Q2 2022 Aide Memoire

Financial highlights of Q1 2022 Trading Update

- **Organic growth was 5.4% in Q1 2022.** All regions reported positive organic growth in the quarter. Portfolio revenue (+7%) was positively impacted by return-to-office trends in large markets and price increases implemented globally. The demand for projects and above-base services (-1%) was maintained at a high level as increased demand for workplace investments and regular project work almost offset the decrease in deep cleaning and disinfection.
- The underlying run-rate for **operating margin continued to progress in Q1 2022** compared to previous quarters. Cost inflation has been managed tightly through price increases and cost reductions and the operating **margin has been protected**.
- **The recovery** of the underperforming contracts and countries and restructurings initiated in response to Covid-19 **continued to progress as planned**. Nine months ahead of plan, the UK has reached the turnaround target of a low single-digit run-rate margin.
- **The divestment programme** is nearing completion. Total accumulated net proceeds amount to DKK 1.9 billion and 95% of total target have been achieved. The remaining businesses for sale comprise two countries, Brunei and Portugal and one smaller business unit.

Financial outlook for full year 2022

- Organic Growth: *'Above 4%' (previously 'Above 2%')*: The outlook for organic growth was upgraded due to a solid start to the year. The return-to-office trends will continue to have positive impact on activity levels as well as continued implementation of price increases. The level of projects and above-base work is uncertain, and the related revenue is still expected to be lower than in 2021.
- Operating margin: *'Above 3.5%' (unchanged):* The underlying margin improvement is on track. The main drivers are continued improvement of the underperforming contracts and countries, predominately Deutsche Telekom, a positive impact from Covid-19 revenue recovery and continued improvement across the business from restructuring initiatives.
- Free cash flow: *'Above DKK 1.3 billion" (unchanged)*: Inflow from changes in working capital is expected to be neutral to slightly positive following the positive impact in 2021. Payments related to one-off restructuring projects initiated in 2020, including the exit fee to Danish Defence, are expected to reduce the free cash flow by around DKK 0.5 billion.

Key management quotes from Q1 Trading Update conference call

- *"For the first time since the outbreak of the pandemic, **our quarterly revenue is now organically above the pre-COVID-19 level**, i.e., above Q1 2019."*
- *"There's no doubt that **the best sale is to retain a good customer**. It's encouraging to see that our **retention rates are higher in Q1 than historically**, which is evidence that our work to structurally improve retention is showing some initial results."*
- *"As we continue to improve the underlying margin, we have seen **no setbacks from the elevated cost inflation. On a group level, the operating margin is unaffected**."*

- *"We have seen* ***additional costs related to temporarily higher sickness rates*** *in Q1. But in summary, with Q1 margins secured,* ***we are very well on track to deliver on the full year outlook of above 3.5%****."*

- *"If we do get unexpected* ***further inflationary pressures*** *later in the year, we will be* ***using the same mechanisms*** *that we've been using so far. So nothing will change there."*
- *"9 months ahead of plan, the U.K. has reached the turnaround target of a low single-digit run rate margin.* ***Focus is, therefore, on the 2 remaining underperforming areas, France and the Deutsche Telekom contract****. In both areas, the gradual improvements continued, but needless to say,* ***there's still a lot of hard work ahead of us.****"*

- *"...we are happy with the* ***acceleration and momentum in the U.K.****, but that does not mean that it stops here. And it's clear that we have* ***more potential in the U.K.****, and that's both in terms of commercial momentum, so on top line, but also on profit by driving further efficiencies on the direct cost, but also overhead synergies.*

- *"We still expect that* ***margins in the first half will be better than 2.5%.*** *And in* ***the second half, higher than 4.5%****, which will give you a margin for the full year, which is better than 3.5%. And of course, it's pleasing to see that the* ***Q1 is following the plan*** *as that obviously* ***de-risks the margin outlook for the full year****."*

Factors impacting comparative figures from Q2 2021

- Organic growth in Q2 2021 was 5.8% as portfolio revenue recovered from a low level in Q2 2020 and solid demand for project and above-base work.
- 2-year organic growth was around -5% in Q2 2021, compared to -2% in Q1 2021 as the normal seasonality was disrupted by Covid-19 (project- and above-base was very low in Q1 before Covid-19).
- Revenue from both portfolio and non-portfolio was stable in Q2 2021 compared to Q1 2021. Based on this, we assess that the strength of the comparison base is similar in Q2 2022 as it was in Q1 2022
- Reporting structure for Europe has changed, and from Q1 2022, reporting has been split by Northern Europe and Central & Southern Europe. Restated historical figures are available on the IR website.

Developments since Q1 Trading Update

- Commercial
  - New win of a 5 year-year IFS-contract with a major retailer in the US. The contract represents around 1% of group revenue. The transition of the contract will be conducted in phases and is expected to be fully operational during Q4 2022. Mobilization cost will be expensed during the year. As part of the contract, ISS will deliver integrated facility services across retail, office and industrial space.
- The Danish Defence contract
  - The contract (annual revenue of around DKK 550 million) was exited end of May 2022. Current provision will be sufficient to cover all exit related costs.

Turnaround targets (unchanged)

- Operating margin above 4% as run-rate when entering 2023
- Reduce the leverage ratio (Net debt / EBITDA) to below 3x by the end of 2022

Underperforming countries and contracts

- The UK continued the positive development and nine months ahead of plan reached its turnaround target of a low-single digit run-rate margin.
- The turnaround and restructuring of the contract with Deutsche Telekom continued to develop in line with plan although still loss-making. Focus is on driving efficiencies, reducing costs and optimising operations to reach breakeven by the end of 2022.
- The restructuring in France is progressing as planned. The underlying improvements continue to be gradual and modest. The business is still impacted by Covid-19 and the commercial development is still muted partly due to industry segment exposure