MOI GLOBAL

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EUROPEAN Investing Summit

M17 Capital Management

ISS A/S - Moat with repetitive customer behavior of key customers

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M17’s general approach to investing

1. We look **to identify upcoming changes to an industry’s and company’s operating environment**, driven by changes in regulation, legislation, competitive environment, conduct or other external factors, and anticipate the impact of these changes in the company’s financial performance before it is reflected in the share price.
2. **We focus on buying well managed, structurally growing companies, operating in niche segments with reasonably strong pricing power and trading on attractive valuations with identifiable catalysts to crystallize underlying upside.**
3. **We actively avoid consensual positions**, preferring to take a contrarian and uncrowded position, provided our stance is justified following extensive financial modelling as well as strategic and operational reasoning.
4. **We strive for diversification not only in the number of securities and industries in the portfolio, but also in the breadth of investment themes used in a market cap-agnostic approach** across several risk categories such as compounders, accelerators, spin-offs, turnarounds, buy-and-build situations, catalyst-oriented situations including management changes, deep value, potential activist candidates, mispriced conglomerates or cyclicals. We think this flexibility is a key advantage relative to managers who focus on a narrower set of frameworks.
5. Additional degrees of freedom are to be **market-cap blind, opportunistic as to sector, FX and geographic exposure** within the investment restrictions of the investment product. Despite this freedom, we ensure there are not too many position overlaps and hedges are in place.
6. Each idea has an attributed **time until when the investment case must play out**. Only those ideas who meet our ROIC objectives within our investment time horizon (margin of safety and maximum downside) are considered for our portfolio. In consequence we also apply a “stop loss in time”.
7. Risk management is critical. **To compound returns at a high rate, we need to limit drawdowns** ("to finish first, we first have to finish"). So, although M17 is willing to establish concentrated 10% positions, tail hedges to these positions are often established. Additionally, larger positions require a high degree of uniqueness in terms of risk category, lack of crowdedness, overlap of risks and most importantly, an independence in the fundamentals of the investment case.

Our analytical approach

1 Develop a "living" hypothesis tree

- A strong and coherent hypothesis tree forms the basis of a good understanding of a company's competitive positioning
- Each branch of the hypothesis tree helps generating a holistic storyline.
- In order to confirm or falsify a hypothesis, one or more analysis are required.

2 SCP and non-financial evaluation of investment*

- The industry dynamics analysis evaluates the importance of and the changes to the structure and the competitors' conduct on the performance of the investment opportunity
  - Strategy
  - organizational setup
  - processes and
  - other (non-) financial elements

3 Financial valuation of investment

- Historic review of all financials to provide context of current valuation
- Detailed forecast of financials based on our hypothesis tree and SCP analysis
- Consideration of different scenarios and catalysts (incl. their respective impact on our valuation)

4 Understand differences to consensus

- M17 will only earn a significant profit provided our analysis and valuation is different to consensus and these differences are identified ahead of the market appreciating those factors.

* SCP = Structure – Conduct – Performance framework.

Source: Team analysis

M17's approach in this market environment

Market environment

- Much higher levels of interest rates for longer will be in place
- Covid financial aids are about to run out of stem, hitting first consumption and saving rates of low-income households
- No risk premium factored into equities
- Many "rules of thumbs"[1] pre negative interest and QE are still to become reality

Behavior of market participants

- A significant share of professional investors has again loaded up on risky assets
- Retail investors (representing 10-20% of the market) are increasing their bets on consensus

Thoughts and reactions of investors

- The shift in strategic asset allocations is accelerating away from listed securities
- Investors pile a lot of capital into private equity and, to a lesser degree, private debt
- The biggest challenge is to establish properly opportunity costs

- There exist many **dislocations** in the market (both public and private), preferring **active management styles**.
- Now is the best time to **maintain or, if possible, increase cash levels.**
- M17 is currently spending a lot of time in identifying investment opportunities and preparing for allocations (both in the public and private markets)
- For long positions, **M17 is still building only small positions,** as the market is still too fragile and negative factors have not been fully priced in yet

[1] Dividend/bond yield ratios, risk premiums, normalized money flows, etc.

