Company Name: ISS A/S
Company Ticker: ISS DC
Date: 2017-05-10
Event Description: Q1 2017 Earnings Call

Market Cap: 52,785.48
Current PX: 284.3
YTD Change($): +45.9
YTD Change(%): +19.253

Bloomberg Estimates - EPS
Current Quarter: 3.647
Current Year: 16.458
Bloomberg Estimates - Sales
Current Quarter: 20322.500
Current Year: 82015.583

Q1 2017 Earnings Call

Company Participants

- Nicholas Richard Ward
- Jeff Olsen Gravenhorst
- Pierre-François Riolacci

Other Participants

- Jonas Guldborg Hansen
- Srinivasa Raju Sarikonda
- Andrew R. Farnell
- Kristian Godiksen
- Paul Checketts
- Allen Wells
- Emily Charlotte Roberts
- Bilal Aziz

MANAGEMENT DISCUSSION SECTION

Nicholas Richard Ward

Ladies and gentlemen, this is Nick Ward, Head of Investor Relations at ISS, and I would like to welcome you to our Q1 2017 Results Teleconference. Please be aware that the announcements, the interim report, as well as the slides used for this call can also be found on our website. And later today, a replay will be available and we'll post a transcript of the call as soon as it is ready.

I'd like to draw your attention to slide number 2 regarding forward-looking statements. Presenting today will be Group CEO, Jeff Gravenhorst; and Group CFO, Pierre-François Riolacci. We will open up for Q&A at the end of the presentation, and I'd just like to say that we will finish this call at just under the hour mark. So, please be ready with your questions and please do keep them concise and relevant.

And with that, I would like to hand over to Jeff.

Jeff Olsen Gravenhorst

Thank you, Nick, and good morning, everyone. Please turn to slide 5. We had a good start to 2017. With regards to our operating performance, organic growth was 2.6% in Q1, driven by emerging markets North America, the UK and Germany in specific. Our Q1 operating margin was stable year-on-year at 4.5%. This was a result that was achieved despite a negative impact from both currency and acquisitions and divestments. Our cash conversion remains strong at 98%, so the net profit adjusted increased by 5% to DKK 546 million. And our leverage at quarter-end was 2.3 times, unchanged from the level one year ago.

So, growth within Integrated Facility Services remains strong at 6% in local currency and Integrated Facility Services accounts now for 36% of group revenue in the quarter. This growth was supported by contract launches and expansions including Heineken and Enexis in the Netherlands, Bombardier in North America, Royal Mail and then other customer in Transportation and Infrastructure segment in the UK, the Norwegian Armed Forces as well as Global Corporate

Clients in general. As expected and communicated, growth is currently being negatively impacted by the contract loses in Australia and that will continue during 2017.

During Q1, we signed new IFS contracts with South London and Maudsley NHS Foundation Trust in the UK and Sengkang Health in Singapore. Within Global Corporate Clients, global currency growth was 10%. Global Corporate Clients now accounts for 11% of group revenue in the quarter. And I'm pleased to say that we've added three new Global Corporate Clients during the first quarter.

First, as we've already communicated in February, we won a contract with Shire, whereby we will deliver Integrated Facility Services across 40 countries starting gradually from June onwards. Second, we today announced the addition of a new Global Corporate Client within the retail and wholesale segment. This cost contract is not as sizeable as Shire, but will be launched gradually through 2017 and mainly covers North America and Continental Europe.

Third, we converted an existing customer relationship with Huawei in China to include IFS Services into 14 European countries, making Huawei our 30th Global Corporate Client. The increase in revenue today is relatively modest, but we will see healthy potential for ongoing international expansion in the years to come.

Perhaps more significantly, we have recently signed heads of terms with Barclays to extend our current relationship by another five years. Today, Barclays is our single largest customer. We started working together in 2012, and we're now at the point of extending our partnership until 2022.

As with previous quarters, our financial results are underpinned by our strategic initiatives and execution of our objectives, remains in line with our expectations. And finally, we completed three acquisitions during the past three months, all fully in line with our stated ambitions. This includes Evantec, a German technical service company specializing within critical environment in the energy infrastructure and technology sector; Signal, a Nordic workplace management consulting firm; and then Guckenheimer, a leading food services company in the U.S., which I will discuss in more detail now.

So, please turn to slide 6. ISS has had a long stated ambition of acquiring a North American catering business. Following our acquisition of Guckenheimer in North America is now one of the largest catering operations within ISS. Moreover, we have demonstrated patience and discipline in securing the right asset. The acquisition is consistent with our strategic choices.

From a service perspective, Guckenheimer is a leading provider of U.S. food services. Guckenheimer is the 12th largest in terms of revenue in North America. There is a strong effort of innovation, delivering on-site preparation of fresh food to go to work for. Guckenheimer is focused on health, well-being and great restaurant experiences to help customers win the war for talent. They operate a capital light, strongly cash generative model and share the same culture and values as ISS.

