Company Annoucement

ISS today announces its full year 2023 financial results

Solid delivery in 2023 – ISS initiates a share buyback programme of DKK 1 billion

Highlights

- 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 will today initiate a share buyback programme of DKK 1 billion to be executed over a 12-months period.
- For 2024, organic growth is expected to be 4 – 6%. The operating margin is expected to be above 5%. The expectation for free cash flow is based on an underlying free cash flow of above DKK 2.4 billion, equalling 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 as described on page 3 of this report.

Kasper Fangel Group CEO, ISS A/S, says:

"In 2023, we continued the positive development from previous years, reflected in solid performance, on strategic, operational, and financial levels. We took several steps to enhance the potential of the OneISS strategy, including a review and prioritisation of our strategic initiatives to further build a stronger and value-creating enterprise. We also made good progress on our ambition to become the Company of Belonging and reduce our environmental impact. We are in a favorable position, and it gives us the ability to reward shareholders with both an increasing dividend payment and the initiation of a share buyback programme. This has been achieved thanks to the efforts of our more than 350,000 dedicated and passionate placemakers, and I firmly believe that we are well underway in realising the full potential of ISS."

Financial overview	H2 2023	H2 2022	2023	2022	Q4 2023	Q3 2023
DKKm (unless otherwise stated)						
Revenue	40,345	38,264	78,681	73,838	20,372	19,973
Organic growth, %	8.1	9.4	9.7	8.4	7.1	9.3
Operating profit before other items	1,953	1,818	3,300	2,918		
Operating profit before other items (Excl. IAS 29)	1,945	1,835	3,348	2,947		
Operating margin (before other items), %	4.8	4.8	4.2	4.0		
Operating margin (before other items), % (Excl. IAS 29)	4.9	4.8	4.3	4.0		
Free cash flow	2,849	1,090	1,775	1,734		
Leverage (Net debt / Pro forma adj. EBITDA			2.2x	2.6x		

Key figures and financial ratios

Financials	H2 2023	H2 2022	2023	2022
Results (DKKm)				
Revenue	40,345	38,264	78,681	73,838
Operating profit before other items (Excl. IAS 29)	1,945	1,835	3,348	2,947
Operating profit before other items	1,953	1,818	3,300	2,918
Operating profit	1,819	1,659	3,138	2,904
Financial expenses, net	(295)	(229)	(607)	(384)
Net profit from continuing operations	1,179	1,270	1,977	2,115
Net profit from discontinued operations[1)]	(299)	(53)	(1,652)	21
Net profit	880	1,217	325	2,136
Net profit adjusted	1,290	1,340	2,120	1,940
Cash flow (DKKm)				
Cash flow from operating activities	3,714	1,979	3,392	3,333
Addition of right-of-use assets, net	(502)	(477)	(908)	(769)
Acquisition of intangible assets and property, plant and equipment, net	(348)	(410)	(703)	(779)
Free cash flow (Excl. IAS 29)	2,863	1,083	1,791	1,726
Free cash flow	2,849	1,090	1,775	1,734
Financial position (DKKm)				
Total assets	47,693	47,005	47,693	47,005
Goodwill	19,696	20,450	19,696	20,450
Additions to property, plant and equipment			394	345
Equity	10,522	10,815	10,522	10,815
Net debt	10,548	11,540	10,548	11,540
Shares ('000)				
Number of shares issued	-	-	185,668	185,668
Number of treasury shares	-	-	332	938
Average number of shares (basic)	-	-	185,334	184,730
Average number of shares (diluted)	-	-	187,954	187,243

Ratios	H2 2023	H2 2022	2023	2022
Financial ratios (%, unless otherwise stated)				
Operating margin[2)]	4.8	4.8	4.2	4.0
Operating margin excl. IAS 29	4.9	4.8	4.3	4.0
Equity ratio	22.1	23.0	22.1	23.0
Organic growth	8.1	9.4	9.7	8.4
Acquisitions and divestments, net	0.7	(5.4)	0.5	(5.8)
Currency adjustments	(3.4)	0.9	(3.6)	0.9
Total revenue growth	5.4	4.9	6.6	3.5
Cash conversion	145.9	60.0	53.8	59.4
Net debt / Pro forma adjusted EBITDA			2.2x	2.6x
Share ratios (DKK)				
Basic earnings per share (EPS)	-	-	1.5	11.1
Diluted EPS	-	-	1.5	11.0
Basic EPS (continuing operations)	-	-	10.4	11.0
Diluted EPS (continuing operations)	-	-	10.3	10.9
Proposed dividend per share, DKK	-	-	2.3	2.1

Social data	H2 2023	H2 2022	2023	2022
Full-time employees	-	-	77 %	77 %
Employees end of period, number	-	-	352,749	351,053
Employee turnover	-	-	33 %	33 %
Customer rentention	-	-	95 %	93 %
Lost Time Injury Frequency	-	-	3.1	2.9
Fatalities, number	-	-	5	1

1) In 2023, France and Brunei were presented as discontinued operations. In 2022, Brunei, Portugal, Russia and Taiwan were presented as discontinued operations.
2) Based on Operating profit before other items.

