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PRESENTATION

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

Good morning, ladies and gentlemen, and welcome to this conference call following yesterday's release of ISS interim report for the first half of 2022. My name is Jacob Johansen, Head of Investor Relations. And I'm here at our global headquarters in Soborg, together with our Group CEO, Jacob Aarup-Andersen; our Group CFO, Kasper Fangel; and Kristian from IR.

Before beginning the presentation, I will ask every one of you to pay close attention to the disclaimer on Page 32.

With that, I will hand over the word to Jacob and Slide #3, please.

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

Thank you, Jacob, and good morning, everyone. So with the release, we're coming out today, we've now reported 6 quarters since we launched the OneISS strategy. It's been 6 quarters with a backdrop of volatile and unpredictable markets, and it has required extraordinary efforts to succeed with the financial turnaround under those conditions. But today's results show that we are clearly continuing to move in the right direction. We've established a robust and scalable operating platform, and we've completed significant milestones in our turnaround.

Let me just highlight the key ones. We finalized our divestment program, and we've achieved our net proceeds target. We have fully resolved 2 out of 4 of our operational hotspots, and we have reached a financial leverage of 3x net debt EBITDA, the exact threshold that we targeted to get below, but we are 6 months ahead of time.

A proof point of the effectiveness of our operating model is how we manage to deal with the inflationary cost pressure. And at the same time, gained accelerated commercial momentum.

We see strong growth with current customers as they return to office, and we're able to upsell and expand our services to current customers as they invest in their workplaces. On top of this, we gained some revenue growth from the inflationary pressures that we pass on to customers.

With these achievements, we are today able to upgrade our financial outlook on all parameters, and we're tracking firmly towards reaching our turnaround targets, but more on that later.

So let's turn to Slide 5 for some comments on our strategic direction. We continue to develop our business with speed based on our 5 strategic priorities. Our commercial investments and segment focus structure are showing results. The acceleration of our growth shows how we can expand our work with customers, and we're also winning new business. The award of a new 5-year contract with a major retailer in the U.S. is key for us.

Management of inflation was not surprisingly, of course, a top priority across the business. We have strong mechanisms in place based on our heritage but we are sharpening our processes even further in the current market with record high inflation figures. This is managed under our strategic agenda of creating brilliant operating basics.

The progress towards reaching our margin turnaround target continued. In the U.K., profitability improved further, and we are now operating at a margin level above our turnaround target. The Deutsche Telekom contract is still challenging but the financial recovery continued and is on track. The development in France is muted and slightly slower than originally planned. In a complex turnaround, it's only natural that some entities are better than expected and others are behind. In total, we are very well on track.

For the first time in 18 months, there will be no slide with update on the divestment program. With the divestment of Portugal, we reached the target of accumulated net proceeds of DKK 2 billion. The divestment program is therefore finalized with success.

Please go to Slide 7, and let's talk a bit about our commercial momentum. As announced during the quarter, we won a key new deal with a major retailer in the U.S. It's a deal with a large global player that entails significant potential, and we're excited to develop the relationship into a true partnership. In the previous quarters, we were able to extend the majority of expiring contracts for 2022. As such, the number of extended large contracts in this quarter is at a more normalized level. We made 4 important extensions with customers within our prioritized segments. We now only have 2% of revenue outstanding for renewal in the second half, which is a normal level.

We continue to see an attractive pipeline and according to our new operating model, we are running commercial processes with a strong discipline, not least on pricing and inflation. We do experience the customers and commercial processes try to pass on the full inflation risk to the FM providers. Full inflation risk is absolutely unacceptable for us, and we do not take uncapped inflation risks. During the year, we walked away from deals because of the inflation terms, and we will continue to stay disciplined on that.

Please go to the next slide for a closer look at our updated commercial process. Improving the commercial momentum and achieving segment leadership are key priorities in the OneISS strategy. We've been successful so far this year. We made several changes to professionalize our approach to customers. We see 4 important changes having the largest effect as illustrated on this slide.

Generally, the enhancement is about becoming true business partners focusing on the outcomes, we can deliver to support and drive the customers' business objectives. And we can only become true business partners if both parties prioritize the value of our services instead of only the cost of our services. The vested contract with Equinor that we have transitioned this year is a prime example of such a partnership.

