Copenhagen, 25 March 2024

Q1 2024 Aide Memoire

Highlights of Q4 and full-year 2023

- **Business momentum was maintained** during the last part of 2023, with **organic growth of 7.1% in Q4 2023** (Q4 2022: 10.1%) and **9.7% for the full-year 2023** (2022: 8.4%), primarily driven by price increases and underlying volume growth. Total revenue for the quarter amounted to DKK 20.4 billion.
- The **underlying operating margin** (excl. impact of hyperinflation in Türkiye) **improved to 4.6%** for the full-year 2023 (2022: 4.0%) and 5.5% in H2 2023 (H2 2022: 4.8%). **One-off costs of DKK 233 million related to the review of OneISS initiatives** were recognised in H2 2023, resulting in a reported operating margin of 4.3% for 2023.
- ISS secured a **new key account IFS contract with the Danish Building and Property Agency** as well as several smaller and mid-sized IFS key account contracts across the Group. In the beginning of 2024, the global contracts with Nordea and an Industry & Manufacturing customer were extended, supporting a continued **strong customer retention rate of 95%.**
- **An agreement to divest the French business has been signed** and the divestment process is progressing as planned with expected completion in H1 2024. The **integration of Grupo Fissa in Spain is completed**, and synergies are as planned expected to be realised in 2024.
- **Free cash flow amounted to DKK 1.8 billion** for the full year 2023 (2022: DKK 1.7 billion) positively impacted by increased operating profit and inflow from changes in working capital.
- At the end of 2023, **financial leverage was 2.2x** (2022: 2.6x), which is within the targeted range of 2.0-2.5x. Based on the financial results for 2023, the Board of Directors will at the annual general meeting propose a dividend of 20% of adjusted net profit for 2023, corresponding to **a dividend per share of DKK 2.3**. In addition, ISS initiated a **share buyback programme of DKK 1 billion** to be executed until 19 February 2025.

Financial outlook for full-year 2024

- Organic growth: *'4 - 6%'*: Growth will be driven by price increases implemented across the Group as the tight management of cost inflation will be maintained. In addition, positive volume growth from increasing activity levels at customer sites and contract expansions is expected, as well as a positive contribution from net contract wins. The impact from projects and above-base work is expected to be neutral to slightly negative.
- Operating margin: *'Above 5%'*: Compared to the 2023 underlying margin of 4.6%, the main drivers of the increase are continuing operational improvements and efficiencies across the Group as well as operational benefits and cost savings generated from the review of the OneISS initiatives.
- Free cash flow: The expectation for free cash flow is based on an underlying free cash flow of above DKK 2.4 billion, equaling a cash conversion of above 60%. However, in 2024 free cash flow is expected to be above DKK 1.8 billion, adversely impacted by timing effects including certain payments being withheld by Deutsche Telekom.

Key management quotes from full-year conference call

- *We've seen good commercial activity on local and regional deals. In November, we were awarded the IFS contract as a part of the third outsourcing way with the Danish Building and Property Agency. The contract will start up in May. We've also seen good activity on the contract renewal front, and we have extended a long list of key account contracts, including the extension of two significant global partnerships with Nordea and an industry and manufacturing customer.*
- *On margin for 2024: when we are guiding above 5% on operating margin, then as I'm sure you would expect it's not saying it's the same as saying that we have a forecast of 5.01%. What is important for us on the margin side is that we're doing the right things for the business and we're early in the year, and we want to make sure that we have the flexibility to do what is right for the business.*
- *As things have normalized post COVID-19, you should continue to expect seasonality within our cash flow with H1 being structurally lower than H2. This is consistent with the development in the first half of '23, where free cash flow was negative DKK1.1 billion in the first half and positive DKK2.9 billion in the second half. All in all, this means that you should expect the free cash flow to be negative in the first half of 2024 at ballpark, the same level as in 2023.*
- *Deutsche Telekom is holding back payments for services that we're delivering. (…) all in all, that could be a negative timing impact of up to DKK600 million (…) And of course, they have to pay for services that are being delivered. So I don't see an impairment risk around this at all. It's a matter of when the cash is coming in, where that's coming in in 2024 or 2025.*
- *On Deutsche Telekom: … we separate the two things, the arbitration case and the operational track. The operational track is going in line with expectations. And that's also why we have seen that the profitability on the contract has increased year-over-year from 2022 to 2023, and we expect that to continue in over the course of this year.*
- *On Deutsche Telekom: they are withholding is for services that we are providing and I don't see any reason that they shouldn't pay that and my comfort level is also backed by external advisers. So it's a matter of when the cash is coming in, whether it's this year or next year.*
- *On consolidated level, wage inflation is going to be around 5% so lower than what we saw in 2023 (…). And I'm fully confident that we can pass that on to customers. We've done that now successfully the last two, three years. (…) So the 5% wage inflation, I expect that to convert into a net contribution on top line of between 3% and 4% with the same dynamics as we've seen historically that we do help our customers to get some synergies, which is easing the burden on their side. So it's not a straight pass on with the 5%, but the net contribution is going to be slightly lower than the 5%.*
- *On reduced office space: So we are not seeing that, that customer's budgets are reducing. We are seeing that customers and business in general are investing into the workplace and yes, we have a number of customers that has reduced square meters, but the level of spend per square meter has gone up accordingly.*

Factors impacting comparative figures from Q1 2023

- Organic growth in Q1 2023 was 12.0% as portfolio revenue benefitted from price increases implemented globally and volume growth due to higher activity levels at customer sites and office occupancy rates. This was partly offset by decline in projects and above-work due to reduced demand for Covid-19 services.
- Throughout 2023, the organic growth declined sequentially, following a stronger comparison base during the year. Q1 2024 is expected to benefit from price increases implemented and volume growth, partly offset by a slight decline in projects and above-base work.

Financial targets from 2024 and beyond (unchanged)

- Organic growth of 4-6%
- Operating margin sustainably above 5%
- Cash conversion of more than 60%

Forward-looking statements

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