Strategic update

In the second half of 2023, the execution of the OneISS strategy continued with high organic growth and additional underlying financial improvements.

During the second half of the year, the Executive Group Management team reviewed and prioritised OneISS initiatives to ensure that all initiatives generate the expected value and strengthen the strategic execution. In 2024, ISS will continue to embed the OneISS strategy, but prioritising and focusing on fewer initiatives.

ISS has completed a global customer survey with more than 2,000 respondents, and it sheds important light on the key priorities that customers are focused on as it relates to Integrated Facility Services (IFS). The survey highlights three common overarching priorities: 1) service efficiency and quality, 2) more innovative service solutions and 3) achievement of sustainability goals. ISS believes that these factors will shape the market's activity moving forward, and with the segment orientation and focus on integrated solutions, ISS is well positioned to meet these priorities. In addition, the customer retention rate of 95% was maintained, and all in all, this provides confidence in ISS's ability to maintain growth momentum going forward. In the beginning of 2024, ISS extended the global IFS partnerships with Nordea and an Industry & Manufacturing customer.

The pipeline of commercial opportunities for IFS solutions remains attractive within our strategic focus segment driven by local and regional deals. The key account contracts awarded in H2 2023 were mainly with local customers like the Danish Building and Property Agency in Denmark and smaller and mid-sized key account contracts wins across the Group.

In December 2023, ISS signed an agreement to divest its French business to Onet. As part of the transaction, ISS and Onet would enter into a partnership under which Onet will ensure the continued service delivery to Global Key Accounts on behalf of the ISS Group. The divestment process is progressing as planned with expected completion in H1 2024. The transaction is expected to have a broadly neutral impact on the financial leverage ratio.

The operational integration of Grupo Fissa in Spain was completed during the first months of 2024 with more than 6,000 new placemakers joining ISS. In H1 2024, overhead synergies are expected to be realised as planned, making the business margin accretive to both Spain and the Group.

Operational development

As expected, the underlying operational performance continued to improve in the second half of 2023. The positive development was driven by OneISS efficiencies and cost initiatives across the Group, along with operational improvements in the UK and on the Deutsche Telekom contract, as well as benefits from operating leverage.

The review and prioritisation of OneISS initiatives led to one-off costs of DKK 233 million, which were recognised in H2 2023 with a negative impact on full-year 2023 operating margin of around 0.3%-points. The majority of recognised one-off costs have cash flow impact in 2024. The one-off costs were mainly related to severance payments and general cost adjustments at Group and regional level, where functions have been slimmed to enhance strategic and operational execution. In addition, certain projects have been refocused or terminated. The enhanced focus on the OneISS initiatives is expected to generate operational benefits and estimated cost savings of around DKK 250 million annually with approximately DKK 200 million expected to have effect in 2024.

As previously informed, ISS and Deutsche Telekom (DTAG) have certain contractual disagreements. In December 2022, ISS has initiated the establishment of an Arbitration Tribunal under the German Institute of Arbitration (DIS) to decide on these disagreements. The arbitration proceedings are expected to complete with a final and binding ruling by mid-2025.

In the proceedings ISS and DTAG have exchanged claims against each other. ISS has claimed remuneration for services performed. DTAG has disputed the claims and is currently withholding certain payments to ISS related to the services delivered.

Group Performance

Operating results

Group revenue in H2 2023 was DKK 40.3 billion, an increase of 5.4% compared with the same period last year. The strong growth momentum was maintained in H2 2023, with organic growth of 8.1%, negatively impacted by a tougher comparison base than in H1 2023. The impact from acquisitions and divestments, net was 0.7%, while currency effects impacted revenue negatively by 4.5%. The net impact from hyperinflation restatement in Türkiye (IAS 29) was positive 1.1%.

Organic growth was driven by price increases implemented across the Group and underlying volume growth from increased activity levels at customer sites. Portfolio revenue benefitted positively from this development and grew organically by 10.1% in H2 2023.

In H2 2023, the contribution from price increases was around 6.5%-points with around half of the effect related to price increases in Türkiye. The continued high contribution from price increases was a result of successful implementation of additional price increases in H2 2023 to offset cost inflation including wage adjustments in selected countries. For the full-year 2023, the contribution to organic growth from price increases was around 6.5%-points.

