Rating Action: Moody's upgrades ISS A/S to B1; stable outlook

Global Credit Research - 20 Aug 2012

Paris, August 20, 2012 -- Moody's Investors Service has today upgraded the corporate family rating (CFR) and probability of default rating (PDR) of ISS A/S ("ISS") to B1 from B2. Concurrently, Moody's has also upgraded the rating on the company's senior subordinated notes, due 2016, to B3 from Caa1. The outlook on the ratings is stable.

RATINGS RATIONALE

"Today's rating action follows ISS's announcement on 16 August that the Ontario Teachers' Pension Plan and KIRKBI Invest A/S are to invest approximately EUR500 million of equity into the company," says Knut Slatten, Moody's lead analyst for ISS. "Specifically, the upgrade reflects our understanding that the funds received from the new investors, who will hold approximately 26% of the ultimate holding company of ISS, is expected to be applied to repayment of the 11% senior notes, due 2014, after the notes call date in December 2012."

Moody's expects the capital injection to enhance the credit profile of ISS given that it will (1) reduce the company's leverage, with pro-forma June 2012 net debt leverage decreasing by approximately 0.7x; (2) strengthen its free cash flows in 2013 and 2014 as a result of saved interest costs on the 11% notes; (3) improve its liquidity profile overall, with, in particular, increased room under financial covenants; and (4) reduce refinancing risk for the company's 2014 maturities. Moody's considers the capital injection to be the first step of a deleveraging process which may end with a targeted IPO by 2015.

Moody's notes that the operating environment in parts of ISS's core markets is challenging, with the company reporting organic growth for the six months to June 2012 of 2.2% and profit margins that are slightly down compared with the similar period last year. However, the rating agency believes that ISS's recent signing of two important Integrated Facilities Services (IFS) contracts will provide a boost to its organic growth in the second half of 2012 and 2013.

ISS's B1 rating primarily reflects the company's high leverage, measured by a net debt/EBITDA, of 5.15x as of June 2012 pro-forma the EUR500 million equity injection. However, more positively, the rating is supported by 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 its 99% cash conversion ratio for the last 12 months ended June 2012.

ISS's liquidity remains adequate, with no significant amounts falling due until 2014 assuming the company's securitisation programme will continue to be rolled over.

The stable outlook reflects Moody's expectation that ISS will continue focusing on organic growth and deleveraging in line with its strategy. The outlook also factors in the rating agency's assumption that the company's profit margins will not materially decline. Moreover, the stable outlook reflects Moody's expectation that ISS will not make any large debt-funded acquisitions.

WHAT COULD CHANGE THE RATING UP/DOWN

The rating could be positively affected if ISS's adjusted leverage were to fall below 5.5x.

Negative rating pressure could arise if ISS's operating profitability were to decline, with adjusted debt/EBITDA moving towards 6.5x. Negative rating pressure could also arise in case of debt-funded acquisitions or problems in terms of execution of large-scale IFS-contracts.

PRINCIPAL METHODOLOGY

The principal methodology used in rating ISS was the Global Business & Consumer Service Industry Rating Methodology published in October 2010. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit

Policy page on www.moodys.com for a copy of these methodologies.

Based in Copenhagen, Denmark, ISS is one of the leading facility services providers in the world. The company recorded revenues of DKK78 billion in financial year 2011.

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For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Knut Slatten

Analyst
Corporate Finance Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Eric de Bodard
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454