Source: Team analysis

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ISS's background

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- ISS A/S is a facility management services company, active in security, cleaning, technical, food and workplace solutions with 400,000 employees and ca. 79.3 bn DKK in revenues (roughly 10.6 bn EUR).
- The Company was founded 1901 as a small security company with 20 employees.
- Over the years it acquired other security companies across several countries.
- In 1977, ISS had its first IPO when the company had ca. 1 bn DKK in revenues.
- Only in 1979, the company expanded its services to include building maintenance and other specialized services. At the end of a first acquisition spree, ISS had ca. 7 bn DKK in revenues in 2003.
- EQT Partners and Goldman Sachs took ISS private in 2005 and delisted the company. The new shareholders pushed ISS into more service lines and implemented a buy-and-built strategy. By 2010, ISS's revenues increased tenfold to 70 bn DKK with over 500,000 employees.
- Various investors lined up (G4S, Ontario Teacher's Pension Plan, Lego Group, …) for ISS, all of whom decided 2014 to listed the company for a second time on the OMX Nasdaq.
- In the following years, the respective service lines were strengthened as stand-alone business units.
- COVID forced management to rethink its priorities and has initiated a rebuilding plan in 2021.

Source: Team analysis

What is ISS's moat – or why is it attractive?

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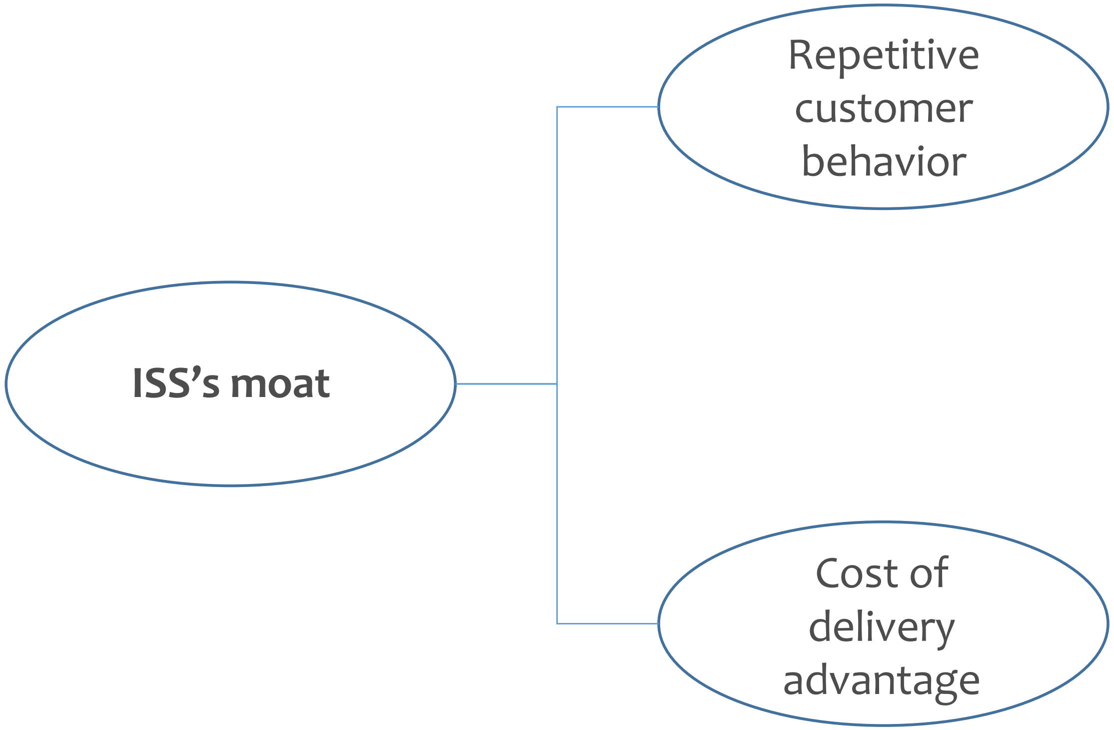

- Repetitive customer behavior, resulting in a group-wide retention rate of >95%
- Core customers represent an ever-increasing share of global revenues
  - 2017: 53% of revenues are key accounts
  - 2022: >72% of revenues are key accounts

- Pre-2021, focus was on "as many clients as possible".
- As of 2021, ISS streamlined its processes and realized that
  - Cross-selling works effectively only with key clients.
  - Only at core and key clients, cost savings have a material impact on ISS' bottom line.
  - ISS operating margin can be significantly increased. It is on track to grow by over 65% (from 3.05% to >5%) by 2026. That translates into a 7x in net profit margin.

