THOMSON REUTERS

EDITED TRANSCRIPT

Q1 2019 Iss A/S Trading Update Call

EVENT DATE/TIME: MAY 08, 2019 / 7:00AM GMT

CORPORATE PARTICIPANTS

Jeff Olsen Gravenhorst *ISS A/S - Group CEO & Member of Executive Group Management Board*
Martin Kjær Hansen *ISS A/S - Head of Group IR*
Pierre-François Riolacci *ISS A/S - Group CFO & Member of Executive Group Management Board*

CONFERENCE CALL PARTICIPANTS

Aymeric Poulain *Kepler Cheuvreux, Research Division - Head of Support Services Research*
Bilal Aziz *UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst*
Daniel James Hobden *Crédit Suisse AG, Research Division - Research Analyst*
James Peter Winckler *Jefferies LLC, Research Division - Equity Analyst*
Klaus Kehl *Nykredit Realkredit A/S, Research Division - Chief Analyst*
Matija Gergolet *Goldman Sachs Group Inc., Research Division - Equity Analyst*
Paul Daniel Alasdair Checketts *Barclays Bank PLC, Research Division - Director*

PRESENTATION

Martin Kjær Hansen ***ISS A/S - Head of Group IR***

Ladies and gentlemen, this is Martin Hansen, Head of Investor Relations at ISS, and I'd like to welcome you to our first Q1 trading update. Please be aware that the announcement, the report as well as the slides used for this call will be found on our website. Later today, we'll also post a replay of the conference call online as soon as it's ready.

I'd like to draw your attention to Slide #2 regarding forward-looking statements. Present with me today, I've got Group CEO Jeff Gravenhorst; and Group CFO Pierre-François Riolacci. We'll open for Q&A as usual after the presentation.

And with that, I'll hand over to Jeff.

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

Thank you, Martin, and good morning, everyone. And let me start by saying that I'm very pleased with our commercial start of the year. Our focus on the Key Account customers continues to pay off as evidenced by another quarter of solid organic growth. The simplification and the focusing enabled by the final leg of our portfolio adjustment announced in December will only add to this momentum as we execute. So very pleasing indeed.

If we start with our Q1 revenue figures, total growth ended at 4.9% up from 1% in Q4. Organic growth, start of the year, stronger than expected at 6.1%, driven by continued strong commercial momentum and ongoing demand for nonportfolio work, which contributed with 1 percentage point in the quarter. Growth was supported by all regions and by Key Accounts, in particular, with the 8.7% organic growth in Key Accounts.

We continue to benefit from slightly higher wage inflation, which not only triggers price increases but also drives an incremental need for corporates to look towards outsourcers to manage an increasing cost base. Needless to say, the prerequisite for capitalizing on this momentum on the bottom line is solid contractual framework, generated through a disciplined approach to bidding over time. The uplift in organic growth was also driven by less of a drag from DXC, HP Inc. and the EMEA region of the international bank. In Q2, these losses will annualize with a drag, with less than 0.5% in the second quarter.

Outside these few but large losses, growth from remaining portfolio picked up further, contributing with 6 percentage point, up from 5.1 percentage points in the fourth quarter of 2018. Going into Q2, we expect a lot of the same drivers as in Q1, albeit, that we will also start to see more material annualization of a few of the larger contracts, which have supported our growth over the last year. These contracts include the Danish Defence, MTR in Hong Kong and the 2 global Key Accounts, all 4 launched in February 2018. March and April last year, were also very active in terms of launching new contracts.

Taking everything into account, organic growth could be a bit lower in the second quarter, before accelerating in the third quarter on the back of the launching of Deutsche Telekom. Currency turned positive in the quarter and contributed 0.6%, mainly driven by the U.S. dollar and to a lesser extent, the Hong Kong dollar and the Swiss franc.

Finally, the impact from acquisitions and divestment was minus 1.8%, driven mainly by the divestment of our noncore activities in the Netherlands and landscaping in the U.K.

Please turn to Slide 4 for a regional update. Continental Europe delivered the strongest organic growth on record, with 8% organic growth in the first quarter, up from an already solid 7% in the fourth quarter of last year. Growth was supported by Key Account contract launches in Netherlands, and Iberia as well as higher demand for nonportfolio work in Germany.

