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January 13, 2012

Recovery Report:
ISS A/S Recovery Rating Profile

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Overview

- We are updating our recovery analysis on Denmark-based facilities services provider ISS A/S (ISS; BB-/Stable/--), following the "amend and extend" exercise in June and the termination of the proposed acquisition by G4S PLC.
- In our view, ISS would reorganize in the event of a default, thanks to its strong business model.
- Our simulated default scenario contemplates a default in 2014, with a stressed enterprise value of about Danish krone (DKK) 21.21 billion.
- Our recovery ratings on the €110 million unsecured Euro Medium-Term Notes (EMTNs), the €581.5 million subordinated notes, and the €525 million secured notes remain unchanged at '6', indicating our expectation of a negligible (0%-10%) recovery in the event of a payment default.

Table 1

ISS A/S Credit Profile					
Corporate credit rating	BB-/Stable/--				
Estimated gross enterprise value at default	DKK21.2 bil.				
Year of default	2014				
Facility/issue	**Outstanding principal at default**	**Issue rating**	**Recovery rating**	**Expected recovery**	**Maturity**
ISS Global A/S					
DKK15.9 bil. secured credit facilities, excluding the RCF	DKK14.5 bil.	NR	NR	N/A	2012-2015
DKK4.0 bil. secured RCF	DKK4.0 bil.	NR	NR	N/A	2014
DKK0.5 bil. secured letters of credit	DKK0.5 bil.	NR	NR	N/A	2014
€110 mil. 4.50% unsecured EMTNs	DKK0.7 bil.	B	6	0%-10%	2014
€525 mil. proceeds loan	DKK3.8 bil.	B	6	0%-10%	2014
ISS A/S					
€600 mil. second-lien notes	DKK4.5 bil.	NR	NR	N/A	2015
€581.5 mil. subordinated notes (€454 mil. and €127.5 mil.)	DKK4.2 bil.	B	6	0%-10%	2016
ISS Financing PLC					
€525 mil. secured notes*	DKK3.8 bil.	B	NR	N/A	2014
Operating Subsidiaries					
DKK0.5 bil. other credit lines	DKK0.5 bil.	NR	NR	N/A	Various
DKK3.0 bil. Securitisation program	DKK2.5 bil.	NR	NR	N/A	2013

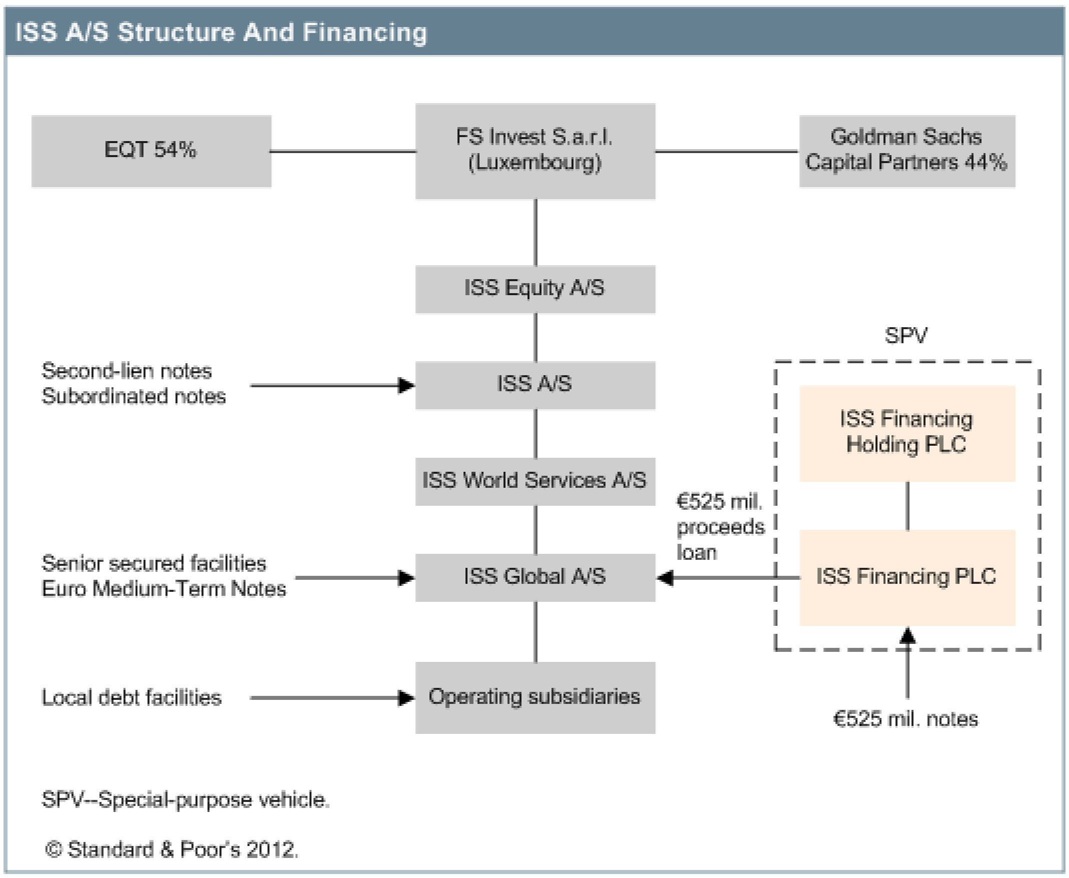
Note: All ratings are as of Dec. XX, 2011. DKK--Danish krone. NR--Not rated. N/A--Not applicable. RCF--Revolving credit facility. EMTN--Euro Medium-Term Notes. *Not cumulative with the proceeds loan. Proceeds of the notes were loaned to ISS Global A/S pursuant to a proceed loan agreement.

