Trading update for 1 January – 31 March 2023

Strong start to the year and upgrade of 2023 outlook for organic growth

Highlights

- Organic growth was 11.3% in Q1 2023 (Q1 2022: 5.4%), mainly driven by the implementation of price increases across the Group and underlying volume growth. Price increases in Turkey contributed with approximately 3%-points to the organic growth in Q1 2023.
- The tight management of cost inflation was maintained. The margin was in general kept unaffected as negative effects were mitigated through price increases and operational efficiencies. Minimum wages and collective agreements are typically adjusted during Q1; therefore, prices were increased accordingly.
- The underlying operating margin developed positively across the Group, primarily driven by continued operational improvements on the Deutsche Telekom contract and in the UK, as well as positive effects from realising the planned OneISS efficiencies. In France, however, improvements are yet to be seen.
- Commercial momentum remained solid with increased activity levels and further improved customer retention.
- A survey among office-based customers highlighted the importance of cleaning to drive customer satisfaction. As the world's largest cleaning company, ISS has efficient service products with strong value propositions to meet customer needs.
- On 16 March 2023, Group CEO Jacob Aarup-Andersen submitted his resignation. The Board of Directors has initiated a process to find his successor with both internal and external candidates being evaluated. Jacob Aarup-Andersen will stay with ISS until a successor has been found, and the strategic direction and operational execution is unchanged.
- The outlook for organic growth is upgraded to 6 – 8% (previously 4 – 6%). The upgrade is driven by successful implementation of price increases to offset the cost impact from inflation and higher underlying volume growth. Outlook for operating margin of 4.25 – 4.75% and free cash flow of around DKK 2 billion is confirmed.
- As a consequence of higher-than-expected organic growth, and thereby higher nominal revenue in H1 2023, receivables will increase temporarily. Together with reversal of customer prepayments received in Q4 2022, changes in working capital and free cash flow are therefore expected to be negative in the first half of the year.

Jacob Aarup-Andersen Group CEO, ISS A/S, says:

"We had a strong start to the year delivering double digit organic growth in the first quarter. This is a result of our continued strategic focus on creating sustainable growth across our business after we completed the financial turnaround last year. As expected, high inflation and wage increases impacted the quarter, but we have managed this tightly and implemented the necessary steps to offset any negative effects. This also means that we continue to see a positive development in our underlying margins. We are commercially well-positioned with a continued solid customer retention rate, and the execution of the next phase of the OneISS strategy continues as planned, not least due to the dedicated efforts from our more than 350,000 placemakers around the world."

Revenue overview					
DKK million	Q1 2023	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Revenue	19,930	18,075	18,868	19,311	20,284
Organic growth	11.3 %	5.4 %	8.0 %	8.1%	9.4 %
Acquisitions & Divestments	0.3 %	(2.0)%	(1.9)%	(1.7)%	(1.2)%
Currency & other adjustments	(1.3)%	0.2 %	2.1%	2.6 %	(0.0)%
Revenue growth	**10.3 %**	**3.6 %**	**8.2 %**	**9.0 %**	**8.2 %**

Strategic update

In 2023, ISS entered into the next phase of the OneISS strategy. With the completion of the financial turnaround in 2022, a solid foundation for future development has been created and focus on growth has now increased.

The investments in optimising commercial and operating models are starting to yield results. During the first three months of 2023, ISS was awarded two new large IFS key account contracts within prioritised segments. The strict focus on retaining customers, among others through the 'Customers for life' programme, led to continued improvement of the customer retention rate in Q1 2023.

In Q1 2023, ISS conducted a survey among Office-based customers to identify drivers of customer satisfaction. Cleaning across buildings stands out as a clear first priority, and with the Pure Space – Office product, ISS has a strong value proposition to meet customer needs. The product is gaining traction and by the end of Q1, it was rolled out to more than 3,100 customer sites across the Group, resulting in cost savings and improved profitability.

The tight management of cost inflation was maintained in Q1 2023. In most ISS countries, wages increase annually through collective agreements and minimum wage adjustments, which were implemented during the quarter. To offset negative effects, price increases and operational efficiencies have been implemented across the Group. In combination, this contributed positively to organic growth, while margin in general was kept unaffected.

Operational development

Operational improvements continued as expected in Q1 2023.