We also continue to see significant growth in Turkey, driven by contract launches in the Healthcare segment as well as price increases on the back of wage inflation. Excluding price increases in Turkey, the organic growth in Continental Europe would have been 6%.

I'm pleased to say that the Deutsche Telekom transition is progressing, albeit, we still have a lot of work to do, as this is the largest contract that we have ever launched. I'm excited to welcome approximately 6,000 new colleagues when we launch in less than 2 months from now on the 1st of July.

On a side note, the expected operational improvements on the back of implementing GREAT in France, the operational improvements has not yet materialized to a meaningful extent. In addition, it is now clear that the divestment of our Hygiene and Prevention business in France will not lead to a finalization with the expected buyer. ISS will pursue the divestment with other interested buyers.

Northern Europe delivered the strongest performance in 9 quarters with an organic growth of -- was 5% up from 2% in the fourth quarter last year, supported by all countries in the region. U.K. has been among the countries hardest hit by the revenue reduction from DXC technology and HP Inc. and the EMEA region with the international bank. Excluding these losses, the U.K. operations are continuing to deliver a solid organic growth and with the annualization of the original losses, momentum is now visible in the reported numbers again.

Denmark continued to deliver significant growth on the back of solid commercial momentum in 2018, with contract wins, such as the Danish Defence and an unnamed client in the Industry & Manufacturing segment. However, both will start to annualize more significantly from the second quarter this year and as such growth in Northern Europe is likely to be somewhat lower before launching further large contracts, including the recent win of the Danish Building and Property Agency in Denmark obviously. That starts in October.

Asia Pacific delivered 6% organic growth, slightly down from the 8% in the fourth quarter to last year. Growth is generally strong across the region with Pacific, Hong Kong and Singapore being the biggest contributors. Australia had a strong second half of 2018 with solid wins such as Victoria Schools and in March, we launched a significant extension -- expansion with New South Wales provinces. Hong Kong and Singapore also benefited from strong nonportfolio demand in the first quarter.

Finally, organic growth in Americas was 2%, up from the minus 5% in the fourth quarter. The loss of HP Inc. and our decision to exit underperforming contracts in the specialized services division in the U.S. continued to be a drag in the first quarter. However, this was more than offset by another quarter of double-digit organic growth in our food services business, Guckenheimer, and growth in the aviation segment in North America. Mexico also delivered solid organic growth on the back of Key Account contract launches.

Please turn to Slide 5. We had a strong start to 2019 in terms of wins and extensions. And we have still not faced any significant contract losses. In April, the Danish Building and Property Agency selected ISS to provide a full suite of integrated services, integrated facility services across 162 locations in Denmark. The 7-year contract will generate around DKK 300 million per year following the launch in October. In addition, we've seen a number of key extensions and expansions over the last couple of months, with which we now successfully extended 7 out of 15 large Key Account contracts that were set to mature in 2019. Apart from one, the remaining maturities worth around DKK 3.4 billion in annual revenue, or around 5% of the group revenue, are all set to mature in the fourth quarter. It includes one of the -- our largest global Key Accounts generating close to DKK 2 billion per year. Although we see no impact on 2019 revenues and margins related to this contract, it will make a difference for 2020. With that, let's turn to the outlook on Page 6.

The outlook for 2019 remains unchanged, as such we have continue -- we continue to expect an industry-leading organic growth in the range of 5% to 7%, so around the top end of our medium-term guidance of 4% to 6%. Clearly, the strong start to the year increases our confidence in the outlook and has increased the possibility of ending in the high end of the range.

On the other hand, it is still relatively early in the year. We do not have a lot of visibility on the nonportfolio demand, and we can still lose contracts with an in-year impact. Combined with an extension of slightly lower growth -- expectation of slightly lower growth in the second quarter before accelerating in the third quarter, this leads us to keep the outlook unchanged.

We also continue to expect the operating margin between 5% and 5.2% compared to the 5% in 2018. Our run rate improvements, including lower restructuring, are set to offset positive one-offs from 2018 as well as the 2019 transformational projects. If we end the year in the top end of our guidance on organic growth, driven by more wins and extensions than originally expected, this would, in isolation, be a slight negative on the margin. As you probably remember, wins and extension typically start with a low first year margin, before ramping up.