The underlying volume growth contributed just above 2%-points to Group organic growth in H2 2023, a decline from around 4%-points in H1 2023 as a result of a tougher comparison base. The continued higher activity level at customer sites and increased office occupancy rates were the main drivers. It had a particularly positive effect on revenue from food services, which grew by around 10% mainly driven by more than 10% organic growth in the US, where food services are predominately office-based. Food services accounted for 15% (H2 2022: 14%) of Group revenue in H2. For the full-year 2023 underlying volume growth contributed just above 3%-points to organic growth.

In the second half of the year, the organic growth contribution from net contract wins was broadly neutral. For the full-year 2023 the contribution to organic growth from net contract wins was slightly positive.

Revenue from projects and above-base work remained at a high level, but as expected had a slight negative contribution to organic growth in H2 2023 due to a tougher comparison especially from Q4 2022. The lower demand for Covid-19 related services, especially in the Asia & Pacific region, was only partly offset by increased revenue from traditional above-base services and project work. For the full-year 2023, revenue from projects and above-base work had a slight negative contribution to the Group's organic growth.

All regions contributed to the positive organic growth in H2 2023 with Central & Southern Europe reporting the highest organic growth, mainly driven by Türkiye, where price increases, underlying volume growth and ramp-up of contract wins contributed positively.

Operating profit before other items was DKK 1,953 million (H2 2022: DKK 1,818 million) corresponding to an operating margin of 4.8% (H2 2022: 4.8%). Excluding the effect from IAS 29 (Türkiye hyperinflation) operating profit before other items amounted to DKK 1,945 million (H2 2022: DKK 1,835

Revenue and growth

DKK million	H2 2023	H2 2022	Organic growth	Acq./ div.	Currency & other adj.	Revenue Growth
Northern Europe	14,896	14,480	6%	0%	(3)%	3%
Central & Southern Europe	13,084	11,394	14%	3%	(2)%	15%
Central & Southern Europe, excl IAS 29	*12,636*	*11,368*	*14%*	*3%*	*(6)%*	*11%*
Asia & Pacific	7,192	7,277	7%	(1)%	(7)%	(1)%
Americas	4,832	4,712	6%	-	(3)%	3%
Other countries	383	425	(9)%	-	(1)%	(10)%
Corporate / eliminations	(42)	(24)	-	-	-	-
Group [1)]	**40,345**	**38,264**	**8.1%**	**0.7%**	**(3.4)%**	**5.4%**

[1)] The net impact from hyperinflation restatement in Turkey (IAS 29) was 1.1% on Group-level, that has been included in Currency & other adj.

million) and operating margin was 4.9% (H1 2023: 3.6%). For the full year 2023 operating profit before other items (excl. IAS 29) amounted to DKK 3,348 million and the margin was 4.3%.

As a result of the review and prioritisation of OneISS initiatives, one-off costs of DKK 233 million were recognised, impacting the reported margin negatively with 0.6%-points. Adjusted for this effect, the underlying margin (excl. IAS 29) for H2 2023 was 5.5%.

The improvement in the underlying operating margin in H2 2023 can be attributed to efficiencies and cost initiatives across countries, continued improvements on the Deutsche Telekom contract and in the UK and supported by operating leverage from higher revenue.

In 2023, cost inflation remained at a high level. ISS has well-embedded processes in place, and inflation is managed tightly through price increases and operational efficiencies. Consequently, the operating margin was generally unaffected by inflation.

Corporate costs amounted to DKK 651 million (H2 2023: DKK 633 million) corresponding to 1.6% of Group revenue (H2 2022: 1.7%). As such, corporate costs increased only slightly, despite the higher revenue, reflecting the strength of the operating model. Adjusted for one-off costs related to the OneISS review, corporate costs declined.

Other income and expenses, net was an expense of DKK 97 million (H2 2022: 125 million), related to a fair value adjustment of a contingent consideration related to the disposal of the 40% minority stake in ISS Türkiye in 2021 and a loss on the divestment of the technical service business in Spain.

Financial expenses, net was DKK 295 million (H2 2022: DKK 229 million) including a non-monetary gain of DKK 47 million relating to hyperinflation restatement in Türkiye (IAS 29). Excluding the impact from IAS 29, financial expenses, net was DKK 342 million (H2 2022: DKK 265 million). The increase was mainly due to the rising interest rates.

The effective tax rate in H2 2023 was 22.6% (H2 2022: 11.2%) and 20.6% when adjusting for the impact of IAS 29. The main items impacting the effective tax rate in H2 2023 were a negative impact from hyperinflation and a positive impact due to release of valuation allowance on deferred tax assets.

Net profit from discontinued operations was DKK (299) million (H2 2022: DKK (53) million) due to the continued challenging operational development in France where the operating margin was negative. Further, one-off costs related to the divestment process of the French business impacted negatively.