From a customer perspective, Guckenheimer has a strong key account focus and highly attractive list of blue-chip customers. Within the industry vertical consistent with ISS, especially Business Services & IT, Pharma, and Industry & Manufacturing. The average tenure of Guckenheimer's top 20 list, which accounts for almost half of the revenue, is 17 years. Some of them are illustrated on the slide.

Finally, from a geographic perspective, this acquisition increases ISS' revenue in the strategically important North American facility services market by some 50%. Guckenheimer operates in 33 states in the U.S. and has a strong overlap with our target geographies, in particular, in California, Texas, the Midwest and the Northeast. The acquisition was successfully completed at the end of April and was fully consolidated into our business at the 1st of May.

We see three prime sources of value creation. First, we expect the continuation of Guckenheimer's strong organic growth and margin track record. Second, we will look to insource catering revenue with our existing IFS contracts in North America, which is currently subcontracted. Third, we will pursue a number of operational synergies including procurement as we integrate the two businesses.

We are looking to sell additional services into Guckenheimer's existing clients and we will also explore options to expand our relationship with Guckenheimer's clients outside of North America. We've been very clear that our priority is to reinvest capital back into the business, subject of course to strict strategic and financial filters. We see this acquisition as a strong example of that philosophy.

Let me now discuss our regional performance in Q1. Please turn to slide 8. Organic growth in Continental Europe is 4% versus 2% in Q4. Turkey, Germany, Belgium, Switzerland and the Netherlands were key contributors. Growth were generally underpinned by contract launches, for example, Heineken and Enexis in Netherlands. However, we actually saw higher non-portfolio revenue growth than Q4, most notably with some of our German and French key account customers.

We are proactively reducing our exposure to public sector work across Eastern Europe, most notably in Greece. This reflects our strict focus on both profitability and payment terms. The operating margin improved by 0.4 percentage point, thanks to Spain, the Netherlands, Switzerland and Turkey. Margin improvements in the Netherlands was especially pleasing and was in part due to the early benefits from our great restructuring.

In Northern Europe, organic growth was 2% versus 5% in Q4. Growth was supported by both contract launches and non-portfolio growth in the UK and Norway, albeit slower than exceptionally strong in Q4. The annualization of our contracts with Danske Bank and the Danish Railways also explain the slowdown in growth versus Q4. In addition, growth was negatively impacted by contract losses and downscaling within the industrial and the manufacturing segment in Sweden.

The 0.3 percentage point year-on-year reduction in the Northern European margin was predominantly due to Sweden, where we had faced some one-off costs, some additional impact from contract losses and some operational challenges within the cleaning sector. In addition, the margin was somewhat negatively impacted by FX as well as the divestment of security in Finland.

Please turn to slide 9, organic growth in Asia Pacific remained negative at minus 1%. This was consistent with our expectations and prior communications, reflecting the three sizeable Australian contract losses during 2016. As we have also stated, Australian organic growth will remain under pressure for most of this year, although outside of these three contracts, the performance is solid. Excluding Australia, organic growth in Asia remains strong at 6%, driven by double-digit growth in Indonesia, Singapore, India, and Philippines.

As mentioned at Q4, we're also seeing negative organic growth in China as we make structural adjustments to our operating model. We are reducing exposure to certain customer segments that are more price-driven and strengthening our efforts with multinational customers where our broader value proposition is more suited. Huawei is a perfect example of this.

The operating margin increased 1.1 percentage point to 7.7% with almost all countries delivering margin improvement, most notably Singapore, supported by some one-offs, India and Hong Kong.

Organic growth in the Americas was solid at 4%. For the third quarter in a row, North America delivered double-digit growth, supported by contract launches such as Rolls-Royce and Bombardier and continued demand for non-portfolio services, albeit, less than what we saw in Q4.

Consistent with our prior communication, organic growth in Brazil remains materially negative, reflecting our decision to downsize the business and refocus on key accounts. While this situation is expected to improve towards the end of the year, Brazil remain a headwind to overall organic growth throughout 2017. However, the steps were deemed necessary to refocus our business in Brazil and are lastly complete, and the operation has been stabilized.

We've lost a number of contracts in Argentina as we remained price disciplined in a very competitive market. Chile and Mexico performed strongly and have been doing so consistently strong over a number of years.

The Americas' operating margins declined to 2% in Q1. This was driven by North America and due to one-off labor related costs, start-up costs for certain new contracts and underperformance in the specialized service division. We also saw a negative margin impact from contract exits in Argentina. Chile delivered margin improvement and the early integration of [indiscernible] (12:33) is progressing fully in line with expectations.

With this, I would like to hand over to Pierre-François.

Pierre-François Riolacci

Thank you, Jeff, and good morning, everyone. If you please can go to slide 11, I will try to walk you through a bit more details on some key numbers. First on revenues. As you can see, Q1 is up by 2% to DKK19.5 billion. There is a slight negative impact of divestment of acquisition for about 1%, which is mainly related to the divestment of a security business in Finland and the sewage business Denmark.