Please go to Slide 9 where we will look at retention rates. The strengthening of the commercial model and the sharpened strategic focus on key accounts and also on segments have really paid off. At the end of the first half, our retention rate was at the highest level seen in more than 5 years. During '21 and '22, many of our key account contracts have been up for renewal, and we've been successful in retaining them. Among our global key accounts, all renewal processes have been successful, and we are in good progress on the few outstanding ones.

Retaining existing customers should be a top priority. Retaining a good customer is the best sale because the contract entails significantly lower execution risk. A clear ambition in the OneISS strategy is to increase our key account share of revenue as well. The contracts are typically longer duration and they get better opportunities for us to create a partnership where there's increased demand for additional services over time and not least for our technology and sustainability offerings. As a bonus, we also see how current customers are increasing contract scope supporting the growth in this quarter.

Please go to the next slide to review our inflation management. Throughout our more than 100 years of history, management of inflation has been a clear focus area for ISS. Inflation processes are deeply embedded in our business model. As inflation rates are significantly higher than what we've seen for many, many years, we've sharpened our tools and processes and we make sure to have ownership and involvement from all functions, both at Group and country level.

Inflation management is not only increasing prices towards customers. It's also about mitigating the cost effects by negotiating the best deals with suppliers, making sure to have strong agreements with unions and employees because around 67% of our costs relate to employees, typically under collective bargaining agreements, which generally makes them more predictable and manageable.

Our commercial and operations teams are in constant dialogue with our customers, and we make sure to be aligned on expectations on price increases. This is also about creating value for our customers in the process. Historically, high inflation environments have been better for outsourcers than zero inflation environments because inflation triggers commercial and price discussions and it increases outsourcing rates.

In conclusion, we are able to offset the pressure from cost inflation through price increases through cost mitigation and through scope adjustments. Overall, we estimate that we get additional revenue from higher inflation at a Group neutral margin.

Please turn to Slide #11 for a status on COVID-19 recovery. So the recovery of lost revenue from COVID-19 continued in Q2. Organic growth was 3% above the level from Q2 2019 pre-COVID. The continued return to office trends had a positive effect, especially within food. The development among our customers on the U.S. West Coast drove a significant part of this improvement. We also see COVID-19 recovery in other service lines in industries that have been heavily impacted by COVID-19, such as retail and hotels, et cetera. With that said, we are still seeing further revenue potential in this recovery phase. As an example, food services in the U.S. are at Index 76, and we expect it to increase as return to office trends continue.

Now this concludes my first part of the presentation, and let me hand over the word to Kasper for a deeper dive on the financials, and let's go to Slide 13.

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

Thank you, Jacob, and good morning from me as well. In Q2, the growth momentum accelerated and the organic growth was 8%. This was driven by continued solid return to office trends and price increases that we have implemented across the portfolio. Operating margin in the first half was 2.9%, a clear improvement compared to last year. And the free cash flow was DKK 0.6 billion.

Please turn to the next slide for a closer look at the organic growth development. Organic growth accelerated to 8% in Q2. Price increases implemented during the year continue to give a positive effect. Price increases in Turkey in isolation contributed with approximately 1 percentage point. Return to office trends accelerated, and customers are investing in the workplace. It had a strong impact on portfolio revenue, which grew organically by 11%.

Projects and above-base work declined by 4%, close to expectations due to lower demand for COVID-19-related deep cleaning and disinfection. Non-portfolio revenue was 17.4% of Group revenue, still higher than before the pandemic.

Please turn to Slide 15. The gradual margin improvement continued in the first half. The improvement in the underperforming areas was the main driver combined with benefits from the higher revenue. Some of the positive impact was offset by costs associated with a higher-than-normal sickness rate as a result of COVID-19 and mobilization costs related to our contract wins. Revenue from price increases are generally done with a neutral margin effect. They have not contributed to the margin development, but they have a positive effect on absolute profit.

Please turn to the next slide, where I will look at the regions. All regions delivered accelerated organic growth in Q2. The increase in return to office trend had a positive effect, especially in the Americas, where food services in the U.S. increased significantly. Our food business in the U.S. is mainly office-based and more dependent on employees being in the offices.