Net profit was DKK 880 million (H2 2022: DKK 1,217 million). The decline compared to the same period last year was mainly due to increased financial expenses, net, a higher effective tax rate, as well as a loss from discontinued operations partially offset by an increased operating profit before other items.

Operating profit before other items

			Underlying H2 2023				
DKK million	H2 2023		OneISS review costs	Profit	Margin	H2 2022	
Northern Europe	946	6.4%	33	979	6.6%	888	6.1%
Central & Southern Europe	875	6.7%	94	969	7.4%	729	6.4%
Central & Southern Europe, excl IAS 29	*867*	*6.9%*	*94*	961	*7.6%*	*746*	*6.6%*
Asia & Pacific	461	6.4%	7	468	6.5%	494	6.8%
Americas	300	6.2%	21	321	6.6%	308	6.5%
Other countries	22	5.7%		22	5.7%	32	7.5%
Corporate / eliminations	(651)	-	78	(573)		(633)	-
Total	**1,953**	**4.8%**	**233**	**2,186**	**5.4%**	**1,818**	**4.8%**
Total, excl. hyperinflation (IAS 29)	**1,945**	**4.9%**	**233**	**2,178**	**5.5%**	**1,835**	**4.8%**

Q4 2023

Group revenue in Q4 2023 was DKK 20.4 billion, an increase of 3.9% compared with the same period last year. Organic growth was 7.1% (Q4 2022: 10.1%), acquisitions and divestments, net increased revenue by 0.8% and currency effects were negative 3.8%, while the net impact from hyperinflation restatement in Türkiye (IAS 29) was negative with 0.2%.

The underlying business development was maintained. However, organic growth decreased compared to previous quarters, due to a tougher comparison base. The organic growth was mainly driven by price increases implemented across the Group and underlying volume growth. This development positively impacted portfolio revenue, which grew organically by 9.1%.

Price increases contributed with around 6%-points, of which around half of the effect came from price increases in Türkiye. The continued high contribution from price increases was driven by additional price increases successfully implemented across the Group in H2 2023.

In Q4 2023, underlying volume growth contributed with around 1.5%-points, a decline compared to Q3 2023, due to a tougher comparison base. The development was driven by increased activity levels and higher office occupancy rates across customer sites. This had a positive effect on food services, which showed growth rates of around 10%.

The contribution from net contract wins was neutral as the positive contribution from contracts won during the previous quarters was offset by loss of smaller and local contracts.

Revenue from projects and above-base work showed negative organic growth of 2% and thus, as expected, impacted organic growth for the Group negatively by around 0.5%-points. The decline was a result of reduced demand for Covid-19 related deep cleaning and disinfection services, predominately in the Asia & Pacific region. Despite the decline, the demand for projects and above-base work remained high and exceeded the pre-pandemic level.

All regions reported positive organic growth and continued the solid development from previous quarters. Growth was most significant in Central & Southern Europe with organic growth of 13%. The region benefitted in particular from price increases, as well as underlying volume growth and net contract wins in Türkiye.

Revenue and growth

DKK million	Q4 2023	Q4 2022	Organic growth	Acq./ div.	Currency & other adj.	Revenue Growth
Northern Europe	7,716	7,492	6%	0 %	(3)%	3%
Central & Southern Europe	6,425	5,820	13%	3 %	(6)%	10%
Central & Southern Europe, excl IAS 29	*6,523*	*5,879*	*13%*	*3 %*	*(5)%*	*11%*
Asia & Pacific	3,640	3,655	6%	(1)%	(5)%	(0)%
Americas	2,418	2,427	3%	-	(3)%	(0)%
Other countries	200	229	(12)%	-	(1)%	(13)%
Corporate / eliminations	(27)	(7)	-	-	-	-
Group [1)]	**20,372**	**19,616**	**7.1%**	**0.8 %**	**(4.0)%**	**3.9%**

[1)] The net impact from hyperinflation restatement in Turkey (IAS 29) was negative 0.2% on Group-level, that has been included in Currency & other adj.

Free cash flow

Free cash flow in H2 2023 was DKK 2,849 million (H2 2022: DKK 1,090 million), an increase of DKK 1,759 million compared with the same period last year. Free cash flow in H2 2023 was positively impacted by improved operating profit before other items and changes in working capital.

Cash flow from operating activities in H2 2023 amounted to DKK 3,714 million (H2 2022: DKK 1,979 million), an increase of DKK 1,735 million due to positive contribution from changes in working capital and improved operating profit before other items, partly offset by increased outflow from interest paid, net.