Performance in the previously underperforming countries and contracts improved further driven by underlying improvements in the UK and on the Deutsche Telekom contract. In the UK, the positive development from 2022 continued, with operational benefits realised throughout the organisation. In addition, on the Deutsche Telekom contract further improvements were achieved through continued strict focus on operational efficiencies. The contract continues to be structurally challenging, and at the end of 2022 ISS initiated arbitration proceedings regarding certain contractual disagreements. The arbitration process is still ongoing.

The development in France continues to be challenging and underlying improvements are yet to be seen. The commercial development continues to be muted, and organic growth in Q1 was negative. As a consequence, the run rate margin has not developed as expected, and France continues to be dilutive to the Group as a whole.

In line with plan, positive effects from OneISS efficiencies and cost initiatives are driving margin improvements across the Group. The new and enhanced service products are scaling in the market including both customer and placemaker facing technology applications. In combination with the enhanced operating model, the many initiatives are driving margin improvements throughout the Group.

On 6 February 2023, two earthquakes caused large scale devastation and loss of thousands of lives in Turkey and Syria. ISS is one of the largest private employers in Turkey and approximately 4,500 placemakers service workplaces for around 100 customers, including two hospitals, in the impacted areas of Turkey. Since the tragedy, ISS has played an active role in ensuring safety and welfare for placemakers and customers and has made a significant contribution to the rebuild of the affected areas. The earthquakes, however, had an immaterial effect on the operational and financial performance in Turkey in Q1 2023.

Resignation of Group CEO

On 16 March 2023, Group CEO Jacob Aarup-Andersen submitted his resignation to the Board of Directors. The process of finding a new Group CEO is ongoing and both internal and external candidates are being evaluated. Jacob Aarup-Andersen will stay with ISS until a successor has been found.

ISS is in a strong position with a clear and focused strategic direction and new financial targets which were presented at the Capital Markets Day in November 2022. The execution of the OneISS strategy is unchanged with continued full focus on delivering both operational and financial improvements.

Group performance

Group revenue

January – March 2023

Group revenue in the first three months of 2023 was DKK 19.9 billion, an increase of 10.3% compared with the same period last year. Organic growth was 11.3%, and thereby improved sequentially compared to 9.4% in Q4 2022. The impact from acquisitions and divestments, net was 0.3%, while currency and other effects decreased revenue by 1.3%. The net impact from the hyperinflation restatement in Turkey (IAS 29) was 0.1%.

Organic growth of 11.3% (Q1 2022: 5.4%) was driven by portfolio revenue, which grew organically by 14.4% due to underlying volume growth as a result of increased activity levels among customers and price increases being implemented across the Group. Overall office occupancy rates increased, and customers continued to invest in the attractiveness of workplaces. Revenue from key account customers grew organically by 11% and thereby maintained the strong growth momentum from 2022.

The increased customer activity levels and higher office occupancy rates primarily impacted revenue from food services positively, which grew by more than 30%. This illustrates the continuation of the development seen in 2022 and underlines the importance of food services in creating an attractive workplace.

Price increases were implemented across the Group to successfully offset cost increases due to inflation. This contributed positively to organic growth by more than 6%-points, with price increases in Turkey contributing around 3%-points.

Revenue from projects and above-base work showed negative organic growth of 2% and thus, as expected, had a slightly negative impact on organic growth for the Group. The decline was mainly driven by lower demand for Covid-19 related deep cleaning and disinfection services, predominately in the Asia & Pacific region, where restrictions in selected countries were lifted during January 2023.

All regions reported positive organic growth and contributed to the strong development in the quarter. The Americas' higher exposure to food services drove organic growth of 22% in the region. All other regions reported solid organic growth, with Central & Southern Europe being positively affected by price increases in Turkey.

Revenue and growth Q1 2023

DKK million	Q1 2023	Q1 2022	Organic growth	Acq./ div.	Currency & other adj.	Revenue Growth
Northern Europe	7,150	7,038	6%	(0)%	(4)%	2%
Central & Southern Europe	6,821	5,814	17%	2%	(2)%	17%
Central & Southern Europe, excl IAS 29	*6,800*	*5,814*	*17%*	*2%*	*(2)%*	*17%*
Asia & Pacific	3,489	3,279	6%	(0)%	0%	6%
Americas	2,335	1,815	22%	-	7%	29%
Other countries	145	140	6%	-	(2)%	4%
Corporate / eliminations	(10)	(11)	-	-	-	-
Group [1)]	**19,930**	**18,075**	**11.3%**	**0.3 %**	**(1.3)%**	**10.3%**

[1)] The net impact from hyperinflation restatement in Turkey (IAS 29) was 0.1% on Group-level, that has been included in Currency & other adj.

