all focus from our perspective now is on delivering a better 2022. Thanks for your interest and looking forward to speaking with you during the next quarter. Thank you.