In the European regions, organic growth was solid, the margin improved strongly driven by the underperforming areas and cost management across the business. Despite continued negative effects from COVID-19, organic growth in Asia Pacific increased in Q2 compared to the first quarter as activity picked up mainly in Australia and India. The margin remained stable.

The margin in America has decreased to 3.5%, partly due to timing as we have accelerated our investments in commercial activities and we incur an expense start-up cost related to the recent contract wins. The lower level of COVID-19 cleaning also had a negative effect and the margin in Chile was lower as depreciations are recognized this year after the reclassification to continued operations.

Please turn to Slide 17. Since the announcement of the turnaround plan in 2020, we have showed this slide to illustrate the development. It's encouraging to see the continued progress and the target of a run rate above 4% when entering 2023 is closer. The U.K. reached its target by the end of Q1 and the momentum continued in Q2. France continued to progress and costs are reduced, but the commercial development is muted and the progress is slower than originally planned. The positive development on the Deutsche Telekom contract continued. The contract is still structurally challenging and the run rate margin is negative, but it's on track to reach break-even by the end of this year.

Please turn to Slide 18 for the free cash flow. The cash flow generation continued in the first half of 2022, driven by higher operating profit and changes in working capital. The strict focus on working capital continued, and we saw a cash inflow of DKK 0.3 billion. On the next slide, I will explain the drivers behind this development. As expected and previously communicated, payments related to restructuring and one-offs reduced free cash flow by DKK 0.4 billion. The net effect from depreciations, amortizations and leases was positive by DKK 0.1 billion.

Please turn to the next slide. As shown on the previous slide, changes in working capital were positive. Due to increasing activity in the business, both payables and receivables increased. However, we have continued the reduction of overdues in H1 and the balance is halved during the last 2 years. Utilization of factoring was unchanged at DKK 1.1 billion. This is actually a bit lower than what we expected as we usually see higher activity leading to more receivables becoming eligible for our factoring policy.

Please go to the next slide and leverage. In December 2020, we set out a target to bring financial leverage below 3x by the end of 2022. After the first half, it was 3.0x, and thereby, the target is almost achieved 6 months ahead of plan. This positive development was driven by a combination of the improved free cash flow generation and completion of the divestment program. In total, net debt is reduced by DKK 3.6 billion since 2020. Securing financial leverage below 3x is an important milestone for ISS as it gives us a strong platform for the future development of the business.

Please turn to Slide 21, where I'll explain the effects from hyperinflation in Turkey. As the cumulative 3-year inflation in Turkey exceeded 100%, we obligated to implement IAS 29 with effect from the first of January 2022. Overall, the effect on our financial KPIs is immaterial. The impact on operating margin is negative 4 bps, while organic growth is unchanged and the free cash flow is impacted by only DKK 1 million. To provide the best possible transparency, we have presented our financial performance before restatements as the reporting standard has no influence on underlying operations. Our 2022 outlook is also excluding any effects from IAS 29.

In Turkey, we have a strong business, which have generated high organic growth and improved operating margin. We have a market-leading position in the health care segment, and we have significantly increased the share of key account customers across the business. Managing inflation effects has been a top priority in Turkey for many years. With our experienced leadership team, we have well-established processes in place, which enable us to handle the high inflation without negative consequences. That covers the financial part of the presentation.

So please turn to Slide 23 for a look at our upgraded outlook. Following the performance in the first half, we have upgraded our 2022 outlook for all 3 KPIs. Organic growth is expected to be above 5% compared to above 4% previously. This is driven by the accelerating return to office trends and additional revenue from customers increasing workplace investments. Operating margin is now expected to be above 3.75%, the increase is mainly a result of the continued progress in the underperforming areas. In the current macro environment and in these volatile markets, we consider above 3.75% as a balanced outlook. The outlook for free cash flow is upgraded to above DKK 1.5 billion compared to earlier above DKK 1.3 billion as a result of the increase in outlook for operating profit.

