Company announcement

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Strong liquidity, resilient revenue, continued pressure on margins

Regular COVID-19 update

ISS A/S (ISS.CO, ISS DC, ISSDY), a leading workplace experience and facility management company, today provides an update on current operating performance. This announcement is published as part of the commitment to provide more regular updates during the period impacted by COVID-19. The Interim Report for H1 2020 will be published 12 August 2020.

Strong and stable liquidity

Total readily available liquidity is expected to remain strong at 'above DKK 11 billion' by the end of H1 2020 (30 April 2020: 'above DKK 11 billion'), supported by free cash flow expected to be broadly neutral in May and June. All EUR 700 million in short-term liquidity lines, raised for precautionary measures during COVID-19, have been extended to March 2022. ISS has no financial covenants and around 90% of debt does not mature until 2024 and onwards.

Free cash flow in H1 2020 is expected to be broadly in-line with H1 2019 (DKK -2.7 billion). It is negatively impacted by the usual working capital seasonality as well as operating cash flow impacted by COVID-19 and the IT malware attack, and positively impacted by short-term benefits from postponed payment of VAT and social contributions offered under government support schemes.

While leverage in 2020 will be above our target of 2.8x pro forma adjusted EBITDA, we expect a sharp reduction in 2021 as performance normalises and the divestment programme completes.

Revenue supported by Key Account as well as deep-cleaning and disinfection

Our strategic focus on key accounts has further strengthened the quality of our revenue base, as reflected by broadly neutral Key Account organic growth year-to-date May 2020.

Group organic growth was around -12% in April and May combined – and broadly similar in both months, albeit with a slight sequential improvement in May. This reflects that close to 90% of Group revenue has been retained through these unprecedented turbulent months. The revenue development in April was better than our communicated estimate, especially due to strong demand for deep-cleaning and disinfection.

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In the short term we remain cautious with regards to revenue developments as all ISS countries to varying extents remain impacted by lock downs and the consequences thereof, including furlough of many hard-working employees.

Operating margin in H1 2020

The operating margin is expected to be negative in H1 2020:

- The operating profit drop-through from lost revenue as a result of COVID-19 continues to be estimated at around 25%.
- The operating margin is further impacted by a significant redirection of resources as a result of both COVID-19 and the IT malware attack which, as previously communicated, is delaying a number of key priorities otherwise planned for 2020, including finalising the IT migration on Deutsche Telekom as well as changing and consolidating systems in the UK.
- Finally, we have decided to restructure a number of the most impacted local business units as part of refining our business platform for recovery following COVID-19.

The operating margin is usually seasonally stronger in the second half of any given year. However, for the year as a whole the situation remains too uncertain to estimate.

We will provide further updates in connection with the Interim Report for H1 2020, which will be published 12 August 2020.

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About ISS

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