As a reminder, one of the positive margin drivers for 2019 is the gradual normalization of restructuring during the year. Restructuring peaked in the second half of 2018 and will gradually come down during 2019 as GREAT implementation gradually finishes. Including the mentioned delays in France, we expect margins to be marginally lower in the first half and up in the second half. Overall, this leads us to keep the outlook unchanged.

Looking past our transition period in 2019 and '20, we expect margins to improve to around the 5.5% in the medium term. Finally, we continue to expect free cash flow to be between DKK 1.8 billion and DKK 2.2 billion, including significant nonrecurring items. This outlook assumes a lower use of factoring in 2019, as confirmed by development in the first quarter of this year. Remember that for the first half of 2019, we will implement IFRS 16. As previously communicated, we'll adjust the free cash flow definition for otherwise artificial benefits from IFRS 16. From the old definition of free cash flow, we will now also subtract additions and disposals of leased assets. This way, owned and leased assets will be treated in the same way. As such, we expect the implementation of IFRS 16 to be broadly neutral for the free cash flow. Please refer to the appendix for a general reminder of the impact of IFRS 16.

This concludes our first trading statement. Please note that for the Q&A, we will not be providing further numbers in addition to what has already been disclosed.

With this, I would like to open for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Aymeric Poulain from Kepler Cheuvreux.

Aymeric Poulain ***Kepler Cheuvreux, Research Division - Head of Support Services Research***

I've got 2 questions effectively to understand a bit more the prudence on the guidance. I think you gave some explanation. But generally speaking, could you remind us exactly about this annualization of contract in Q2 and the impact because you won some contract in the earlier part of the year, I think for the total of 1.5% and then you mentioned there's some maturing of new contracts. So just to get the exact delta that you anticipate in Q2. And secondly, I was curious to see, what type of -- and you mentioned some effect from the Turkish business on the European organic sales growth, what would be your best estimate of the inflationary boost of -- to organic growth in this quarter, please.

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

Yes. On your second question and on the Turkish part, we estimate and it's always a bit of an estimate, but we estimate that the hyperinflation in Turkey is around 0.6%, 0.7% of organic growth for the whole group in the quarter. So pretty much in line with the number that you've seen before. And we see a continuous capability of our operation in Turkey 2%, the price increases in market. So I think, that's there and it helps, of course, a bit the organic growth. You remember that we had big contracts that were started at the beginning of '18 and that's the one that we are referring when we talk about annualization. I think a good example is Danish Defence, which was started in February '18. LEGO was also started in February. Also, we had this international food and beverage company, we cannot disclose the name that was, again, started in the first quarter '18. So we have big tickets, which help us throughout '18. And still help us in this first quarter and then there will be, of course, storing in terms of organic growth in next quarter. You're right to point out that we do have new contracts, which we welcome. But the net delta is expected to be indeed a headwind, not a massive headwind, but definitely a headwind.

Aymeric Poulain ***Kepler Cheuvreux, Research Division - Head of Support Services Research***

Okay. And for inflation, if you strip out the Turkish hyperinflation, what -- generally speaking, what's the -- because you have this indexation mechanism and pass through of wage in many other contracts. Just to get a sense of how much is the real growth and how much is inflation rate for the rest of the maturity?

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

Overall, we -- I mean, we generally have clauses in our contracts that will deal with the wage inflation one way or another. We have -- just remember that it is never just a straightforward pass through. So it will always be if you have the clause to say that you can pass through the wage increase, then it's typically a negotiation. If the client can't afford it then we negotiate the scope, either we get more scope or less scope, but then we defend the margins on our contract. So we have the, typically, the legal right and then you go into a negotiation on how you cover yourself on not having to cover those wage inflations as a company.

Operator

Next question is from Bilal Aziz from UBS.

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

Just a few questions from my side. You've spoken about your confidence around organic growth. Can you perhaps give confidence interval around the operating margin as well and the cash flow? And secondly, as we start forecast margins and cash flow for the first half of the year, can you please talk through the key moving pieces for both in 1H, and I appreciate Deutsche Telekom is a key factor in that?