Commercial development

In the first quarter of 2023, the commercial momentum continued, and ISS benefitted from increased customer activity and engagement. Revenue growth continued to be driven by the larger key account costumers and demand for integrated facility services solutions.

Demand for projects and above-base work was lower in Q1 2023 compared to last year driven by a decline in Covid-19 related deep cleaning and disinfection services, mainly in selected countries in the Asia & Pacific region. This was, however largely offset by more traditionally above base and project work, resulting in organic growth being slightly negative, but it remained solidly above the pre-pandemic level. Revenue from projects and above-base work accounted for 16% of Group revenue.

The pipeline of commercial opportunities remained attractive within the strategic focus segments. In the first three months of 2023, ISS secured two new large IFS key account contract wins. Commercial discussions continue to be more complex than pre Covid-19, but in general progressed well.

The strict strategic focus on improving customer retention was maintained in Q1 2023. Achievement of structurally higher growth going forward requires customer retention rates to further improve. The positive development from 2022 continued due to extension of a number of mainly smaller and medium sized key account contracts. The customer retention rate in Q1 2023 (LTM) was 94% which outperformed the previous record high level. In January 2023, a contract with a leading global player in the technology sector was extended, which highlighted ISS' strong value proposition within this Office-based focus customer segment.

Revenue from key account customers was 70% of Group revenue in the first three months of 2023 (Q1 2022: 71%), and generated 11% organic growth. The key account segment therefore contributed to the strong development in the quarter, and benefitted from overall business trends, i.e. implementation of price increases and increasing customer activity levels.

Major key account developments [1]	Countries	Segment	Term	Effective
Wins				
Healthcare Customer	Turkey	Healthcare	5 years	Q1 2023
Pharmaceutical Customer	US	Pharmaceuticals	5 years	Q2 2023
Extensions/expansions				
Healthcare Customer	Global	Healthcare	5 years	Q1 2023
Mining Service Customer	Australia	Energy & Resources	4 years	Q1 2023
Information and Communication Customer	United Kingdom	Information and communication	4 years	Q3 2023
Healthcare Customer	United Kingdom	Healthcare	3 years	Q4 2022
Banking Customer	United Kingdom	Business Services & IT	3 years	Q1 2023
Exits/losses				
Healthcare Customer	United Kingdom	Healthcare		Q2 2023

[1] Annual revenue above DKK 100 million.

Regional performance

Northern Europe

Revenue amounted to DKK 7,150 million in the first three months of 2023, which was an increase of 2% compared with the same period last year. Organic growth was 6% (Q1 2022: 3%). The effect from acquisitions and divestments, net was neutral, while currency effects impacted growth negatively by 4%.

Organic growth in the quarter was driven by the higher activity level among customers resulting in underlying volume growth and price increases. Portfolio revenue grew organically by 8%, while revenue from projects and above-base work declined. The increasing customer activity was most pronounced in Norway and Sweden building on previous years solid development on contracts won. In addition, food services showed continued solid development and contributed to the positive development. Organic growth in Denmark was negative, due to the deliberate exit of the Danish Defence contract in May 2022. The UK showed slightly positive organic growth, due to price increases and the start-up of new contracts, which resulted in portfolio revenue growth, while revenue from projects and above-base work declined.

Central & Southern Europe

Revenue amounted to DKK 6,800 million in the first three months of 2023, which was an increase of 17% compared with the same period last year. Organic growth was 17% (Q1 2022: 5%), while acquisitions and divestments, net increased revenue by 2%, and currency effects impacted growth negatively by 2%. The net impact from hyperinflation restatement in Turkey (IAS 29) was 0.4%.

In the quarter, the organic growth was driven by very high growth in Turkey, primarily due to implementation of price increases to offset the high level of cost inflation. Prices increased gradually during 2022, and in Q1 2023 another round of price increases were implemented towards customers. Furthermore, organic growth in Turkey was supported by underlying volume growth and new contract wins. The earthquakes in February had an immaterial effect on the operational and financial performance in Turkey, but ISS has made significant contribution to rebuilding the affected areas. Across the region, the development was solid as a result of price increases, and underlying volume growth due to increased customer activity. In France, however organic growth was negative.

Asia & Pacific

Revenue amounted to DKK 3,489 million in the first three months of 2023, which was an increase of 6% compared with the same period last year. Organic growth was 6% (Q1 2022: 1%), while acquisitions and divestments, net and currencies both had a neutral impact on growth.