We expect for the full year this impact to be actually slightly positive, plus 1% to plus 2%, based on the transaction which have been completed so far at the end of April. The net currency impact is really minimal this quarter, but this zero number is hiding some significant variation, negative and positive. On the negative side, it's mainly coming from the conversion of the UK and the Turkey currencies, quite significant. But on the positive side, it is offset by the conversion of the Aussie dollar, the Brazil reals and several other currencies in Asia, and I would also flag the U.S. dollar.

Therefore, the organic growth is plus 2.6%. As Jeff pointed out, it is mainly driven by emerging markets, North America, the UK, Germany, big countries, but maybe more generally by Integrated Facility Services activity, which has been doing very well. With this, we have to say that this 2.6% is a bit higher than what we expected a couple of months ago, and this is for two reasons.

The first reason is that the portfolio revenue was higher than expected due, among others, to unexpected extension of terminated contracts in some countries like Turkey, like Spain, but also in Easter Europe. So, these contracts were expected to be terminated at the very beginning of the year and they were approved to be extended by a couple of months. And of course, they helped us and gave us some tailwind in this Q1.

The second reason is that the non-portfolio revenues also contributed to organic growth again n Q1 to a lesser extent than what we had in Q4. You remember that Q4 was extremely strong, but still a positive contribution in Q1, which is quite good.

All in all, as a result of this stronger than expected Q1, the low point of organic growth of 2017 has drifted to the second quarter. But our overall expectation for the half year is broadly unchanged. So, that's the key thing I wanted to share with you on the revenues. I suggest we move to slide 12 about operating profit.

Operating profit which is growing again this quarter by DKK 36 million. The Q1 margin is set at 4.5%. It is stable year-on-year, and we believe this is actually a solid performance, given that we had some headwinds.

The first headwind that we had was a digression of a margin due to the forex conversion. I mentioned that we have on the revenues a negative impact of currency conversion on GBP and Turkish lira. And I think that you know that these two countries are posting among the highest margin of the group, and it has a negative impact on the margin mix of our operation.

The second headwind that we had to fight was coming from divestment and acquisition. Divestments for security business in Finland, which was posting also good margins. And also, we should mention that the margin of Evanctec in the first quarter for seasonal reasons are a bit lower than the group average. Therefore, we have digression of margin from forex, digression of margin from divestment and acquisition, the total of this two impact is about 10 basis points negative for the quarter.

Therefore, the stable margin is reflecting a strong continuous improvement. This is the implementation of effective growth strategy, strong cost control, procurement settings, and also the implementation of great measures. Of course, there has been some one-off. There have been some positive in Singapore. There have been some negative in Sweden, in Americas, as pointed out by Jeff. All in all, they were neutral at group level for the quarter.

On the last 12-months basis, you can note that margin development is also stable and we remain quite confident in our capacity to drive further improvement in our margin throughout the year. As I just mentioned to you, the operating profit is up by DKK 36 million. I will not elaborate on the graph and the [ph] waterfall (17:31) because we already discussed divestments' currency impact. Maybe a word on the corporate cost, just to tell you that the corporate cost on an LTM basis are running at about 0.87%. It was 0.81% for the first quarter. So 0.81% for the first quarter, 0.87% for the last 12 months, and this is definitely in line with our expectation for the full year 2017, between 0.8% and 0.9%.

I will not elaborate again on the self-help improvement because, Jeff, I think during the region performance review told you the good things which have been known in the region and notably the positive impact in Continental Europe and Asia Pacific in terms of margin.

We can go to page 13 to highlight a few points on the income statement. We'll not come back on revenues and operating profit. I would like to flag first the other income and expenses, which is a very small number, minus DKK 4 million. But behind this minus DKK 4 million, there are capital gains on divestments [ph] foreclosed (18:38) to DKK 50 million and coming mainly from the disposal of the Danish sewage business. But on the other hand, we have restructuring costs for about DKK 44 million, which are coming more or less half-half from the Brazil restructuring, which is going on, and also, the continued implementation of GREAT in a few countries.

The financial income and expenses line is up DKK 9 million. This is driven solely by the FX impact we had in Q1 2016, a strong positive FX impact. We still have some positive FX impact in Q1 2017 but to a lesser extent. And this is the variation of the FX impact, which is explaining the increase of the financial income and expense charge. The tax charge income taxes is flat at a little higher than DKK 200 million, but the apparent rate, of course, is a bit lower, 27% in Q1 2017, down from 28% in Q1 2016. This is, of course, consistent with the lower effective tax rate that we expect in 2017, as we already mentioned during the Q4 call in February.

The adjusted net profit is up by DKK 28 million plus 5%, and the reported net profit is up by DKK 45 million plus 11%. We also benefit in that last line of the reduction in amortization of the acquisition related intangibles as some customer contracts were fully amortized in 2016. So, capital discipline is also paying off in the P&L.