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

Thanks. We are not 100% surprised that a question on margin and free cash is coming. You know that we have decided that we don't want to go for a full quarter update, and we don't want to comment on margins and free cash flow and start to give bits and pieces. I think that's clearly the trend that were identified at the end of last year that we discussed in February, they are still there. And we see the key drivers of margin, plus or minus going forward according to what we expected. Same for cash flow, which is the same trend. Of course, if we were seeing in the market something that would derail what we have indicated, we would mention it, and we don't. So I think, it's pretty clear that we are there.

Now on your H1 and H2 point, again, I mean this is very much a continuation of what we have indicated. A part of the margin improvement in 2019 will be driven by the normalization of the restructuring charges, which will come through the year. You remember that we were very high in H2 last year, it starts to come down in H1 and would come down further in H2, that's part of the drivers that will help. And Jeff mentioned that our restructuring in France, which I remember is a significant operation, reducing the number of branches concentrating and hubs is going forward. I think that the execution is good with respect to the social plan, which is, as you know, always a challenge in France. And this going forward, we are delivering the improvement of general G&A cost, which is also quite important. We see some difficult operations when you have such a big chance you may have an impact in the short term in terms of cost control, and in terms of being sure that you charge all the cost to customers. That's what we are working on. That's -- we do not expect a big deviation in H1, but I flag it as a potential for the H1, H2 shift. Nothing really material anyway. So I don't think that we would give any further comments on margin and cash flow at this stage. Now again, we see continuation of the trend that we are seeing, and we have no reason to be less confident on our margin or cash flow targets.

Operator

And next question is from Paul Checketts from Barclays.

Paul Daniel Alasdair Checketts ***Barclays Bank PLC, Research Division - Director***

I've got a few questions, please. The first is, can you -- on the nonportfolio contribution, can you run us through what the big contributors were to that 1%? And within H1, were there any -- was there any work that was related to unusual circumstances that you wouldn't expect to recur? The second is, perhaps you could give us an update on the disposal process for various businesses earmarked to go? The next one, I'm hoping if you could give us a feel for the pipeline of further bids because you've obviously been successful in winning new work and extending the contract. So any extra color on what's coming in the rest of the year would be helpful. And lastly, Deutsche Telekom obviously kicks in Q3. How's the process going in terms of preparing for that?

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

Yes. Paul, if I start with the nonportfolio work, I think there's nothing unusual in the nonportfolio activity for the first quarter of 2019. But it does, I mean, always relate to specific customers that have either extraordinary restructurings going on or expansions and so forth. This year, as I already said, there's been some extra nonportfolio work particularly in Germany. That's one of the drivers in the Europe region. That is nothing out of the norm. It's just that it's very, very hard to know exactly when these happen and whether they happen. So for example, in the U.K. where everything is a little bit uncertain because of Brexit then you'll see typically a bit lower on the nonportfolio, but other than that it is in line with what we can -- what is the usual behavior of nonportfolio.

On the pipeline side, we have a pipeline like normal. There's a couple of major bids going on, of course, also the workaround, the one contract that's coming up for renewal at the end of the year. So, of course, a lot of works going into that. On the new businesses, there's a couple of larger bids going on right now as well from a global perspective and then, of course, country by country. We get even more and more focused on the Key Account, the way we work with Key Accounts and with this, of course, our pipeline looks as usual very healthy. Hit rates for the first period of the year has been good. So all in all, seems to be having a good effect on focusing on the Key Account side.

DTAC, all the processes there are going on. Obviously, it's a big change and a big transformation and also have a lot of technology impact, where we are not quite there yet. So this is a little bit of a delay on some of the technology part of it. We will go live 1st July. It's just a matter of how we're going to do this. So this is not abnormal. It's pretty normal that when you start these kind of large projects in hope that you will have a phase afterwards where these things -- these have to settle in a little bit. So we're confident. We'll start it on the 1st July. Yet the curve costs could be a little bit of delay on some of the subprojects. And maybe on the disposal process, Pierre?

