Copenhagen, 20 September 2022

Q3 2022 Aide Memoire

Financial highlights of H1 2022 interim report

- Growth momentum accelerated, 2022 outlook was upgraded and progress towards achieving the turnaround targets continued.
- Organic growth was 8.0% in Q2 2022 (Q1 2022: 5.4%) and 6.7% in H1 2022 (H1 2021: (0.2)%), driven by portfolio revenue growth of 11% which was positively impacted by continued return-to-office trends, price increases implemented globally and customer's increased investments in the workplace. Revenue from projects and above-base services declined organically by 4% due to reduced demand for deep cleaning and disinfection however revenue is still at a high level and above pre-Covid-19 levels.
- Operating margin before other items was 2.9% in H1 2022 (H1 2021: 1.6%). The improvement was primarily driven by execution of the turnaround initiatives in the underperforming contracts and countries. The rising inflation was generally estimated to have margin neutral effect on the operating margin as ISS mitigated the cost pressure through price increases to customers and scope adjustments.
- Free cash flow was DKK 0.6 billion (H1 2023: DKK 1.6 billion). In H1 2022 free cash flow was positively impacted by improvement in operating profit before other items and working capital. As expected, one-offs payments of provisions accounted for in 2020 amounted to DKK 0.4 billion in H1 2022.
- The divestment programme is completed and the target of accumulated net proceeds of DKK 2 billion has been achieved.
- The progress towards the turnaround targets continued to be driven by the execution of the OneISS strategy. Two out of four hotspots have achieved their turnaround targets and the run-rate margin was just above 3.5% compared to the target of above 4%. Further financial leverage was reduced to 3.0x pro forma adjusted EBITDA (LTM).

Upgraded financial outlook for full year 2022

- Organic growth: *'Above 5%' (previously 'Above 4%')*: The outlook for organic growth was upgraded due to increased activity level from accelerating return-to-office trends and customers' increased investments in workplaces. The implementation of price increases will continue to affect organic growth positively and projects and above-base revenue is still expected to be slightly lower than in 2021.
- Operating margin: *'Above 3.75%' (previously 'Above 3.5%')*: The change of outlook is a result of the continued progress of the turnaround of the underperforming contracts and countries, as well as operating leverage from higher revenue. Cost inflation is managed tightly through price increases and cost reductions, and the operating margin is therefore expected to be unaffected from this.
- Free cash flow: *'Above DKK 1.5 billion' (previously 'Above DKK 1.3 billion')*: The expected higher operating profit before other items will have a positive effect on free cash flow. Expectations to working capital development are unchanged. Payments related to one-off restructuring projects initiated in 2020 are expected to reduce the free cash flow by around DKK 0.5 billion.

Key management quotes from H1 2022 conference call

- *"Q2 marked another important milestone in our financial turnaround. And* ***with the strong performance, we have upgraded the full-year outlook for all 3 financial KPIs****."*

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

- *"We continue to* ***see an attractive pipeline*** *and according to our new operating model, we are running* ***commercial processes with a strong discipline****, not least on pricing and inflation.*

- *"The gradual margin improvement continued in the first half.* ***The improvement in the underperforming areas was the main driver*** *combined with benefits from the higher revenue. Some of the positive impact was offset by higher than expected costs associated with a higher-than-normal sickness rate and* ***mobilization costs related to our contract wins****."*

- *"..we are expecting* ***margins to be above 4.6% in the second half*** *of the year and that includes* ***further P&L expense investments plus additional incremental cost related to the mobilization of the recent contract wins****."*

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

- *"The cash flow generation continued in the first half of 2022, driven by higher operating profit and changes in working capital.* ***The strict focus on working capital continued****, and we saw a cash inflow of DKK 0.3 billion."*

- *"****Our turnaround targets are now almost achieved.*** *The divestment program is completed, financial leverage is reduced to 3x, and our run rate margin improved further."*

Factors impacting comparative figures from Q3 2021

- Organic growth in Q3 2021 was 2.8% as portfolio revenue recovered from a low level in Q3 2020 and demand for project and above-base work continued at a high level
- 2-year organic growth was -6% in Q3 2021, compared to -5% in Q2 2021, but adjusted for the Deutsche Telekom contract which started up in Q3 2019, the organic growth improved sequentially. The positive development was driven by increase in portfolio revenue as customers gradually returned to offices in some geographies during the quarter when restrictions were lifted. This was partly offset by non-portfolio revenue slowing down.
- Furthermore, organic growth in Q4 2021 was 5.8% with continued return-to-office trends and historical high above-base revenue. Based on this, we assess the comparison base to be slightly tougher in Q3 2022 with a worsening trend during H2 2022.

Developments since H1 interim report

- Commercial
    - Agostina Renna was appointed Group Chief Commercial Office and member of the Executive Group Management. He brings international experience to this role and is an accomplished commercial executive with a strong track record within leading blue-chip industrial businesses such as Johnson Controls, GE and Amcor. Agostina takes up the position following Dan Ryan's retirement from ISS, announced in June, and will join no later than 1 January 2023.

Turnaround targets (unchanged)

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

Underperforming countries and contracts

- The execution of the comprehensive restructuring and gap closing programme for the Deutsche Telekom contract continued to develop in line with plan. The contract is still structurally challenging, and the run-rate margin is negative, but it is on track to reach breakeven by the end of 2022.
- The restructuring in France continued to progress with run-rate margin improving, but the development is slower than initially planned. Costs have been reduced, but the commercial development is muted, and the organic growth was negative, partly due to industry segment exposure with corresponding negative effect on margin.