Changes in working capital was an inflow of DKK 1,816 million (H2 2022: DKK 161 million) in H2 2023, as working capital was managed tightly. Receivables decreased by DKK 978 million, driven by the normalisation of growth rates and strong cash collection, offsetting adverse timing effects of certain payments relating to contractual disputes. The increase in payables of DKK 837 million was due to general optimisation of payment terms towards suppliers and a positive contribution from growth in food services, where suppliers typically have longer payment terms. Utilisation of factoring was unchanged at DKK 1.4 billion on 31 December 2023 compared to the level at 30 June 2023.

Cash flow from investing activities in H2 2023 amounted to DKK (765) million (H2 2022: DKK (742) million), broadly unchanged compared to the same period last year.

Cash outflow from acquisitions of businesses in H2 2023 amounted to DKK 373 million (H2 2022: outflow of DKK 301 million) as a result of the acquisition of Grupo Fissa in Spain. With the acquisition, ISS expands the service delivery for key accounts in southern part of the country.

Divestment of businesses amounted to an outflow of DKK 34 million (H2 2022: outflow of DKK 12 million), driven by the divestment of the technical service business in Spain. Investments in intangible assets and property, plant and equipment, net, was DKK 348 million (H2 2022: DKK 410 million), which represented 0.9% of Group revenue (H2 2022: 1.1%) and reflected continued strict investment discipline.

Cash flow from financing activities in H2 2023 amounted to DKK (646) million (H2 2022: DKK (362) million), as other financial payments, net increased due to repayment of bank loans.

Capital structure

The capital allocation policy remains unchanged. A key objective is to maintain an investment grade rating as it is important from both a financial and commercial perspective. To adhere to the investment grade rating, ISS targets a net debt to pro-forma adjusted EBITDA (LTM) of 2.0x-2.5x.

On 31 December 2023, financial leverage was 2.2x (H1 2023: 2.9x), and thereby within the targeted range. The improvement in the leverage ratio was due to a combination of lower net debt and an increase in pro-forma adjusted EBITDA (LTM).

The Board of Directors will at the annual general meeting propose a dividend for 2023 of 20% of adjusted net profit, corresponding to a total dividend of DKK 427 million and DKK 2.3 per share. The pay-out is in line with the capital allocation policy of an annual dividend pay-out ratio of 20-40%.

In line with the capital allocation policy, ISS will distribute excess cash to shareholders through share buyback programmes. As such ISS will today initiate a share buyback programme of DKK 1 billion to be executed over a 12-months period.

Equity

On 31 December 2023, equity was 10,522 million (30 June 2023: DKK 9,456 million), equivalent to an equity ratio of 22.1% (H1 2023: 21.0%). The increase was mainly a result of the net profit of DKK 880 million and hyperinflation restatement of equity in Türkiye of DKK 303 million. This was partly offset by other comprehensive losses.

Management changes

On 20 November 2023, Kadir Ünver stepped down as an employee elected member of the Board of Directors and was succeeded by alternate, Rune Christensen, who is Head of Legal Affairs & M&A Support.

On 9 January 2023, ISS announced the appointment of Mads Holm as the new Group CFO, effective no later than 1 August 2024.

Regional Performance

Northern Europe

Revenue amounted to DKK 14,896 million in H2 2023, which was an increase of 3% compared with the same period last year. Organic growth was 6% (H1 2023: 6%). The effect from acquisitions and divestments, net was neutral, while currency effects impacted growth negatively by 3%.

Organic growth was mainly driven by underlying volume growth from increased activity level and implementation of price increases. This resulted in organic growth of around 6% for portfolio revenue and 5% for revenue from projects and above-base work. Revenue from food services continued its positive development and contributed positively to the organic growth. The majority of countries reported positive organic growth, with the Benelux reporting the strongest growth due to increased activity level among key account customers and implemented price increases. The UK reported positive organic growth from price increases, underlying volume growth and start-up of new contracts supported by solid demand for projects and above-base work.

Operating profit before other items amounted to DKK 946 million in H2 2023 (H2 2022: DKK 888 million) corresponding to an operating margin of 6.4% (H2 2022: 6.1%). Adjusted for one-off costs related to the OneISS review, operating margin was 6.6%. Underlying improvements were achieved across the region, driven by continued positive operational development in the UK, OneISS efficiencies and cost initiatives as well as operating leverage.

Q4 2023 revenue amounted to DKK 7,716 million driven by organic growth of 6% (Q3 2023: 5%), acquisitions and divestments, net were neutral, while currency effects reduced revenue by 3%. Organic growth was driven by underlying volume growth and price increases implemented across the region. This supported both portfolio and projects and above-base work, which both grew organically by around 6%. The Benelux reported double-digit organic growth, while the UK reported solid positive organic growth driven by portfolio revenue and strong demand for projects and above-base work.