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

Yes. On the disposals, to be very candid, we had a setback with one of the assets that was underleased, that's H&P operation in France. We cannot comment on the reason because we are covered by NDA, a nondisclosure agreement. But something happened between signing and closing that made it impossible to go further with the transition, which is, as you know, very usual at this stage. But it is what it is. Now it's a good business. Actually, it's a business which is not dilutive on margins and which is doing fine in top line. So it's definitely not valued as prior. It is an asset actually which has some value. And we discussed already that there are a few assets that we need to be very cautious in terms of execution because they drive the evaluation. And this asset is one of them. Again, a good asset. So we need to make sure that we achieve the transaction in a decent way. And that's probably will take a few months -- a few more months than expected and that's I would call a setback to be very candid.

Now if you look at the overall program I think that we are in good shape. We have 10% now, which has been completed. We have about 1/4 of the assets, where we are finalizing the preparation that is scoping and the carve-out because when it is not a country, we do have to make sure that we can carve out the assets the proper way. And when it is a country, we do have to make sure that we retain the right capabilities on a country-by-country basis to serve our global customers. So there is a lot of work. A lot of it has been completed, but we still have to complete about -- for 25% and then for the rest, which is about 70% of the total asset base, the process is full speed. At least at the informal stage, informal preparation some that are also open, some negotiations are open, and we are very confident that we can achieve along the line that we discussed already in February our program that is to complete most, if not all the transaction by at the latest quarter, the first quarter of 2020. And we are also quite confident that we will achieve the valuation we have indicated in early December.

Now we don't plan to comment in a detailed way on an asset-by-asset basis because it doesn't help our bargaining position with the market. So we will prefer to keep the list of assets and the status of the process for us and not to be shared outside.

Paul Daniel Alasdair Checketts ***Barclays Bank PLC, Research Division - Director***

On the Deutsche Telekom stuff, Jeff, would that impact the commencement of revenues, if you're a little behind on technology, you'd take more time on this?

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

No. That's not what we expect. We expect that we will be able to go live, and we'll take over the -- all of the 6,000. We'll take all the people and we hire. We have the hiring of the -- up to the 6,000 in line, so that will happen on the 1st July. That's our expectation.

Operator

Next question is from Daniel Hobden from Crédit Suisse.

Daniel James Hobden ***Crédit Suisse AG, Research Division - Research Analyst***

And just maybe 2 for me and they're not explicitly margin related. They does relate to that dynamic between the organic growth and the operating margin. I think you sort of have implied the increases, the possibility of organic being towards the top end of that range I suppose. Is it possible for the organic growth to be at or above the top end of the range, but the operating margin still being at least 5%. Just thinking about the dynamics of that drop for an operational leverage more full year stage. And similarly, if organic growth continues growing the way it does, and you had about 8.7% in Key Accounts I think, is that impacting, or will that impact the full year sort of factoring comment? I get the impression it won't but I just want to confirm that.

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

On the margin side, as we just -- as also alluded to and as you have heard over many years now when we start our large contracts typically, it also starts up with low margin then we move away up through it. And then at the last year of a big contract that's where you have the best margin, you can argue. So with this, the question, if the organic growth is at the high end, can we then defend the low end of the margin interval? Yes, we believe that, that's definitely doable. On the factoring part, so maybe Pierre?

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

Yes. Well, first, the fact that Key Accounts are growing faster than the average is not a surprise for us. We are pleased with the 8.7%. But again, we were expecting that Key Accounts would over deliver on growth against the group targets. So that was anticipated. And to be very -- the short answer to your question is, no. The high level of growth in Key Accounts does not jeopardize our target to decrease amount of factoring in 2019 compared to 2018. So maybe some fine-tuning for DKK 100 million, but that does not jeopardize the overall target to decrease factoring at the end of '19.

Of course, you know that DTAC is part of that and we already flagged this DTAC contribution, which is part of the story in '19. And then maybe some factoring attached to that, but that's, again, incorporated into the guidance that we gave you in February. And there is no change to that.

Operator

And next question is from James Winckler from Jefferies.

