MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades ISS to Baa2; stable outlook

Global Credit Research - 03 Sep 2015

London, 03 September 2015 -- Moody's Investors Service has today upgraded to Baa2 from Baa3 the senior unsecured and issuer ratings of ISS Global A/S (ISS). The ratings have a stable outlook.

"Our decision to upgrade ISS' ratings primarily reflects a reduction in the company's adjusted debt, following an update to Moody's approach for capitalising operating leases," says Knut Slatten, a Moody's Assistant Vice President and lead analyst for ISS. Moody's updated approach on standard adjustments for operating leases is explained in the cross-sector rating methodology "Financial Statement Adjustments in the Analysis of Non-Financial Corporations", published on 15 June 2015.

https://www.moodys.com/research/Moodys-updates-its-global-methodology-for-financial-statement-adjustments--PR_327853

RATINGS RATIONALE

Today's rating action principally reflects the significant improvements in ISS' key credit metrics following changes to Moody's approach on standard adjustments for operating leases. For example, ISS' lease adjusted gross debt/EBITDA ratio improved to 3.5x from 4.3x in financial year 2014, when considering the revised methodology. The upgrade also reflects Moody's increasing comfort with ISS' financial policies consistent with a rating in the Baa2-category.

On August 27, ISS reported a solid set of results for the second quarter. Organic growth reached 4.8% in the second quarter and the company said it now expects organic growth to be between 3.5% and 4.5% for the full year. In addition, ISS expects its operating margins to exceed the 5.6% they reported for 2014. As of June, ISS reported a net leverage of 2.9x and confirmed its intention to de-leverage to a level below 2.5x before it would consider increasing returns to shareholders. The upgrade to Baa2 also reflects Moody's expectations of a further strengthening of credit-metrics over the next 12 months as ISS de-leverages towards a level commensurate with its financial policies.

ISS' Baa2 rating primarily reflects the company's (1) large scale and diversification; (2) wide geographic footprint, with an increased presence in emerging growth markets; and (3) high cash generation, exemplified by a cash conversion ratio of close to 100% over the last three years. At the same time the ratings take into account (1) ISS's current leverage which is still considered to be high for the Baa2-category (2) the competitive and fragmented nature of the facility services market.

Moody's expects ISS's liquidity profile to be good over the next 12 months and notes its unsecured facilities mature in 2019. As of 30 June 2015, ISS had cash-balances of around DKK2.4 billion (EUR0.3 billion). Further liquidity cushion is provided by the company's EUR850 million revolving credit facility. Moody's expects ISS to maintain a solid headroom to its maintenance covenants

RATING OUTLOOK

The stable outlook reflects Moody's assumptions that ISS will continue on a path of organic growth and adhere to its self-imposed target of maintaining net leverage below 2.5x. The stable outlook leaves some flexibility for smaller bolt-on acquisitions, but does not factor in any larger material debt-funded acquisitions.

WHAT COULD CHANGE THE RATING UP/DOWN

Moody's could consider upgrading the rating to Baa1 if the company's leverage, measured by debt/EBITDA as adjusted by Moody's, moves sustainably below 3.0x with a retained cash flow(RCF)/ Net Debt moving towards the mid-20s.

Conversely, negative pressure could develop if ISS's leverage moves above 3.5x for a sustainable period of time or if the company's RCF/ Net Debt moves below the high teens.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Business and Consumer Service Industry published in December 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Based in Copenhagen, Denmark, ISS is one of the leading facility services providers in the world. The company recorded revenues of DKK74 billion (EUR9.9 billion) in financial year 2014.

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