Please go to the next slide for the drivers behind organic growth. We have 4 main building blocks behind the organic growth development here in 2022. First of all, we expect a positive contribution from price increases of around 2 percentage points. The vast majority of the price increases have already been implemented. And in the first half of the year, we've seen a similar contribution. Secondly, we expect the return to office trends to continue, and it comes with increased customer demand for workplace investments. These 2 factors in combination are the main drivers behind the upgrade of the organic growth outlook.

Thirdly, we still expect net contract wins to contribute with up to 1 percentage point. And finally, revenue from projects and above base work is expected to be lower in 2022 compared to 2021 and have a slightly negative effect on organic growth.

Please turn to Slide 25 for a deep dive on free cash flow. The outlook for free cash flow is upgraded as a consequence of higher expectations for organic growth and margin, yielding a higher operating profit of around DKK 0.2 billion. All other building blocks are unchanged, and we still expect changes in working capital to have a neutral to slightly positive contribution.

Payments of restructurings booked in 2020 are still expected to reduce free cash flow with DKK 0.5 billion. As previously described, we have paid DKK 0.4 billion of these in the first half. Underlying free cash flow is therefore expected to be above DKK 2 billion.

With that, I have concluded my part of the presentation, and I will hand the word back to Jacob for some closing remarks and Slide 26, please.

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

Thank you, Kasper. So Q2 marked another important milestone in our financial turnaround. And with the strong performance, we've upgraded the full-year outlook for all 3 financial KPIs. We're seeing increasing demand for our products and services, and it's encouraging to see customers are investing in upgrades of the attractiveness of their workplaces. All of this have been executed in volatile markets. We've been able to manage the rising inflation without any hit to margins. This had not been possible without the very hard and dedicated work from all ISS colleagues around the world.

Our turnaround targets are now almost achieved. The divestment program is completed, financial leverage reduced to 3x and our run rate margin improved further. Therefore, we also believe that the business has come to a level where we can give more details on the next leg of our journey. We, therefore, ask all of you to save the date on seventh of November.

Please flip the page to Slide 27. The Capital Markets Day will be held in London, and we will present the next steps of the OneISS strategy and deep dive into new financial targets and the long-term development. We will have an excellent program lined up with numerous ISS colleagues and we're excited and proud to engage with our shareholders at such an event. We hope as many of you on this call can join us in November in London.

And with that, I will open up for Q&A.

QUESTIONS AND ANSWERS

Operator

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

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

And 3 for me, please. And firstly, just on the pipeline comments, Jacob, can maybe some of your pays are experiencing very strong new outsourcing wins right now, 1 recent big win in the U.S. How the conversations going right now? Is that a trend you're seeing should be expecting a bit more contract momentum or is your sort of risk aversion still needing you to be very, very selective right now?

Second question, just on the margin and can (inaudible) 2.9% has tracking very well. You bring it up to the guidance. Can you please talk us through the phasing of the second half, which is typically seasonally higher for you in margin terms?

And then second -- thirdly, very similar on growth as well. How should we think about the phasing of that 8% you've done to kindly talk us through the main building blocks for the second half of the year results, please.

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

Thank you, Bilal. I'll start with the pipeline and commercial question, and then I'll let Kasper deal with the phasing questions. So First of all, you're right. I think we're seeing an encouraging commercial environment. So we can only echo what you're hearing from our peers. I think the peers you're referring to are of course, also predominantly more food-focused than we are. So there are some nuances around that.

When I look at commercial momentum, I guess for me, it's -- there are 2 elements we need to look at. The first one is retention of existing commercial business and the other one is winning new commercial business. And on the retention side, we've had a lot of focus on that and have had a -- actually a tremendous outcome from that over the last couple of quarters as you followed with also the highest retention rate in more than 5 years. So very pleased with that. On the -- and that is -- I will repeat that until you get tired of it. It is the best sale we can do, that is retaining a good client.

In terms of new customers, yes, you are right, the large win in June was very important for us. It's a very big name, blue chip name that we expect a lot from the partnership, and it's also a very important deal for us in the U.S. in terms of expanding our presence in the U.S. and also will help us build pipeline in the U.S. We are seeing a good pipeline. The pipeline is better this year than in '21 at the same time and better -- '21 was better than '20.