The positive organic growth in the quarter was driven by underlying volume growth due to increasing customer activity which drove portfolio revenue at double digit organic growth rates. Price increases had a slightly positive contribution, but lower than other regions, as Asia & Pacific in general has seen lower levels of wage inflation. Australia and especially India reported the highest growth rates as a result of volume growth from increased activity levels and the start-up of new contracts. In addition, customers are increasing investments in the attractiveness of the workplaces, leading to higher demand for workplace services. Revenue from projects and above base work showed double digit negative organic growth due to lower demand for Covid-19 related deep cleaning and disinfection services in the Healthcare segment, especially in Hong Kong, where restrictions were lifted during January 2023.

Americas

Revenue amounted to DKK 2,335 million in the first three months of 2022, which was an increase of 29% compared with the same period last year. Organic growth was 22% (Q1 2022: 29%). The effect from acquisitions and divestments, net was neutral, while currency effects impacted growth positively by 7%.

The strong organic growth was maintained in the Americas region, and it increased slightly compared to Q4 2022, despite a significantly tougher comparison base. The growth was driven by net new contract wins and underlying volume growth. The contract with a global retailer that mobilised during the second half of 2022 had full revenue effect in Q1 2023. The customer activity level continued to improve, and office occupancy increased during the quarter. This positively impacted especially the food services business, which reported 51% organic growth in the US. Inflation, both from wages and food remained at high levels, and through constant interaction with customers and cost-plus models on food contracts, the cost inflation was successfully passed on to customers resulting in a positive contribution to organic growth. The organic growth was predominately driven by the US, but also Mexico and Chile reported solid organic growth rates mainly as a result of price increases.

Management changes

On 16 March 2023, Group CEO Jacob Aarup-Andersen submitted his resignation to the Board of Directors. Jacob Aarup-Andersen will stay with ISS until a successor has been found.

On 13 April 2023 at the Annual General Meeting, Gloria Diana Glang and Reshma Ramachandran were elected as new members of the Board of Directors. Cynthia Mary Trudell, did not seek re-election.

Outlook

Outlook 2023

This section should be read in conjunction with "Forward-looking statements" as shown in the table on page 9.

In Q1 2023, the organic growth was strong mainly driven by price increases being implemented across the Group and underlying volume growth due to increased activity levels. Operating margin developed largely according to plan, while the stronger-than-expected organic growth temporarily had a negative effect on free cash flow.

The outlook for 2023 assumes continued high macroeconomic and geopolitical uncertainty. 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 now expected to be 6 – 8% compared to previously 4 - 6% (2022: 7.8%), as a result of successful implementation of price increases and higher underlying volume growth. The annualisation of the return-to-office trend and continued customer investments in workplaces and services are expected to drive volume growth, as well as an expected positive contribution from contract wins and expansions. A negative impact from a lower level of projects and above-base work is still expected.

Operating margin is still expected to be 4.25 – 4.75% (2022: 3.8%). The main drivers of the year-on-year increase are continued improvement in the two previous hotspots: the UK, and the Deutsche Telekom contract, positive impact from OneISS efficiencies and cost initiatives, as well as operating leverage from higher revenue.

Free cash flow is still expected to be around DKK 2.0 billion (2022: DKK 1.7 billion). The increase from 2022 will be driven by the expected higher operating profit before other items and the absence of payments related to restructuring projects initiated in 2020. Changes in working capital are expected to be negative because of revenue growth and customer prepayments made in 2022, while capital expenditures are expected in line with depreciation and amortisation.

As a consequence of the higher-than-expected organic growth and thereby higher nominal revenue in H1 2023, receivables will increase temporarily. Changes in working capital and free cash flow are therefore expected to be negative in the first half of the year, but effects will reverse in second half, and the outlook for the full year is confirmed.

Outlook 2023	Annual Report 2022	Trading update Q1 2023
Organic growth	4 - 6%	6 - 8%
Operating margin*	4.25 - 4.75%	4.25 - 4.75%
Free cash flow	~ DKK 2bn	~ DKK 2bn

* Based on operating profit before other items

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%

Expected revenue impact from divestments, acquisitions and foreign exchange rates in 2023

Acquisitions and divestments completed by 1 May 2023 (including in 2022) are expected to have a positive impact on revenue growth in 2023 of around 0.5%-point.

