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Summary:
ISS Group

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Credit Rating: B+/Stable/B

Rationale

The ratings on FS Funding A/S, ISS A/S, and ISS Global A/S, entities of Denmark-based facilities services provider ISS Group (ISS), reflect the group's very highly leveraged financial profile and weak credit measures. This is mitigated by the group's strong business profile, underpinned by its solid business position in an attractive--albeit fragmented and competitive--industry.

Pro forma for refinancing in July 2007, adjusted debt was about Danish krone (DKK) 31.3 billion (€4.2 billion) including unfunded postretirement liabilities at June 30, 2007.

Although the group has announced that it is reviewing the feasibility of an IPO, there has been no decision as yet, and Standard & Poor's does not currently incorporate any impact from an IPO into the ratings.

With sales of DKK55.8 billion in 2006, ISS benefits from a strong business position, particularly in Northern Europe, where it is a leader in most of its markets. The group benefits from good geographical diversity and a highly diversified customer base. Standard & Poor's Ratings Services considers ISS' business sector to be attractive, as it is resilient to recession and likely to benefit from increasing outsourcing. Although there are few barriers to entry and pricing is competitive within the sector, the group has a good record of contract retention, and is large enough to benefit from economies of scale.

Acquisitions have been and are likely to continue to be part of ISS' strategy to add competencies and build critical mass and geographical presence. Although this acquisition strategy adds some risk to the business, ISS' track record is good, with management successfully integrating acquired companies. As a result of the competitive nature of the facilities services business, ISS' operating profit margins are relatively low. Its EBITDA margin was about 7% (not adjusted for operating leases) in 2006 and the first half of 2007.

The group is very highly leveraged following a buy-out in May 2005 by a private equity consortium consisting of funds advised by EQT Partners and Goldman Sachs Capital Partners. As a consequence, its credit measures are weak. In 2006, adjusted debt to EBITDA was 7.3x (not lease adjusted), and EBITDA interest coverage was 1.8x. Standard & Poor's does not expect material improvements in these ratios in view of the group's acquisitive growth strategy. Acquisition spending is flexible, however, and acquisitions are normally immediately cash flow enhancing. Although free operating cash flows are small due to high interest expenses, the group's highly flexible cost base (primarily related to staff) and low capital expenditure needs are likely to provide some cushioning in the event of a downturn.

Liquidity

The group's liquidity resources are adequate, with modest expected annual debt maturities before 2010. At June 30, 2007, short-term debt was DKK1.3 billion. Of this, DKK742 million was drawings under the group's major liquidity resource, a DKK2.4 billion committed revolving credit facility. In addition, the group has a letter of credit/guarantee facility of DKK500 million and separate acquisition facilities totaling DKK4.9 billion (of which

DKK1.0 billion had been drawn at June 30, 2007 pro forma repayments in July 2007 following refinancing). All the group's current credit facilities mature in 2012 or 2013 and include financial covenants. Headroom under the covenants is expected to be sufficient. We also expect the group to continue to post positive free operating cash flow (before acquisitions, and adjusted for seasonal working-capital swings).

Recovery analysis

The €454 million senior subordinated notes issued by FS Funding A/S, and remaining after redemption of €850 million floating rates notes in July 2007, have been rated two notches below the corporate credit rating as they are contractually and structurally subordinated to substantial priority liabilities within the group, including drawings under credit facilities and non-interest-bearing liabilities at operating subsidiary level. For similar reasons, two existing EMTNs (maturing in 2010 and 2014) totaling €960 million after partial redemption in July 2007 and issued by ISS Global under the group's EMTN program, continue to be rated two notches below the corporate credit rating, although the €454 million senior subordinated notes are structurally subordinated to the EMTNs.

The group's unrated committed senior secured facilities consist of:

- DKK15.1 billion term facilities with final maturity in 2012 and 2013.
- A DKK2.4 billion revolving credit facility maturing in 2012.
- A DKK500 million letter of credit facility maturing in 2012.
- DKK4.9 billion acquisition facilities maturing in 2012 and 2013.
- The capital structure also includes a DKK100 million uncommitted revolving credit facility, maturing in 2012 and a €600 million second lien facility maturing in 2015.

The senior priority facilities are secured, inter alia, by a share pledge on shares in ISS A/S held by FS Funding. It is a condition of the senior facilities agreement that material subsidiaries guarantee the senior facilities and provide security pledges against their bank accounts, trade and intercompany receivables, and intellectual property and share pledges as far as legally possible, subject to agreed guarantee and security principles.

As is usual, there are limitations on the amounts certain subsidiaries can guarantee in accordance with local laws. Neither ISS A/S nor any of its subsidiaries has guaranteed or granted any security relating to the borrowings of FS Funding under the senior facilities. Moreover, ISS A/S will not pledge its shares in ISS Global A/S.

Despite being documented within the senior secured loan agreement, the second lien facility has a more limited security package than the senior priority secured facilities, in line with the security package available to the senior subordinated bondholders. The second lien facility is secured by the senior share pledge against the shares in ISS A/S, and the assignment of loans from FS Funding to various other ISS subsidiaries. There will be no guarantees or other security for the second lien facility. As the facility has been issued at the FS Funding level, it is effectively structurally subordinated to the EMTNs (except to the extent of the €50 million intercompany loans to the ISS subsidiaries).

Outlook

The stable outlook reflects our expectation that ISS' operating performance will remain steady, and is underpinned by the group's ability to generate strong cash flows. We do not incorporate material improvements in ISS' credit measures as we expect the group's acquisition strategy to continue. This limits upside potential for the ratings. Although the group has announced that it is reviewing the feasibility of an IPO, there has been no decision as yet, and Standard & Poor's does not currently incorporate any impact from an IPO into the ratings. Nor do we expect

any material deterioration in the group's credit measures. If this were to occur, however, it could result in a negative rating action. Furthermore, Standard & Poor's does not incorporate any possible material near-term changes in ISS' financial risk profile as a result of proposed changes in Danish tax law.

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