So it's been growing the last 2.5 to 3 years. It's still not at the level of 2019 when I look across the pipeline but there are areas where we're clearly seeing an acceleration as we also -- as you also refer to yourself, there's a lot of first-time outsourcing coming through now. And I think with inflation -- the current inflationary environment, we will only continue to see that come up.

So I am excited about the pipeline. You mentioned risk aversion. I don't see risk aversion playing -- sorry, having any major impact on our commercial pipeline or commercial momentum. It is correct that we are very focused on doing the right deals. But you also know, because I know you follow us closely, we've invested heavily in our commercial organization across the board, both in terms of the regional -- the global and the country teams, which also means we have a larger commercial muscle, a better commercial muscle with a stronger segment focus and stronger value proposition towards the segments. At the same time, an overlay of stage gauging that makes sure that ensures that we don't repeat any of the mistakes of the past in terms of the risk taking. If I combine those factors, I don't see our pipelines being impacted. And anyway, I do see a higher-quality pipeline coming through. and which is very, very encouraging.

So there's a lot of strong conversations going on at the moment. There's no doubt, and I know that our peers have also mentioned that. There's no doubt that commercial processes are taking a bit longer than they did pre-COVID. And that is merely a fact that is driven by the fact that most large institutions are also getting their heads around what is the future of work and how should we then position our facilities management within that future work for us, that's only natural.

So I'll repeat what I said on Q1 good commercial momentum. We can still see it continue to pick up as more geographies come out of COVID and lockdown -- sorry, and come back to the office. But very, very pleased to see that it's continuing to develop in the right direction. So no worries there and definitely not any reflection around risk aversion.

Over to you, Kasper.

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

In terms of the margins in the second half, as you said, we -- the reported margins in first half is 2.9% so including seasonality benefits that takes the current annual run rate to just above 3.5%. And we are well on track to achieve the additional margin improvements of at least 0.5% in the second half of this year.

In terms of the reported margins, we are expecting margins to be above 4.6% in the second half of the year and that includes further P&L expense investments plus additional incremental cost related to the mobilization of the recent contract wins. But our laser focus is to comfortably achieve our turnaround target of above 4%. And obviously, the target beyond this year is going to be a key theme to be discussed at the Capital Markets Day in November.

In terms of the phasing of the growth, our first half growth, as I said, is 6.7%, and we are facing more difficult comparison in H2 for 2 main reasons. We had record high project work in Q4 last year, where above-base benefited from a catch-up on regular project work, but also COVID-19 related volume. And the second thing is -- additionally, the comparison base is tougher because of return to office programs that started to ramp up in the second half of last year.

So in summary, we expect lower growth in H2 of this year compared to H1.

Operator

The next question will be from the line of Klaus Kehl from Nykredit.

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

Yes. It's Klaus Kehl from Nykredit. Two questions from my side. First of all, I must say that I'm very positively surprised about the growth here in Q2. So could you give us any flavor on the growth in the beginning of Q3 or in July or anything there?

Second question would be your gearing is now back to more normalized levels. So could you share your thoughts about future capital allocations? Yes, that would be my second question.

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

Thank you, Klaus. Of course, pleased to hear that you are positively surprised. We're very happy with that. On the first one, in terms of growth in Q3, I think you know that we're not going to start talking about how developments are in the quarter, but we can say that things are developing in line with the guidance we've given. So that's the closest we can get as we never talk specifically around how we're doing in intra-quarter.

On the second question, listen, I think that is a very important question. So thanks for raising it. Capital allocation, of course, will be a theme that we will double click on in the November Capital Markets Day. It's -- we are, as you know, as a management team, but also as a Board of Directors, we are incredibly focused on and very respectful of the fact that we are managing your capital, and therefore, capital allocation will be a key theme in November. I will not start today, opening up around what -- you should expect to hear in November. I think we'll keep it to November. But what I can guarantee you, of course, is that we will retain our laser focus on being disciplined around how we utilize your capital. That's the best I can say at this stage.

Operator

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

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

Well done. Yes. Well done, guys. Three questions from my side, please. First of all, on above-base, the 4% drop that you're seeing, is this including the fact that you've had some customers likely converting, for example, deep clean and other above-base into portfolio revenues, if you could just comment a bit on that? And if so, is this at similar prices or have they been talking prices down a little bit.

