



Company announcement

Copenhagen, 26 February 2020

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Strong organic growth and improving underlying FCF, despite selective operational challenges

Financial report for full year 2019:

ISS (ISS.CO, ISS DC, ISSDY), a leading workplace experience and facility management company, announces its financial results for full year 2019:

Highlights

- 2019 results:
 - Organic growth of 7.1% (2019 outlook “6.5%-7.5%”).
 - Operating margin of 4.2% (2019 outlook “above 4.2%”).
 - FCF adjusted (excl. factoring) of DKK 1.6 bn (2019 outlook “DKK 1.6-2.0 bn”).
- Organic growth of 7.1% in 2019 (2018: 3.9%) and 8.1% in H2 2019 (H1 2019: 6.0%), driven by 11% organic growth from key accounts on the back of strong commercial momentum, including the launch of Deutsche Telekom and a generally high level of wins, extensions and expansions. Growth was furthermore supported by an increasing customer retention rate.
- Operating margin of 4.2% in 2019 (2018: 5.0%) and 4.6% in H2 2019 (H2 2018: 6.1%) impacted negatively by our reorganisation in France, two large loss-making contracts and a DKK 150 million provision to cover identified risks. The operating margin on Deutsche Telekom (launched 1 July 2019) was in line with expectations in H2 2019.
- Net profit (adjusted) from continuing operations was DKK 1,750 million (2018: DKK 2,281 million), negatively impacted mainly by lower operating profit before other items.
- FCF adjusted (excl. factoring) was an inflow of DKK 1,621 million in 2019 (2018: DKK 814 million), supported by the partial normalisation of performance following headwinds in 2018, as well as cash improvement initiatives in 2019 resulting among others in an improving DSO. Despite the improvement, performance in 2019 remained impacted by net negative one-offs for around DKK 300 million.
- Leverage at 31 Dec. 2019 was 3.0x (30 Jun. 2019: 3.4x / 31 Dec. 2018: 2.6x adjusted).
- Key contract developments since Q3 results include the win of Hong Kong Airport Authority, extension/expansion of Lewisham and Greenwich NHS Trust (UK) and an IT and telephone service provider (Spain). No mentionable contract losses.
- Divestment program progressing with around 40% completed (net proceeds of DKK 918 million)
- Proposed ordinary dividend for 2019 of DKK 7.70 per share (2018: DKK 7.70 per share)
- On 17 February, ISS discovered a malware attack and we immediately disabled access to shared IT services across sites and countries. There is no indication that any customer data or systems have been breached. A phased recovery plan is being implemented. We continue to operate our services, albeit with some disruption. We expect our 2020 financial performance to be negatively impacted as a result but are unable to quantify the magnitude at this stage.

Outlook 2020

- The outlook does not reflect financial impacts related to the announced malware attack or to the Coronavirus, as the situation remains too uncertain to assess an impact at this point.
- **Organic growth** is expected to be above 4% (2019: 7.1%) driven by generally solid commercial momentum.
- **Operating margin** is expected to increase to above 4.5% (2019: 4.2%) driven partly by run-rate improvements in 2020 and the normalisation of certain significant short-term headwinds in 2019. The outlook is adjusted compared to the preliminary expectation of 'around 5.0%' communicated in November 2019. Most margin drivers remain unchanged. The adjustment reflects a more conservative approach to guiding altogether and takes account of a higher level of short-term uncertainty. On the large loss-making contract in Denmark, recent incrementally positive discussions with the customer led to not recognising an onerous contract provision in 2019, as otherwise expected. As such, the contract is now expected to deliver an operating loss in 2020, albeit less than in 2019, before benefits from the renegotiation fully materialise.
- **Free cash flow (reported)** is expected to increase significantly to above DKK 2.0 billion (preliminary expectation: DKK 2.1-2.5 billion), supported by the normalisation of net negative one-offs from 2019 as well as revenue growth and improved operating performance.

Jeff Gravenhorst, Group CEO, ISS A/S, said:

"2019 was a mixed year. On one hand, we continued to see the benefits from our strategic focus towards key accounts - both in terms of historically strong organic growth and improving underlying free cash flow. We won, extended and expanded many key accounts and launched the largest contract in the history of ISS with Deutsche Telekom. However, we also faced a few significant local headwinds. It stands as a reminder that our transformation isn't over yet. The strategy is right and we are gradually getting closer to the finishing line. Today, we are a more focused business with a clear value proposition for our customers and we are becoming a structurally higher growth business. While the coronavirus and the recent malware attack on ISS provides some uncertainty, we expect solid organic growth together with improving margins and stronger free cash flow in 2020".

Lord Allen of Kensington Kt CBE
Chairman

Jeff Gravenhorst
Group CEO

Conference call details

A conference call will be held on 26 February 2020 at 9:00 am CET. Presentation material will be available online prior to the conference call.

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Link: <https://iss.eventcdn.net/2019fy/register/>

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About ISS

ISS is a leading workplace experience and facility management company. 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 2019, ISS Group's global revenue amounted to DKK 78.6 billion. For more information on the ISS Group, visit www.issworld.com.

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Page 3/3