Talking about capital discipline, we can move to slide 14, to say that given seasonality, our cash flow remains strong in the first quarter. The adjusted EBITDA is going up by DKK 11 million. It is, of course, driven by higher revenues with a stable margin. And the cash generated by operation is negative by DKK 781 million, reflecting the seasonal negative contribution from the working cap variation, DKK 1,376 million, and it is, again, 100% due to the seasonality. As you can see, our cash conversion and the LTM is very strong, 98%, which is definitely a good result compared to our year-end vision to be above 90% and very close to what we achieved last year.

So, net interest paid is minus DKK 140 million, which is definitely higher than last year. This is related to the first annual interest payment that we had on our five-year bond, which was issued at the very end of 2015 with the first period interest, which was longer than 12 months. And we paid the coupon in January for DKK 42 million. Of course, this first quarter impact would be diluted throughout the year as you can imagine. The timing of interest payments for the remainder of 2017 being entrenched compared to 2016. Tax paid is minus DKK 256 million. It is again increasing a bit compared to last year. This is partly due to timing of tax refunds, but this is also reflecting that the cash tax rate is gradually converting towards the P&L effective tax rate, as we discussed again during the Q4 call in February.

Going to the investment cash flow, it is negative by DKK 105 million. It does include a capital expenditure for DKK 180 million, which is 0.9% of the revenues. It's slightly higher than the Q1 2016 number, which was 0.8%. But it is definitely in line with the historical range of 0.9% to 1.3%, which is also where we expect it to be for the full year 2017.

The investment cash flow also includes the net acquisition divestment contribution, which is a positive DKK 90 million, 9-0, where it was a negative minus DKK 29 million in Q1 2016. It does include, of course, the proceeds of divestments for more than half. It includes also some cash, which was in Evantec which was consolidated for the first time during the first quarter when the consolidated for Evantec was actually paid during the fourth quarter 2016.

All in all, the free cash flow is negative DKK 976 million, which is DKK 74 million less than the first quarter of 2016. And this is on the back of the higher net interest, this coupon that I just mentioned, the higher cash taxes and the higher [indiscernible] (23:48) well-controlled capital expenditures.

Based on that, I suggest we move to page 15. We have updated that graph, which shows the conversion of our operating profit into free cash flow. There is virtually no change compared to the full year 2016, so I will not elaborate. But you will see exactly the same trend. Of course, we have updated the numbers.

I suggest we move to page 16 for the capital allocation. Here again, no big surprise, although the last 12 months we have generated DKK 2.8 billion in free cash flow, on this DKK 2.8 billion you need to add up DKK 150 million coming from the proceeds of our M&A activity. We have sent back to shareholders DKK 2.1 billion through ordinary dividends but also of course extraordinary dividends, which left us about DKK 900 million to be allocated to net debt production. This has been done but partly offset by an increase in finance leases for DKK 280 million. This is something we discussed already during the call on the Q4, and it reflects a contractual arrangement with IBM that we are today honing out through our FMS system.

It does also include a DKK 130 million FX negative impact, which is linked to debt and cash, and another non-cash item for about DKK 120 million. Therefore, the net debt reduction is DKK 362 million to DKK 11.9 billion net debt at the end of the quarter.

The leverage is set at 2.3. It is unchanged compared to Q1. Looking forward, we have to take in account a 0.2 times dilution on the leverage coming from the acquisition of Guckenheimer that you will see over the next few quarters. And of course, this will be compensated going forward. I'll remind you that the purchase price of Guckenheimer was DKK 1.5 billion, which is a bit more than half of our last 12 months free cash flow.

With these details and numbers, I hand it back to Jeff.

Jeff Olsen Gravenhorst

Thank you, Pierre-François. We had a good start to 2017. We've strengthened our platform through the acquisition of Evantec, Signal and Guckenheimer. We proved the success of our global account strategy and IFS through wins with new contracts, in particular, the addition of the three global corporate clients and the signing of the heads of terms to extend the Barclays account for another five years.

As Pierre highlighted, our current expectations for Q2 will now be the low point of the organic growth for the year. However, our outlook for 2017 and our confidence in delivering is unchanged from February. And the outlook for 2017 remains organic growth in the range of 1.5% to 3.5%, operating margin is above the 5.77% realized in 2016 and the cash conversion is above 90%.

With that, we would like to open for Q&A.

Q&A

Operator

Thank you. [Operator Instructions] And our first question comes from Jonas Guldborg from Carnegie. Please go ahead. Your line is now open.

<Q - Jonas Guldborg Hansen>: Yeah. Good morning, everybody. I was just wondering, you're clearly doing better on organic growth in the first quarter compared to what you expect going into the year. Could you say how much is from these terminated contracts and how much is stemming from non-portfolio works you didn't expect?

Then my second question would be in connection with slide 11, you lost me on the comments around the organic growth expected for the half year. So, if you could just clarify that to me. And then my third question is on how fast will you able to insource your current catering revenue in the U.S. following the Guckenheimer acquisition?