Central & Southern Europe

Revenue amounted to DKK 13,084 million in H2 2023, which was an increase of 15% compared with the same period last year. Organic growth was 14% (H2 2022: 13%) and the effect from acquisitions and divestments, net increased revenue by 3% related to the acquisitions in Switzerland and Spain. Currency effects impacted growth negatively by 5%, while the net impact from hyperinflation restatement in Türkiye (IAS 29) was positive with 3%.

The organic growth was primarily driven by Türkiye where price increases were successfully passed on to customers to offset cost inflation. Additionally, the growth was supported by underlying volume growth and net contract wins in the healthcare segment. Portfolio revenue for the region grew double digit organically while revenue from projects and above-base work showed slight negative organic growth.

Operating profit before other items excluding IAS 29 amounted to DKK 867 million in H2 2023 (H2 2022: DKK 746 million) corresponding to an operating margin of 6.9% (H2 2022: 6.6%). Adjusted for one-off costs related to the OneISS review, operating margin was 7.6%. The positive margin development was primarily due to the continued improved profitability on the Deutsche Telekom contract. In addition, across the region underlying improvements and benefits from operating leverage were achieved. The acquired business in Switzerland, Livit FM also contributed positively, and the business case is exceeding expectations. Including the effect of IAS 29, operating profit before other items amounted to DKK 875 million, corresponding to a margin of 6.7% (H2 2023: 6.4%).

Q4 2023 revenue amounted to DKK 6,425 million driven by organic growth of 13% (Q3 2023: 14%), and acquisitions and divestments, net which increased revenue by 3%. Currency effects reduced revenue by 5%, while the net impact from hyperinflation restatement in Türkiye (IAS 29) was negative with 1%. The organic growth was driven by implemented price increases, underlying volume growth and net new contract wins in Türkiye and growth across the region. This development benefitted portfolio revenue, which grew by 15% organically, while projects and above-base revenue declined.

Asia & Pacific

Revenue amounted to DKK 7,192 million in H2 2023, which was a decrease of 1% compared with the same period last year. Organic growth was 7% (H2 2022: 9%). The effect from acquisitions and divestments, net was negative 1%, while currency effects impacted revenue negatively by 7%.

The organic growth was driven by underlying volume growth from increased activity level and price increases implemented across the region. This development contributed to double digit organic growth in portfolio revenue. The strongest growth was seen in Australia and Indonesia, driven by generally increased customer activity level, price increases and start-up of new contracts. Demand for Covid-19 related services in Hong Kong and China declined sharply as restrictions were lifted in January 2023 and consequently revenue from projects and above-base work saw a double-digit organic decline.

Operating profit before other items amounted to DKK 461 million in H2 2023 (H2 2022: DKK 494 million) corresponding to an operating margin of 6.4% (H2 2022: 6.8%). Adjusted for one-off costs related to the OneISS review, operating margin was 6.5%. The decline was mainly driven by a reduced demand for margin enhancing Covid-19 related services, additional costs related to labour shortage in selected markets as well as reduction in government grants received. This was partly offset by solid underlying operational improvements across the region. Despite the slight decrease, operating margin in Asia & Pacific was maintained at a high level.

Q4 2023 revenue amounted to DKK 3,640 million driven by organic growth of 6% (Q3 2023: 9%), while acquisitions and divestments, net were negative 1% and currency effects reduced revenue by 5%. Organic growth was driven by underlying volume growth and price increases across the region supported by start-up of contracts in Indonesia and Australia. Projects and above-base revenue declined due to reduced demand for Covid-19 related services.

Americas

Revenue amounted to DKK 4,832 million in H2 2023, which was an increase of 3% compared with the same period last year. Organic growth was 6% (H2 2022: 24%). The effect from acquisitions and divestments, net was neutral, while currency effects impacted revenue negatively by 3%.

In H2 2023, activity level at customer sites remained high. As expected, organic growth was negatively impacted by a tougher comparison base as H2 2022 benefitted from accelerated return-to-office activity and the start-up of the contract with a global retailer. Organic growth was driven by underlying volume growth and implementation of price increases to offset cost inflation across the region. The underlying volume growth was a result of increased activity levels and higher office occupancy rates at customer sites. Food services benefitted from this development and reported growth of around 10%. Across the region the organic growth development was broad-based.

Operating profit before other items amounted to DKK 300 million in H2 2023 (H2 2022: DKK 308 million) corresponding to an operating margin of 6.2% (H2 2022: 6.5%). Adjusted for one-off costs related to the OneISS review, operating margin was 6.6%. The increase in underlying margin was driven by efficiencies and operational improvements achieved across the region as well as operating leverage from increased revenue. Last year's margin was positively affected by receipt of non-recurring employee tax credits under the US Employee Retention Credit scheme. The continued strong organic growth within food service delivered an unchanged margin compared to last year, as contracts are operated on cost plus commercial models.