1 Elevating the EBIT corridor from 1.0 – 2.0% of sales by 25-50bps

Source: Team analysis

ISS's valuation

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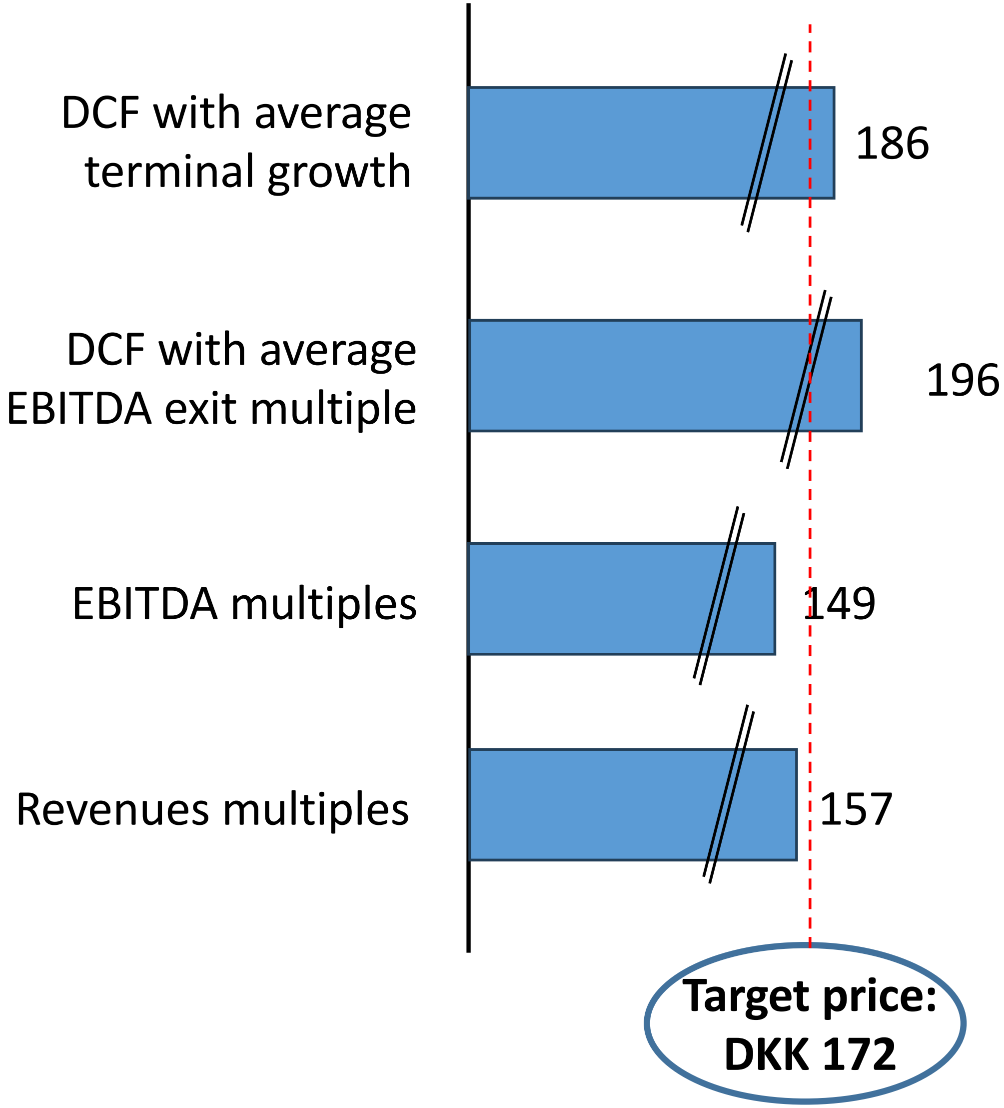
DKK per share (rounded)



Valuation upside of ca. 70%, to be realized in up to 3 years*

* Expected diluted EPS 2026: 17 DKK (from 12 DKK in 2023E)

Source: Team analysis

ISS's trading

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• Last price (DKK, close Oct 19):	**101.45**
• Market cap (DKK bn):	18.83
which is in EUR bn:	2.52
• Average volume (3m, mn):	0.67
• Beta (5 years monthly):	1.40
• Last dividend (DKK, Apr 14, 23)	2.10
• Dividend yield:	2.1%

Given current markets and momentum/trends, we suggest preparing and waiting for an entry point

ISS's risks of investing (now)

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Limited pricing power	• Cooling down of consumption and uncertain business activity can result in limited uptick activities at corporate clients
Inflation	• ISS's main cost element is labour (400,000 employees), thus salary increases (and further expectations of such increases) are a risk factor
Delay/limited cost savings/productivity gains	• ISS depends on timely cost savings in its service delivery. Any delay or lowering of the savings targets would result in downward revisions
Permanent adjustments in employee behavior	• Post COVID-19, employees of large corporations are still returning to pre-pandemic behavior, with some staff preferring home office and other arrangements. It is unclear to what extent this will become permanent
Changes to M&A policy	• A change from growing organically 4-6% p.a. to a more aggressive external growth approach could be seen as negative
Changes to share buyback	• ISS's primary distribution approach is via share buybacks (dividend yield typically 2-3% only), so any change to its excess cash distribution can be seen negative

Source: Team analysis

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