<A - Pierre-François Riolacci>: We don't want to enter into too many details, but on the non-portfolio revenues, out of the 2.6%, we have 0.6% which is coming from above-base. So, indeed, that's a healthy number and that was not necessary indeed fully anticipated. So, that's part of it. So, terminated contracts which have been extended, all in all, our contract [ph] breaching (29:02) for a bit more than, let's say, DKK 100 million to DKK 150 million for the quarter. And that was not also something that was fully anticipated at the time we spoke in February. So, I think that's the key numbers.

I think on the H1 comments, that's very clear. Indeed, our Q1 is a bit higher than expected but our global view on H1 is unchanged, again because these terminated contracts of course they are now – most of them fully terminated, and we don't have the visibility today on the above base for Q2 to extrapolate anything. So, that's why keep our H1 vision in line with our initial expectation, and this is consistent of course with maintaining the guidance for the full year where it is.

Maybe, Jeff, you want to mention something about the insourcing of revenues in Guckenheimer.

<A - Jeff Olsen Gravenhorst>: Yeah. On Guckenheimer, obviously, it's a great asset that we have acquired recently. And the first thing that needs to happen since it's only just finished is of course to get to acquainting with the customers and with the business within Guckenheimer. So, it's hard to say exactly when this is going to happen, but we'll be working on realizing the synergies throughout 2018. So, it is not imminent that we're just going to change overnight. This is something we need to work with because we're going to be the partners of these clients for long term. So, we expect the synergies will come through during 2018.

<Q - Jonas Guldborg Hansen>: Okay. Thank you very much. Very clear.

Operator

And our next question comes from Srini Sarikonda from HSBC. Please go ahead. Your line is open.

<Q - Srinivasa Raju Sarikonda>: Hi. This is Srini Sarikonda from HSBC. A couple of questions please. One on the wage inflation. Do you see any higher wage inflation in any of your geographic segments? And the second one is on M&A pipeline, how is it looking? And do you expect any major acquisitions in the coming quarters? Thank you.

<A>: Thank you.

<A - Jeff Olsen Gravenhorst>: In general, we do see a little bit more growth in Europe than we've seen earlier. I think that's just been down by just a little bit, around the 2%. So, it's been up a little bit. So, UK has been down on GDP growth. Point is, we see rate inflation coming through in the way that we normally see it coming through.

There is something specific as we talked about last year which is the UK minimum wage increases and the levy that's coming through on the apprentice side. But again, as we demonstrated last year with some significant increases in wages in the UK, we expect to be able to deal with this either through price increases or efficiency improvements. So, nothing different from that. If you look at the rest of the markets, it's pretty much in line with what we see on a normal, normal year. So, I don't see any more or any different to that.

We do have some special cases, which is in Latin America. In Latin America, we talked about it during the whole year last year. We have a high inflation of salary increases while a negative GDP growth in Brazil, to be specific. Now, the GDP growth has stabilized in Brazil to slightly positive. Still, it is a bucket where it's very difficult to get the price increases through, which is why we're reducing our presence in that market.

We have reduced the presence there already, as Pierre alluded to, and we will see a stabilization of that during 2017. The same thing goes for Argentina, we see higher inflation that we necessarily can't get through with our clients. And for that, of course, we're reducing some of the clients. But the overall scheme of things, there's no difference to this that we normally see from an inflation perspective.

On the M&A pipeline perspective, we do have a pipeline and we keep working with it. I think it's very important to look at cases like GS Hall and Guckenheimer, which has been of some size. These have been very carefully selected as being competence-enhancing acquisitions where we can find very quick synergies on improving our capabilities in delivering technical services as it was with GS Hall in the UK. And Guckenheimer of course is about converting existing clients but also some of their clients, well, we can sell-in to with our services both in North America and globally.

This is the same focus going forward. Having said that, the catering business has been ticked off. So, now the key focus will be on technical services basically for the rest of the world, and we are working with them. But it will take it's time until we find the right candidates for the key account approach that gives us the competence that we need.

So, yes, we have a pipeline, but we will work with it and it will happen when we find the right candidate at the right price.

<Q - Srinivasa Raju Sarikonda>: Okay. Thank you. Just one follow-up question on Argentina. So, you're trying to follow similar strategy as Brazil and Argentina [indiscernible] (34:30) clients and just keeping your key clients or strategic clients.

<A - Jeff Olsen Gravenhorst>: For now that is exactly the same thing. We're reducing – with some local clients in the market and then focusing on our key customers in that market. We will look at the restructuring and have been restructuring somewhat in Argentina as well, which is in the numbers and also expected to be happening during the year.

<Q - Srinivasa Raju Sarikonda>: Okay. Can I ask one more question? What percentage of revenue is generated from Argentina. Is it a considerable size?

<A - Jeff Olsen Gravenhorst>: 0.5%...

