Copenhagen, 5 January 2023

Q4 2022 Aide Memoire

Highlights of Q3 2022 trading update and the Capital Markets Day

- Organic growth was 8.1% in Q3 and 7.2% in the first nine months of 2022. The strong organic growth in the quarter was driven by price and scope increases as well as solid project revenue. Portfolio revenue grew by around 10% and projects and above-base revenue remained flat.
- Tight inflationary management continued, resulting in a positive effect on organic growth with the operating margin generally remaining unaffected.
- The commercial momentum continued to improve. ISS won a key account contract with a US-based pharmaceutical company and extended and expanded the key account contract with a manufacturing customer in Denmark. In addition, a number of other key account contracts were extended in the quarter.
- The financial turnaround targets announced in 2020 have been achieved, and ISS has structurally improved the operating model for sustainable long-term performance.
- At the Capital Markets Day, the next phase of the OneISS strategy was presented including new financial targets. The targets were organic growth of 4-6%, operating margin of >5% and cash conversion of >60% from 2024 and beyond. The preliminary 2023 outlook for the operating margin is 4.25%-4.75%.
- The new capital allocation policy fulfilling four clear ambitions in prioritized order: 1) maintain investment grade rating and adhere to financial leverage of 2-2.5x underlying EBITDA, 2) dividends, 20-40% of adj. net profit, 3) investments, 4) share buybacks.
- ISS will propose a dividend payment of 20% of the adjusted net profit for 2022 for approval at the Annual General Meeting in 2023.
- With rigorous discipline, M&A shall create sustainable value in a controlled manner where targets shall be 1) strategic fit to OneISS within stable and known environments, 2) financial accretive and 3) driven by a clear synergy logic.
- The acquisition of Livit FM in Switzerland which will increase Group revenue of 0.5% is a proof-of-concept of the new M&A approach. The integration of the acquired company is expected to be completed in Q1 2023.

Financial outlook for full year 2022

- Organic growth: *'Around 6.5%' (previously 'Above 5%')*: The outlook for organic growth was updated due to portfolio revenue increasing again in Q3, and this trend is expected to continue in Q4. Projects and above-base revenue is inherently subject to high uncertainty and particularly towards the end of the year. In Q4 2021, projects and above-base revenue was historically high.
- Operating margin: *'Around 3.8%' (previously 'Above 3.75%')*: The update reflects that the turnaround of the underperforming contracts and countries continue to progress. Operating leverage from higher revenue is supporting the margin, but the effect is roughly offset by higher costs related to hiring and the mobilisation of new customers due to a challenging labour market. Cost inflation is managed tightly through price increases and cost reductions and the operating margin is therefore generally expected to be unaffected from this.
- Free cash flow: *'Around DKK 1.5 billion' (previously 'Above DKK 1.5 billion')*: The update is a result of roughly unchanged profit expectations but a slightly lower inflow from working capital, mainly as a result of higher organic growth.

Key management quotes from Q3 2022 conference call and the Capital Markets Day

- *"**Operating margin is now expected to be around 3.8%**. The positive margin effect from higher revenue is expected to be roughly offset by negative margin factors such as additional hiring and mobilization costs."*
- *"We have, over the last 2 years, become **much more structured and intentional around how we drive customer life cycle management** and customer life cycle management leading to retention... That's also why when we look at our retention rates today, they are the highest ever recorded, but **we are setting out a mid-term target of taking it from the 93% we're at right now to 95%**"*
- *"..**we have a lucrative pipeline**. So there are some interesting prospects out there that, of course, we are not only targeting but **we're also confident that, that is going to convert into new wins** that hopefully will start relatively early next year."*
- *"We're continuing to progress on the comprehensive gap closing plan on **Deutsche Telekom**. And I'm very pleased to say that **we will deliver on our run rate breakeven at the end of the year** .... As part of our work, **we are in constructive dialogue with the customer** on certain we say, interpretations of aspects of the contract. And that is completely natural given the size and complexity of the contract. So that's a natural part of the next phase of this, which is **to take the contract to clearly stronger margins than where we are at the moment.**"*
- *"We believe in that we will deliver **good growth in 2023**, full stop. We have not put a number on it for 2023 for the simple reason that we are standing in the beginning of November. And given that growth has more external components to it than margin."*
- *"..on the range of the **margins in 2023, I appreciate it's a significantly wider range** compared to what we've done previously. But if you ask me, one of the mistakes that we've done in ISS previously is that we have guided on a 1/10th and 2/10th because it's simply just doesn't drive the right behavior. We want to have the flexibility to do **what is right for the company and make the right decisions**."*
- *"We expect **margin to be greater than 5% from 2024 and onwards**. We expect to see further improvements on the UK, France and DTAG. Our assumption in 2024 is that **France and DTAG are making profits, but it is still lower. So, it is margin dilutive to group average margins**. And we are assuming that UK is in line with group average margins"*

Factors impacting comparative figures from Q4 2021

- Organic growth in Q4 2021 was 5.8% as portfolio revenue recovered from a low level in Q4 2020 driven by continued return-to-office trends supported by a record high project and above-base revenue.
- 2-year organic growth was -5.7% in Q4 2021 compared to -6.4% Q3 2021. During the quarter the portfolio revenue increased as customers gradually returned to offices in some geographies despite the emergence of the omicron variant and increased restrictions. This was supported by strong non-portfolio revenue.
- As a result, the comparison base is slightly tougher in Q4 2022 compared to Q3 2022.

Developments since Q3 interim report

- Commercial
  - ISS has been awarded a 5-year contract to provide integrated facility services to a major banking client in Australia starting 1 April 2023. The services included in the contract are cleaning, securities, concierge, workplace, technical maintenance, asset management and helpdesk.
  - ISS has retained an existing contract with a global banking group. However, the overall partnership with the client has been rescoped as of 1 July 2023 due to a decision from the client to consolidate the number of global vendors within its facility management portfolio.
  - Together, these announcements will have a neutral revenue impact for ISS in 2023.

2023 preliminary outlook

- Operating margin of 4.25-4.75%

Financial targets from 2024 and beyond

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

Underperforming countries and contracts

- The execution of the restructuring and gap closing programme for the Deutsche Telekom contract developed largely as planned and is on track to reach run-rate breakeven by the end of 2022. The contract continues to be structurally challenging, and there are ongoing contractual disagreements that the parties are trying to resolve.
- In France, the planned restructuring and cost optimisation programme has been finalised. Costs have been reduced, but the operating run-rate margin will end the year slightly behind target, as the commercial momentum in the business has been muted. During 2022, the country leadership team has been strengthened with enhanced operational and commercial competences.