Q4 2023 revenue amounted to DKK 2,418 million driven by organic growth of 3% (Q3 2023: 10%), while acquisitions and divestments, net were neutral and currency effects reduced revenue by 3%. The organic growth was driven by underlying volume growth and price increases implemented, but the growth rate was as expected lower than previous quarters, due to a tougher comparison base.

Outlook

Outlook 2023

In 2023, ISS took further steps in unfolding the full potential of the OneISS strategy, and the financial performance improved. With recent years' operational and financial progress as well as the prioritisation of the OneISS strategic initiatives, a solid foundation for continued progress in 2024 is provided.

The 2024 outlook for organic growth, operating margin and free cash flow assumes that macroeconomic and geopolitical uncertainties remain high. ISS has robust operating processes and is well positioned to operate in this environment. The execution of the OneISS strategy will continue and enhance the operating model, strengthen competitiveness, and increase focus on growth initiatives. The outlook is excluding any effects of hyperinflation (IAS 29).

Organic growth is expected to be 4 – 6% for 2024 (2023: 9.7%). 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 is expected to be above 5% (2023: 4.3%). 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.

The expectation for free cash flow is based on an underlying free cash flow of above DKK 2.4 billion, equalling 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 as described on page 3 of this report.

Expected revenue impact from divestments, acquisitions and foreign exchange rates in 2024

Acquisitions and divestments completed by 15 February 2024 (including in 2023) are expected to have a positive impact on revenue growth in 2023 of around 0.5%-points.

Based on the current exchange rates, a negative impact on revenue growth of around 2%-points[1)] is expected in 2024 from the development of foreign exchange rates, excluding any effects of hyperinflation (IAS 29).

[1)] The forecasted average exchange rates for the financial year 2024 are calculated using the realised average exchange rates for the first month of 2024 and the average forward exchange rates (as of 19 February 2024) for the remaining eleven months of 2024.

Financial targets

At the Capital Markets Day in November 2022, new financial targets were announced for organic growth, operating margin and cash conversion. From 2024 and beyond, ISS targets to deliver strong growth at attractive and sustainable margins:

- Organic growth of 4 – 6%
- Operating margin above 5%
- Cash conversion above 60%

Overview of financial outlook

	2024	Financial targets
Organic growth	4 - 6%	4 - 6%
Operating margin[1]	Above 5%	Above 5%
Free cash flow	Above DKK 1.8 bn[3]	
Cash conversion[2]		Above 60%

1) Based on operating profit before other items
2) Cash conversion, % = Free cash flow/Operating profit before other items
3) Underlying free cash flow: Above DKK 2.4 bn

This outlook should be read in conjunction with "Forward-looking statements", page 117 of the Annual Report 2023.

Other

Subsequent events

Other than as set out above or elsewhere in this H2 interim report, we are not aware of events subsequent to 31 December 2023, which are expected to have a material impact on the Group's financial position.

Conference Call

A conference call will be held on 22 February 2024 at 10:00 am CEST. Presentation material will be available online prior to the conference call.

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About ISS

ISS is a leading, global provider of workplace and facility service solutions. In partnership with customers, ISS drives the engagement and well-being of people, minimises the impact on the environment, and protects and maintains property. ISS brings all of this to life through a unique combination of data, insight and service excellence at offices, factories, airports, hospitals and other locations across the globe. In 2023, Group revenue was DKK 78.7 billion.

Excerpt from consolidated financial statements

Primary Statements

The following full year consolidated statements of profit or loss, cash flows and financial position has been retrieved from the audited consolidated financial statements included in the Annual Report 2023, which in note 8.1 includes a description as to the basis of preparation and should be read in conjunction with the Annual Report 2023. In addition, the following statements of profit and loss and cash flows includes unaudited H2 2023 and H2 2022 financial figures summarised based on the Group's accounting policies for recognition, measurement and classification of profit or loss and cash flows captions.