<A>: in 2016

<A - Jeff Olsen Gravenhorst>: ...in 2016. Sorry.

<Q - Srinivasa Raju Sarikonda>: Okay. Thank you.

Operator

And our next question comes from the line of Andrew Farnell from Morgan Stanley. Please go ahead. Your line is now open.

<Q - Andrew R. Farnell>: Hi there. I was wondering if you exclude the contract losses in Australia, can you just talk about what the underlying growth was in the IFS business, please?

<A - Jeff Olsen Gravenhorst>: Yeah. The IFS business [ph] will grew (34:40) 6%. So, just one sec. DKK 150 million more in growth. So, DKK 150 million more in growth.

<Q - Andrew R. Farnell>: Okay. That's a slowdown from the – I mean, it's just [indiscernible] (36:01) comps that you're coming up against there or is there anything else to think about?

<A - Jeff Olsen Gravenhorst>: It really about phasing. It depends on when things starts and stops. We will see, of course, with the global contracts coming onboard in the second half year this year. So, that will have an impact on Shire, for example. That is IFS. Apart from that, it is, of course, also growing from a stronger base. That's the way life is. And I don't see it as systematic. It's still higher growth on IFS than it is for the rest of the business, and it continues to be a strong hold of ours. And as I said, we will see when Shire, and so forth, comes onboard in second half, you'll see some different numbers.

<Q - Andrew R. Farnell>: Okay. Fine. And are you able to quantify what you think the benefit will [indiscernible] (36:50) in terms of Guckenheimer? Obviously, it sounds like it will be beneficial for your global account business. Just what you think the benefit there would be from that, either from client retention or new wins?

<A - Jeff Olsen Gravenhorst>: It's very hard to quantify. What we've done is to say that we've come up with a multiple of – including the synergies for 2018 obviously. The exact timing and the amount, of course, we have an internal plan for that. But the key point is that right now, we're outsourcing our catering business in the U.S. to some kind of competitors, obviously, that can be converted. And then it is going in and get more business as we have grown our American presence by 50%. That, of course, gives us a better presence in North America, from that a bit of growth base. Then it is some synergies from the operations including the procurement benefits, and we have not quantified or disclosed these numbers.

<Q - Andrew R. Farnell>: Okay. That's great. Thanks.

Operator

And our next question comes from Kristian Godiksen from SEB. Please go ahead. Your line is now open.

<Q - Kristian Godiksen>: Thank you. A couple of questions. Firstly, can you add some flavor on the pipeline on new Corporate Clients for the rest of the year now with the additional two signed contracts?

Secondly, I was wondering whether you could give an update on the progress on the renegotiation of two Global Corporate Clients that is set to expire end of this year.

And then thirdly, if you could add some flavor on what you think about the demand for non-portfolio business, which seems to have been strong in the last couple of quarters which stands in contrast to otherwise being in the low-end range of its historical share revenue. So, if you could add some flavor on that. Thank you.

<A - Jeff Olsen Gravenhorst>: We Start from the back, Kristian. Let me take the [ph] once-only (38:56) business. It's always very difficult to predict from the point of saying what month or what quarter does it peak. Typically, we see more at the end of the year. You're quite right, because this is where the budget sort of runs out, and this is where there's typically a lot of getting ready for the next year kind of thing. Obviously, this year, we have the added insecurity, and as we talked about it before on the banking sector where we don't know whether that's going to have an impact on the latter part of this year. But that's of course in our forecast, that insecurity – outlook, sorry.

This year, in the first quarter, we've seen particularly strong [ph] once (39:33) only in Germany, for example, within the energy sector and the car manufacturing industry. So, whether that fits the first quarter or the third quarter really depends on their activities and their plans. So, it's very difficult to predict exactly how that works out. So, the outlook is that we see it in the same way as from the start of the year. I don't see the first quarter as an indication that we'll have much higher above base for the remainder of the year, but it's a matter of phasing. But again, it still remains to be seen, as it is something which has a much shorter pipeline or lead time.

When we look at the pipeline for both the negotiation and the new businesses, we still have quite a lot of activities as usual going on, both on local key accounts and on regional and on global key accounts. All of it is in line with what we normally see and with the same sort of likelihood as what we normally see. So, obviously, a strong and healthy development of the business.

On the renegotiation, as you know, we have renegotiated Barclays and extended that – well, they had signed up to heads of terms, and of course, we are progressing on the legal terms on this. And we expect to finalize that shortly. Then, we have a couple of other in main contracts. One is, of course, split into a number of contracts. So, HP is no longer one company. It's now three companies. So that means that there are a number of renegotiations going on at the moment and they are progressing as we speak. And we will give you more update on that as to when that is finalized. And yeah, that's basically it.

<Q - Kristian Godiksen>: Okay. Thanks a lot.

Operator

And the next question comes from Paul Checketts from Barclays. Please go ahead. Your line is now open.