Then on food cost inflation, we're hearing some peers talking about they're starting to see input costs are coming down. Are you seeing the same? And if you are seeing the same, assuming contracts staying on cost-plus will then this indicates a drag on growth while boosting the margins. And this is something that you have included in the second half guidance?

My final question goes to the French market, where it seems like it's dragging out a little bit here. Anything you need to change in the way that you are doing here. Can you talk a little bit more in depth about potential end date and time to the turnaround? And are you even considering maybe a sale of the business? It seems to drag on forever here.

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

Thank you, Michael. Why don't I take the first 2 ones and then Kasper can talk to France. Just on above-base, so that -- when you look at the drop, the biggest part of that drop reflects above-based COVID-19 cleaning that was happening when -- the same period last year, which for obvious reasons is coming down, as you would expect. Part of that is being converted into portfolio business. It really varies across regions and customer types. But part of it is being converted. And that does happen at lower margins. You do know that we do have higher margins and above-base COVID-19 cleaning. We've been clear around that. So it is happening at lower margins. But the real value creation is that it becomes part of the ongoing portfolio business going forward instead of being a one-off business.

So from a value perspective, it's obviously important for us to secure this business on an ongoing basis afterwards. But it is happening at slightly lower margins. It's, of course, all baked into the guidance you're seeing, and it's not material from an enterprise perspective.

On the food cost inflation, well, you are right. If you look at the overall benchmarks, there are some food categories that are coming down in terms of inflationary rates. I think we need to be a little bit careful in terms of then extrapolating that. That means food inflation is suddenly not a theme anymore. It is still a massive theme. You very rightly point to the fact that we are running mainly cost-plus models on the majority of our food business. And when you do that, theoretically, it could shave off a little bit of the growth. That is fine. But you also know that as part of the way we've been dealing with this with our clients is that we've also helped them adjust scopes, input factors and the mix of the services we're delivering. And that also means that you'll probably see less of that type of mitigation if cost inflation also comes down.

So there are more nuances to it, and therefore, we do not see it as a significant factor that will bring growth down. It could take the top off a little bit on the food growth if this continues, but it's not material from an enterprise perspective. We have seen significant growth rates in food. But to be clear, that is less inflationary driven and more driven by activity levels coming back. We mentioned -- as an example, we mentioned in the report here, the significant growth in U.S. food -- as an example, U.S. food grew almost 100% in the second quarter versus second quarter last year, and that is driven by people a significant return to office. So both of them, I think are good factors and you are pointing to good nuances, but none of them will have an enterprise impact.

Let me hand over to Kasper on the French part.

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

Thank you, Jacob, and good morning, Michael. I mean the status in France is pretty similar to what we spoke about at the Q1 release. In Q2, we have continued to reduce costs. But we have not seen much revenue bounce back from COVID-19. And additionally, we are also missing commercial momentum in France. But we'll certainly continue the execution and we believe it is a matter of time before we'll start to see some acceleration in France, but it takes some time, but certainly still positive about the French recovery.

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

Okay. So we shouldn't expect you guys to exit the market at some stage?

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

Definitely not. As I said, we have a plan. We are following the plan. And yes, I appreciate it's not a linear development. But I guess that's how it is with businesses. It comes in with various momentum. And as soon as we start to see the revenue kicking in, and we're doing all the right things in the French market. Then we'll also see some speed and some momentum in the French recovery.

Operator

The next question will be from the line of Madeleine Jobber from Morgan Stanley.

Madeleine H. Jobber - *Morgan Stanley, Research Division - Research Associate*

Two from me. Firstly, on your recent commercial wins and the strong pipeline that you're seeing, could you just talk a little bit about the dynamic between whether these are integrated facility services kind of contracts or more specific to one kind of service? And sort of how the appetite for those different offerings has changed or what you're seeing?

And then secondly, just on the working capital. Are you still looking to maintain a flat or neutral working capital longer term considering you have elements like holiday pay unwinding?