Condensed consolidated statement of profit or loss

1 July – 31 December

DKK million	H2 2023	H2 2022	FY 2023	FY 2022
Revenue	40,345	38,264	78,681	73,838
Staff costs	(25,018)	(23,527)	(49,607)	(46,276)
Consumables	(3,967)	(3,533)	(7,481)	(6,485)
Other operating expenses	(8,660)	(8,703)	(16,876)	(16,744)
Depreciation and amortisation	(747)	(683)	(1,417)	(1,415)
Operating profit before other items	1,953	1,818	3,300	2,918
Other income and expenses, net	(97)	(125)	(93)	55
Goodwill impairment	-	-	-	
Amortisation/impairment of brands and customer	(37)	(34)	(69)	(69)
Operating profit	1,819	1,659	3,138	2,904
Financial income	106	71	185	205
Financial expenses	(401)	(300)	(792)	(589)
Profit before tax	1,524	1,430	2,531	2,520
Income tax	(345)	(160)	(554)	(405)
Net profit from continuing operations	1,179	1,270	1,977	2,115
Net profit from discontinued operations	(299)	(53)	(1,652)	21
Net profit	880	1,217	325	2,136
Attributable to:				
Owners of ISS A/S	860	1,175	279	2,058
Non-controlling interests	20	42	46	78
Net profit	880	1,217	325	2,136

Condensed consolidated statement of cash flow

1 July – 31 December

DKK million	H2 2023	H2 2022	FY 2023	FY 2022
Operating profit before other items	1,953	1,818	3,300	2,918
Operating profit before other items from discontinued operations	(58)	(30)	(154)	(58)
Depreciation and amortisation	747	737	1,464	1,517
Non-Cash items related to hyperinflation	(78)	(30)	(90)	(51)
Share-based payments	37	36	72	80
Changes in working capital	1,816	161	196	444
Changes in provisions, pensions and similar obligations	(217)	(229)	(468)	(665)
Other expenses paid	(33)	(28)	(42)	(31)
Interest received	80	52	120	87
Interest paid	(374)	(319)	(578)	(486)
Income tax paid	(159)	(189)	(428)	(422)
Cash flow from operating activities	3,714	1,979	3,392	3,333
Acquisition of businesses	(373)	(301)	(373)	(325)
Divestment of businesses	(34)	(12)	25	587
Acquisition of intangible assets and property, plant and equipment	(355)	(419)	(719)	(809)
Disposal of intangible assets and property, plant and equipment	7	9	16	30
Acquisition of financial assets, net	(10)	(19)	9	(29)
Cash flow from investing activities	(765)	(742)	(1,042)	(546)
Proceeds from bonds	-		-	
Repayment of bonds	-		-	
Repayment of lease liabilities	(368)	(431)	(791)	(865)
Other financial payments, net	(272)	70	(147)	(58)
Dividends paid to shareholders	(6)		(390)	
Transaction with non-controlling interests	-	(1)	(6)	(7)
Cash flow from financing activities	(646)	(362)	(1,334)	(930)
Total cash flow	2,303	875	1,016	1,857
Cash and cash equivalents at start of period	3,700	4,506	5,214	3,428
Total cash flow	2,303	875	1,016	1,857
Foreign exchange adjustments	90	(167)	(137)	(71)
Cash and cash equivalents at 31 December	6,093	5,214	6,093	5,214
Free cash flow	2,849	1,090	1,775	1,734

Condensed consolidated statement of financial position

At 31 December

DKK million	H1 2023	H1 2022	2023	2022
Assets				
Intangible assets	22,558	23,696	23,272	23,920
Right-of-use assets	2,115	2,335	2,200	2,403
Property, plant and equipment	890	922	926	917
Deferred tax assets	895	936	962	912
Other financial assets	412	508	195	512
Non-current assets	**26,870**	**28,397**	**27,555**	**28,664**
Inventories	244	200	239	231
Trade receivables	12,142	11,068	11,354	10,996
Tax receivables	161	142	126	173
Other receivables	2,015	1,875	1,628	1,695
Cash and cash equivalents	3,700	4,506	6,093	5,214
Assets held for sale	0	32	698	32
Current assets	**18,262**	**17,823**	**20,138**	**18,341**
Total assets	**45,132**	**46,220**	**47,693**	**47,005**
Equity and liability				
Equity attributable to owners of ISS A/S	8,934	9,185	9,893	10,156
Non-controlling interests	522	655	629	659
Total equity	**9,456**	**9,840**	**10,522**	**10,815**
Loans and borrowings	15,885	15,959	13,427	15,945
Pensions and similar obligations	1,203	1,214	1,135	1,185
Deferred tax liabilities	1,145	1,150	1,320	1,178
Provisions	471	591	387	465
Non-current liabilities	**18,704**	**18,914**	**16,269**	**18,773**
Loans and borrowings	907	853	3,292	855
Trade and other payables	6,711	6,827	7,259	6,952
Tax payables	102	133	155	172
Other liabilities	8,812	8,941	8,482	8,822
Provisions	440	700	365	606
Liabilities held for sale	0	12	1,349	10
Current liabilities	**16,972**	**17,466**	**20,902**	**17,417**
Total liabilities	**35,676**	**36,380**	**37,171**	**36,190**
Total equity and liabilities	**45,132**	**46,220**	**47,693**	**47,005**