<Q - Paul Checketts>: Good morning, everyone. I've got a couple of questions. The first is on the new Global Corporate Clients, Jeff. When will those begin to contribute revenues and over what period would you expect it to ramp up to full contribution?

And then related to that, the contract with Huawei. Sodexo has also announced some work with them. Can you explain how the work is divided up and what do you think the opportunity going forward with them is?

And then, the second question was a bit more technical, possibly it's on France. Can you tell us how much benefit you've had from [indiscernible] (42:22) last year and what's your estimate impact of any changes to that would be? Thanks.

<A - Jeff Olsen Gravenhorst>: Yeah. Thank you, Paul. If we take the Huawei first. Clearly, Huawei is a huge company as you probably know. And we are currently servicing a big campus for Huawei in China and have done that for a period of time. We now expanded that relationship with them in some 14 European countries. And of course, as we say also, this is not a huge contract in the global sense. However, it's a great opportunity. And of course, they have other providers, but that's the case with most of the big international companies.

So, here we have a great opportunity because they are a growing company and just alone in Asia. It is quite a significant opportunity still to grow. So, we're very happy with that relationship and happy with the possibility of expanding that and actually the reality of expanding it recently. On the phasing of the Global Corporate Clients, the big one is the Shire Group, and it will gradually stop on 1st of June, but the reality will hit gradually in the beginning of the second half. And we expect it to be up fully running by 1st of January 2018.

<A - Pierre-François Riolacci>: [indiscernible] (43:55) in France, the benefit is north of €15 million. 1-5.

<Q - Paul Checketts>: That's €15 million, did you say? €15 million?

<A - Pierre-François Riolacci>: Yeah.

<Q - Paul Checketts>: Okay. And your thoughts on possible changes?

<A - Pierre-François Riolacci>: Well, given what happened on Sunday, I'm not too worried about the future of labor cost in France.

<Q - Paul Checketts>: Okay. And just following up, Jeff, on Huawei. So, is it structured at the minute that if in those 14 European countries you are the entire provider of facilities, maintenance, or would it even within those countries space between different providers?

<A - Jeff Olsen Gravenhorst>: Sorry. Can you say that again, Paul?

<Q - Paul Checketts>: Yeah. I'm just interested in whether or not -- did they divide up their work by country and within that country you provide all the services? Or is it within each of those markets that in fact it rely between different providers.

<A - Jeff Olsen Gravenhorst>: It's typically within the market. So, when you're in the market, you take the whole thing. But obviously, I mean, if they buy a new company, which they do sometimes, then it could be sometimes differently. But typically, it is by market.

<Q - Paul Checketts>: Okay.

<A - Jeff Olsen Gravenhorst>: And just to elaborate a little bit on the CC, I just want to make sure that everybody understands that this is something that's been in play for many years, and we expect it to be in play. And actually, this year, the benefits gone up a little bit from 6% to 7%. So, we don't expect to see any changes from that.

<Q - Paul Checketts>: Thanks.

Operator

And the next question comes from Allen Wells from Exane. Please go ahead. Your line is now open.

<Q - Allen Wells>: Hi. Good morning. Two quick ones from me. Could you maybe just elaborate a little bit about exactly what's going on in Sweden at the minute? I understand it's a market you've got a relatively strong presence. I think in the commentary, you talked about some operational challenges in cleaning across Northern European region, and obviously some one-off impact in Sweden. I was trying to understand exactly what the issues are in that market.

And [indiscernible] (46:06), apologies if I missed this, the labor-related cost that you referenced in the U.S. as one-offs, could you also just clarify exactly what that is, please? Thank you.

<A - Jeff Olsen Gravenhorst>: Okay. On the Swedish market, I mean, clearly, the Northern European market has always been a very strong margin for us. It's our home-based market. As we highlighted at the end of last year, we also saw some softness in Sweden, and particularly within the healthcare sector. So, there's a couple of things in Sweden. One is the healthcare sector, where we had some troubled contracts. We've exited them in the first quarter or in the second quarter, It will go out in the third quarter. So, that's sort of have been settled in order to exit from the business now, which is of course putting some drain on the results.

The second part is there has been some losses in the business, which, of course, leads to some lower margin. And then the third part, which happens once in a while, that the cleaning sector is delivering lower margin than we expected it to. So, the key focus area is that healthcare sector, it will be settled out or stabilized during the next quarter or so.

And on the cleaning sector, this is exactly where we have put in the extra efforts. So, throughout Europe, throughout the Northern European region, we put together a stronger team to go in and optimize on the cleaning side, which is going well in the other parts, but just to make sure that we get back on track at Sweden. We expect to be back on track during this year.

<A - Pierre-François Riolacci>: Yes. On this one-off, in the U.S. first, I would like that we do not enter into the detail of each one-off. We flag them because it's important that you get some color on the regions and you understand the moves. Again, I confirm that overall, the one-off impact is natural at group level. But to come to your point in the U.S., we are talking about a single million impact, and it is related to what we will call in Europe some sort of social contribution adjustments. So, it's not directly linked to wages. It's clearly linked to the costs which are related to labor. And again, it has to do with the past and it is again a small amount.