James Peter Winckler ***Jefferies LLC, Research Division - Equity Analyst***

Just a few, mine have been answered already. But I was wondering if you mentioned obviously that Northern Europe has been impacted the most with the headwinds. And I'm wondering if you're able to give more color on what the ex headwind growth in this quarter was -- would have been without the impact within Northern Europe specifically. And just revisiting the comments regarding Turkey, I believe you said it was 60 to 70 basis points for the whole group benefit, so within Continental Europe that's about kind of 1.5% specifically for Continental Europe, is that correct?

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

So we just had to do a little bit calculation here but without the impact from the headwind, the headwind was all about is the DXC, the HPI and the EMEA bank. We don't give specifics on this, but these are -- we've already given you that last year this impact was around 2% on the growth. So I think you can work it out from there. On the Turkish part, it has an impact of 2 percentage points in the first quarter, it's from wage inflation in the Continental Europe part. And again, we don't do the guidance on this, but you can do your math, which is probably very close.

Operator

And next question is from Klaus Kehl from Nykredit Markets.

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

You said something that I missed about the contract extensions and losses. So just to confirm, did you say that you have lost a contract that will affect 2020? Or did you say that you potentially could lose some contracts that potentially could affect 2020?

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

Yes. Thank you for the clarification. We said that we could potentially lose. We could always potentially lose all contracts. What we're saying is on Slide 5. You can see the overview of the maturity. And in that, there is a number of contracts, 7 has been extended, which are maturing in 2019. The rest of them by 1 has no in-year impact, but that also means that there is 7 contracts that's up for renewal during this year with impact from 2020 and onwards. Should we lose any of those then, of course, it has impact on next year. And in that there is one big contract, which is around DKK 2 billion, which, of course, is one of our larger contracts. That -- if we should lose that then, of course, it has an impact because it's the last year of the contract this year. But -- and that, of course, will be factored in when you renew it, then it will be the usual. The usual sort of the formula on the profitability of the contract and should we lose it, of course, it also have an impact. But there's nothing decided on that. We're just highlighting that it will expire at the end of the year. And it is a big contract at its very last stage.

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

Okay. Could you say which market or where in the world this contract is?

Jeff Olsen Gravenhorst ***ISS A/S - Group CEO & Member of Executive Group Management Board***

This is a regional contract, so it is in many countries, but it is predominantly in Europe.

Operator

(Operator Instructions) The next question is from Matija Gergolet from Goldman Sachs.

Matija Gergolet ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

A couple of questions for my side. Firstly on the -- it's more on the number. On the Q2 growth guidance, when you say it's going to be lower, do you mean below your say 5% to 7% guidance? Or you just simply imply there's going to be perhaps now some deceleration compared to say Q1? I know it's like a fine-tuning, but just to get a bit of color there. Secondly, could you disclose what is the organic growth of your discontinued operations or of the operations that you have generally put out for sale, if possible? And then thirdly, a clarification, just because I'm not sure, I heard or understood correctly. When it comes to the free cash flow guidance for the year, DKK 1.8 billion to DKK 2.2 billion, is there any factoring included in there? I think it was first mentioned there was no factoring. And then it was mentioned there was a reduction in factoring for the -- compared to last year. Could you just clarify that free cash flow guidance relative to the factoring?

Pierre-François Riolacci ***ISS A/S - Group CFO & Member of Executive Group Management Board***

Yes. Thank you. We don't give this information on discontinued operation. There would be a bit more in H1, but we don't give that in -- indeed, in Q1. On the organic growth, for Q2, our comments about being lower was lower than Q1. So deceleration compared to Q1. So Q1 is 6% and the low end of our guidance is 5%. So as you mentioned, it's a bit of fine-tuning. So we expect it to be in Q2 indeed, decelerating compared to Q1 to your point. And on the free cash flow guidance, DKK 1.8 billion to DKK 2.2 billion, it was including an expectation to decrease -- a net decrease of factoring in the guidance. We did not indicate what could be the number. It, of course, depends also on the growth, but there would be a net decrease in factoring in '19 compared to '18.

Operator

And there are currently no further questions registered at the moment. So I will hand the call back to the speakers. Please go ahead.

Martin Kjær Hansen ***ISS A/S - Head of Group IR***

Thank you all for participating in today's call. This is all for now. So thanks a lot.