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

Thank you, Madeleine. Let me start on the first one and then Kasper can speak to working capital. That is a very good point. What we do see in the pipeline across the board is, one, there is an element of more food coming through. But two, the biggest trade across the pipelines is integrated facility services, so IFS. And you can say if you double-click on that and also from the conversations that I and the rest of the management team are having with management teams across the world. It is that there is an increasing trend post COVID-19 that people are recognizing the value of integrated services and having 1 partner across the facilities management space. They saw during COVID where they needed to be agile in their decision-making, and they had to be able to also be flexible in the way they were creating capacity -- sorry, changing activity levels, the power of having 1 facility manager on an integrated contract was just coming through.

So we just see a lot of that. And also, the overall trend now around first-time outsourcing, looking for cost savings, there's absolutely no doubt that you do see a larger cost saving potential if you can create an integrated solution instead of single service solutions, and that is also coming through. So IFS is a big theme here that is accelerating post-COVID.

And Kasper, on the net working capital.

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

Yes. I mean -- and the short answer is that there's no reason to believe why we should see significant swings in working capital. I'm very pleased with the discipline that we have created within ISS, where cash flow is a key focus point all the way down to site level. Pleased with the development also in the first half and you saw on the slide that our overdue is sitting at historical low level. So the short answer is no reason to believe significant swings in working capital.

Operator

(Operator Instructions) The next question will be from the line of Simona Sarli from Bank of America.

Simona Sarli - *BofA Securities, Research Division - Research Analyst*

So first of all, if you could please remind us the big contracts that are up for renewal next year? And Secondly, you mentioned that you reported an 11% increase in the contract portfolio. Can you give us a little bit more color how much was price versus volume driven? And also, you mentioned more outsourcing in the market. So how much is that related to new versus existing clients?

And secondly, now in the second half, you are mentioning a margin above 4.6%. So how should we think in light of that for the margin for next year?

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

Okay. Thank you, Simona. So the first question was on what are the big contracts that are for renewal next year in the pipeline there? We don't disclose client names, so I can't tell you what is in the pipeline for '23, so not to be annoying. So I hope you recognize that. When I look at it for '23, we obviously know all the names. It is a mix of industrial companies, a bit financial and then also a number of healthcare contracts in a number of countries. So it is a very well-diversified portfolio and of varying sizes, but it's a good mix of diversified portfolios where when I look across the list here, it's also strong partnerships in general. So we're feeling good about those renewals in '23. And if you look at the overall size of the renewals in '23, it's not an unusual year as such. We're very comfortable with that being the ordinary run of the mill in terms of renewing that type of portfolio.

You asked about the 11% portfolio growth, price versus volume and outsourcing in the market. And we've made it clear that we're seeing a price effect, an annualized price effect of around -- from price increases of around 2%. And that also then entails that the rest will be volume driven when you look at the growth.

In terms of outsourcing and the impact new wins have in that portfolio growth, this is -- the vast majority of this growth comes from existing clients. And then we've said that new wins when we look at our guidance is contributing a smaller positive growth percentage, but the vast majority of the remaining 9% once we've taken the price out here is existing business. So when we look at it for the next 12 to 18 months, there's no doubt that some of the commercial pipeline and situations we're seeing right now will be part of driving that. So when you look at the next leg of growth going into '23 and '24, these new commercial pipelines that are converting into sales will be a larger proportion of the portfolio growth going forward. But for now, it is predominantly existing business and then a bit of price as we just talked about.

On the margin side, Kasper, over to you.

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

Yes. Yes, thanks for that question. So as I said, our current annual run rate is just above 3.5%. And I feel very comfortable that we are going to improve the business underlying with at least 0.5% in the second half of this year, which obviously will take the run rate to the above 4%. But I do not want to comment on our expectations beyond this year. Our laser focus, as I said, to Bilal in his first question is to get comfortably to above the 4% target. And then obviously, we will be discussing at the Capital Markets Day, the expectations -- margin expectations beyond this year. So that will be a key theme in our Capital Markets Day in November.

Operator

As there are no more questions, I will hand it back to the speakers for any closing remarks.

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

Thank you very much. And as always, thanks for your good and engaging questions. We -- looking back at a quarter we think is well done, but we are also keeping our nose in the ground and are laser-focused on delivering for you in the second half of the year. If there are any follow-ups, IR is at your disposal and are eagerly awaiting your phone call. In the meantime, take care. Thank you.