Q3 2024 Aide Memoire

Highlights of Q2 2024 Trading Update

- **Organic growth was 5.8% in Q2 2024** (Q2 2023: 9.3%) driven by successful implementation of price increases to offset wage increases and general cost inflation as well as volume growth, with both net new contract wins and projects and above-base slightly negative.
- **The operating margin for H1 developed in line with plan and was 4.0% excl IAS 29** (H1 2023: 3.6%). This was mainly driven by continued operational improvements and efficiencies including improvements in DTAG and improve run-rate margin in the UK. Costs related to mobilization of Defra and Danish Building and Property Agency, while on a group basis one-off benefits in Asia & Pacific were offset by a front-end loaded nature of restructuring costs this year.
- **We won the DWP contract (now signed), this adds c. DKK 1.2bn in base revenues annually from Oct-2025.** The commercial pipeline is attractive and we generally see strong demand for our services.
- **The arbitration process with Deutsche Telekom is progressing according to plan**. As described in the Annual Report 2023, Deutsche Telekom is withholding certain payments to ISS related to the services delivered. **This situation remains unchanged.**
- **The 2024 outlook was narrowed at the upper end of the original organic growth range, and we confirmed for operating margin and FCF.**

Financial outlook for full-year 2024

- Organic growth: *'5 - 6%'*: Will mainly be driven by price increases that were implemented in Q1 and will be supported by spillover effect from prices implemented during 2023. Half of the effect is expected to come from Türkiye. We expect underlying volume growth due to increased activity level and higher office occupancy rates supported by contract expansions. We expect a slightly negative contribution from new contract wins, which includes positive contribution from the Defra and Danish Building & Property Agency and local contracts won, however offset by loss of contracts during 2023 and 2024. Revenue from projects and above-base work is inherently subject to high uncertainty, particularly towards the end of the year and is expected to have a slight negative organic growth contribution for the full year.
- 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, while we invest in mobilization of contract start-ups.
- 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 (2023: DKK 1.8 billion), adversely impacted by timing effects including certain payments being withheld by Deutsche Telekom.

Key management quotes from H1 2024 conference call

- ***The main driver of organic growth continues to be price increases. Price increases alone have driven an organic growth of 6.5% in the first-half of 2024*** *with approximately half of this growth coming from Turkey.*

- *We anticipate the* ***net contract wins will remain negative for the remainder of the year*** *as our significant new wins this quarter will not contribute to 2024. Lastly, project and above-base work had a negative impact of around 1-percentage-point. The decline is due to lower demand for deep cleaning, disinfection and refurbishment programs following the high demand during the pandemic. However, it is worth noting that the share of above-base work remains above pre pandemic levels currently standing at 15%.*
- ***The improvement in the operating margin continue in first half of 2024. Excluding the impact of high by inflation in Turkey, the margin was 4% in line with our expectations.*** *Overall, the operating margin in the first half is progressing as expected giving us confidence in achieving our full year margin guidance, which anticipates a margin above 6% in the second half.*
- ***Organic growth in Americas*** *was impacted by contract lost and exited in 2023, as Kasper mentioned earlier. For the second half, we expect negative low double digit organic growth, while the margin will continue to improve. From a margin perspective,* ***all regions showed positive underlying improvements****, even adjusting for the positive one-off in APAC. It is encouraging to see the* ***Northern Europe region has maintained its margin levels despite the large start-ups*** *and that deliberate contract exits are positively affected margins in the Americas.*
- *All in all, a free cash flow in first half according to plan.* ***Therefore, our guidance for the full year of more than DKK1.8 billion remains unchanged, implying a free cash flow above DKK2.9 billion in the second half.*** *Working capital is expected to be slightly negative. CapEx in addition to lease assets, negative and interest and taxes paid will be slightly higher than in 2023. The latter because of the higher profits.*
- ***We continue to have a very selective approach to M&A with a preference for smaller bolt on acquisition within our targeted service lines and industries.*** *Also, such M&A opportunity needs to fulfill our return requirements. In the case of M&A opportunities where the risk return isn't attractive on a risk-adjusted basis,* ***we will pay the surplus capital out in form of dividends and share buyback as we are currently doing.***
- *We would not have secured this contract without our global reach through our self-delivery model, coupled with strong technology solutions.* ***Barclays is also an example of a customer*** *who values our commitment to social sustainability and recognizes how our diverse workforce can help advance the social sustainability agenda.*
- *Looking ahead, I'm pleased with our commercial pipeline.* ***We have several significant opportunities in the final stage of negotiations.*** *We're also beginning to see the commercial processes stabilize after some longer cycles post pandemic when customers were in a wait-and-see mode regarding the future real estate needs. This increased clarity is helping our customers make decisions, which I expect will benefit us moving forward.*

Factors impacting comparative figures from last year

- Organic growth in Q3 2023 was 9.3%. Highest regional growth was in C&S Europe (14%) benefitting from pricing, underlying volume growth and contract wins in Turkey. Growth was 10% in Americas supported by project and above-base services. The impact from hyperinflation was +2.4% to the group.
- Operating margin (excl. IAS 29) was 4.9% in H2 2023 including DKK 233m in one-off costs relating to the OneISS review. Adjusting for this the underlying margin was 5.5% (excl. IAS 29).
- Free cash flow in H2 2023 amounted to DKK 2.8 billion impacted by operating profit growth and positive net working capital.

Developments since H1 2024 Results

- On 15-August KIRKBI Invest sold 1.7m shares to ISS to keep their share in ISS unchanged due to the ongoing share buy back. The trade was done outside of market venues at a VWAP price of 124.96.
- On 30-August the DWP contract was signed by both parties. The contract runs for 7 years and has an anticipated value of around DKK 1.2 billion (£135m) per year for base services. Mobilization of the contract will begin 1 October 2024 with go-live scheduled for 1 October 2025.
- On 17-September KIRKBI Invest sold 12.3m shares to Lind Value II for a price of 126.73. Following the transaction KIRKBI Invest own 9.07% and Lind Value II own 10%.

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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