Based on the current exchange rates, a negative impact on revenue growth of 3-4%-points[1)] is expected in 2023 from the development of foreign exchange rates, excluding any effects of hyperinflation (IAS 29).

[1)] The forecasted average exchange rates for the financial year 2023 are calculated using the realised average exchange rates for the first month of 2023 and the average forward exchange rates (as of 1 May 2023) for the remaining eight months of 2023.

Forward-looking statements

This report contains forward-looking statements, including, but not limited to, the guidance and expectations in Outlook. Statements herein, other than statements of historical fact, regarding future event or prospects, are forward-looking statements. The words may, will, should, expect, anticipate, believe, estimate, plan, predict, intend or variations of such words, and other statements on matters that are not historical fact or regarding future events or prospects, are forward-looking statements. ISS has based these statements on its current views with respect to future events and financial performance. These views involve risks and uncertainties that could cause actual results to differ materially from those predicted in the forward-looking statements and from the past performance of ISS.

Although ISS believes that the estimates and projections reflected in the forward-looking statements are reasonable, they may prove materially incorrect, and actual results may materially differ, e.g. as the result of risks related to the facility service industry in general or ISS in particular including those described in this report and other information made available by ISS. As a result, you should not rely on these forward-looking statements. ISS undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, expect to the extent required by law.

The Annual Report of 2022 of ISS A/S is available at the Group's website, www.issworld.com.

Contacts

Conference Call

A conference call will be held on 4 May 2022 at 10:00 am CET. Presentation material will be available online prior to the conference call.

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https://issworld.eventcdn.net/events/trading-update-q1-2023

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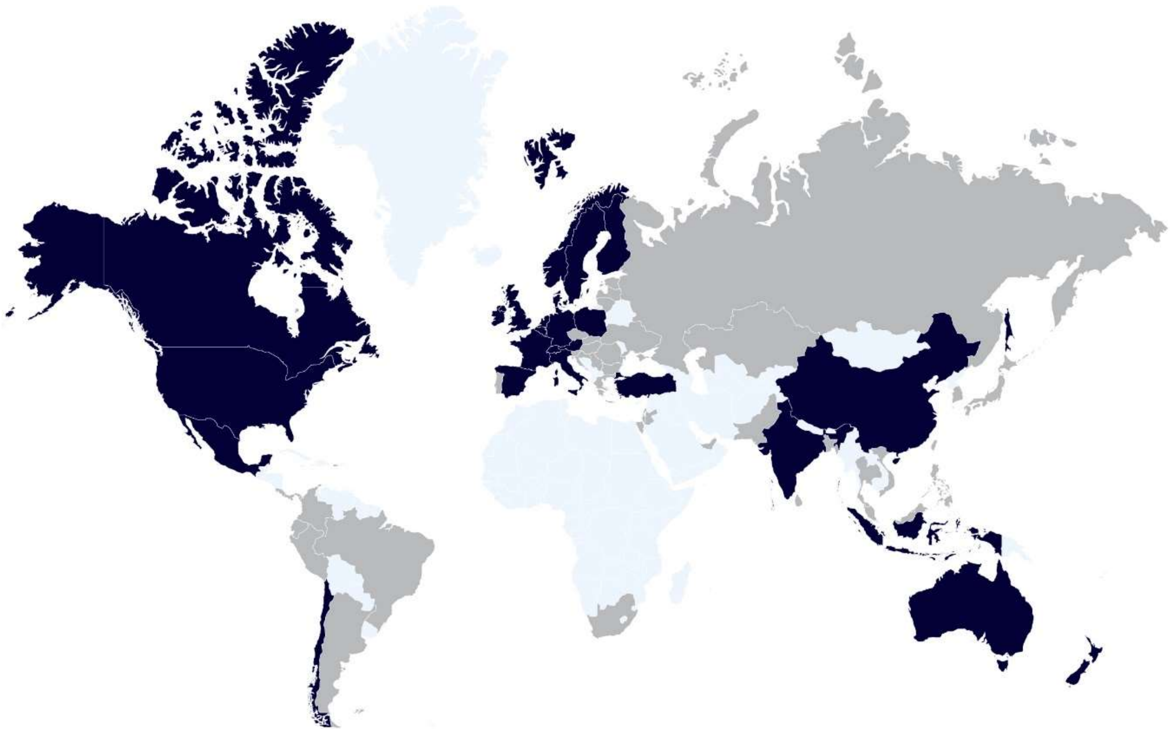
Our global footprint



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