<Q - Allen Wells>: And one quick follow-up. On the contract losses in Sweden, I mean, is this the sort of contact losses that would be in excess of what you would normally see in the business? And is this as a result of your competitive pressure or underperformance from ISS? Just exactly what's churning those deals there? Thank you.

<A - Jeff Olsen Gravenhorst>: Yeah. We run a business, as you know, which has a retention rate with around 90%, and we're working on the key account segment where it's above that. But even in key accounts, we're up at around 92%. That does mean that we lose contracts once in a while. And when we lose contracts, it is either because we want to be protective on our margin side. So, sometimes you have competitive offers where we simply don't want to go, and then we have to have the discipline to say that we're not going to do it. That is typically what is the case and sometimes we're just not winning it. We have good competitors out there, and we win on some days, and they win on some days. And that is just the way life is in a market of 500,000 employees across the piece. So, there's nothing systemic wrong in Sweden. It's just a matter of when you do lose a contract, sometimes it hurts for a while, that's the strength of being big. We still believe Sweden is a high-margin country and the Northern Europe will continue to be high margin for the group.

<Q - Allen Wells>: All right. Thanks very much.

Operator

And the next question comes from Emma Roberts (sic) [Emily Roberts] (49:56) from Deutsche Bank. Please go ahead. Your line is now open.

<Q - Emily Charlotte Roberts>: Hi. It's Emily Roberts from Deutsche Bank. A couple for me, please. First of all on IFS contracts, obviously, quite a few announced in Q1. Do you expect the rest of the year to continue at the same pace in terms of pipeline conversion? And secondly, I appreciate there's a lot of moving parts, but if we zoom out, big picture, please could you give us a bit of color on the pace of margin improvement that you expect in Northern Europe and Americas as we go through the year? Thank you.

<A - Jeff Olsen Gravenhorst>: On the IFS pipeline, it's the same. I mean, I think the pipeline is very strong. I think the key thing we need to remember is that when you talk about relatively large contracts, it's always difficult to predict exactly the timing of conversion. And we do have competitors out there. So, we don't necessarily win all of the ones that we are working with. So, I can't give you a prediction of whether it's going to be exactly the same conversion rate for the second half year, but we'll do our best to convert as much as possible.

On the margin improvement side, we do expect that what we see in the first quarter is similar in the second quarter and then it will start correcting itself during the year. But of course, we also have [ph] upsides (51:17) in other markets, which we also expect to see. So, that's why on the annual basis, we have no reason to change the outlook.

<Q - Emily Charlotte Roberts>: Okay. Thank you.

Operator

And the next question comes from Bilal Aziz from USB (sic) [UBS] (51:32). Please go ahead. Your line is now open.

<Q - Bilal Aziz>: Good morning, everyone, and just two quick ones for me, please. And in Australia, ex the contract losses, I think you mentioned the business was solid. Can you perhaps talk about the contract pipeline there and your expectations as we go through the year ex the contract losses?

And then finally on Brazil. I think you mentioned stability that you perhaps reached the end of the exit there. So, is it fair to say this was the trough in organic terms and we gradually stabilize from here on within terms of magnitude of decline? Thank you.

<A - Jeff Olsen Gravenhorst>: Yeah. On Australia, obviously, we don't give by country the numbers, but we're saying that we did lose some DKK 600 million worth of contracts last year, which has an impact on the first six months of – well actually, up until third quarter this year. And it will gradually start phasing out by the end of Q2 up until Q3, beginning of Q4.

We have one-time businesses also in the period of the last period. So, of course also, within the resource industry so, we've won Aspen Villages and BMA in Queensland. So, there are some good underlying growth also in Australian business, and the pipeline and the possibilities are still good. I think the Australian market per se is not a bad place to be. We have to remember that we have sold off some businesses in Australia over the last few years, which of course made the size a little bit smaller. But at the end of the day, the pipeline is good. The market's there and we have full confidence in coming back, but we were hit by this particular area of mining sectoring and [indiscernible] (53:25) in northwest of Australia.

The other part was the phasing of Brazil. We expect that to phase out during this year. So, we'll see a flattening out and a stabilization during the second half of this year to the latter product.

<A - Pierre-François Riolacci>: But it was a strong decline in Q1.

<A - Jeff Olsen Gravenhorst>: Yes.

<A - Pierre-François Riolacci>: Strong double-digit.

<Q - Bilal Aziz>: Thank you.

Operator

There are currently no further questions at this time. I will now hand the call back to the speakers. Please go ahead.

Nicholas Richard Ward

Great. Thanks very much. Thank you, everybody for listening as always, and thank you for your questions. Of course, if you have any follow ups, please just give either Martin or myself a call. Otherwise, we look forward to speaking again at Q2 in August. Thank you.