Legal And Structural Considerations

The secured bank facilities--which include DKK527 million under term loan A, DKK13 billion under term loan B, DKK320 million under acquisition facility A, DKK2,123 million under acquisition facility B, and DKK4 billion under the revolving credit facility (RCF, increased with the June 2011 amendment from DKK2.5 billion previously)--as well as the €110 million EMTNs, sit at the ISS Global A/S level (see chart).

The €600 million second-lien notes and the €581.5 million subordinated notes--including the original €454 million and the €127.5 million additional notes--were issued by ISS, whereas the €525 million secured notes were issued under the special-purpose vehicle (SPV) ISS Financing PLC, which is located outside the ISS group, and lent to ISS Global. The securitization program (reduced by €100 million to €400 million in June 2011) is located at the operating subsidiaries.

Capital structure



Security and guarantee package

The lenders of the unrated senior secured facilities taken on by ISS Global benefit from a comprehensive security package including asset security, share pledges, and guarantees from the group's material operating companies. The rated EMTN program represents an unsecured obligation of ISS Global. Although the rated €525 million notes are secured by a pledge over the assets of ISS Financing (including the proceeds loan, its only asset), this security is remote from ISS' operations. This is because there is direct pass-through of the economic benefits of the proceeds loan to the noteholders, through notes with identical terms to those of the proceeds loan. ISS Financing is an orphan SPV located outside the ISS group (see chart) whose activities are limited to the issue of the €525 million senior secured notes and the onlending of the proceeds to ISS Global. Therefore, we view the senior notes as unsecured and ranking pari passu with the EMTNs by virtue of ISS Financing's unsecured proceeds loan to ISS Global.

The unrated €600 million second-lien notes issued by ISS share, with the other senior creditors, a first-ranking share pledge over the shares of ISS World Services A/S (BB-/Stable/B); however, in case of appropriation, the second-lien noteholders will rank behind the other senior creditors. The rated €581.5 million senior subordinated notes issued by ISS are secured by a second-priority security interest in all of ISS World Services' outstanding share capital. They also have a second-priority security interest in all of the issuer's rights under €50 million (combined principal) of loans from the issuer to certain subsidiaries of ISS Global in the U.K., France, Norway, and Spain, as well as €131.7 million in loans to ISS Global. These notes are not guaranteed by any of the issuer's subsidiaries.

Documentation/covenants

The senior secured facilities contain maintenance covenants and a negative-pledge provision. The "amend and extend" exercise applied to a portion of the senior secured facilities (which represent 96% of the total senior facilities). In addition to extending the maturity and increasing the size of the RCF (from DKK2.5 billion to DKK4.0 billion), the exercise increased permitted debt and reset covenant levels to incorporate adequate headroom. Also, the securitization program is now part of the covenant definitions. While the terms of the amendment are more in line with the company's strategy and capital structure than the previous documentation, they are somewhat less favorable to holders of the rated notes because the revised documentation permits the incurrence of additional senior debt.

The €110 million EMTNs contain a negative-pledge provision. This ensures that no "relevant indebtedness" (defined in the documentation as any listed or traded notes, bonds, debentures, and loan stock) will be secured by any mortgage, charge, lien, pledge, or other security interest unless the EMTNs are equally secured or ISS Global agrees on an alternative security arrangement with the noteholders. The documentation for the €525 million secured notes contains some financial covenants, including limitations on debt, restricted payments, liens, asset sales, and sale-and-leaseback transactions. The documentation for the proceeds loan mirrors that of the notes.

The documentation for the €581.5 million senior subordinated notes contains a series of nonfinancial covenants, such as limitations on asset disposals, liens, dividends and distributions, and mergers and acquisitions, as well as financial-incurrence covenants.

Jurisdictional/insolvency regime issues

Our assumption is that primary insolvency proceedings would take place in Denmark--where ISS is headquartered--which we consider to be the center of main interest (COMI). We view Denmark as a relatively favorable jurisdiction for secured and unsecured creditors. However, the group operates in more than 50 countries, and most of its assets consist of goodwill and other intangibles sitting at various operating companies. Therefore, given the considerable geographic diversification of the group, any insolvency process that was to incorporate multijurisdictional proceedings could, in our opinion, delay or lower ultimate recovery prospects.

For further information on the classification of legal jurisdictions in regard to creditor friendliness, and Denmark's insolvency procedure in particular, see "COMIs in EU Insolvency Proceedings And Their Bearing On Standard & Poor's Recovery Ratings," published July 8, 2008, "Update: Jurisdiction-Specific Adjustments to Recovery And Issue Ratings," published June 20, 2008, and "Debt Recovery For Creditors And The Law Of Insolvency In

Denmark," published on Dec. 7, 2006, on RatingsDirect on the Global Credit Portal.

Issuer Credit Rating Rationale

See Standard & Poor's research update on ISS A/S titled "Facilities Services Firm ISS 'BB-' Rating Affirmed, Off Watch Pos On Termination Of Acquisition By G4S; Outlook Stable," published Nov. 2, 2011.

Recovery Analysis

Table 2

ISS A/S Stressed Valuation

Simulated default assumptions		Simplified waterfall	
Year of default	2014	Gross enterprise value at default	DKK21.2 bil.
2010 EBITDA	DKK5.0 bil.	Administrative costs	DKK1.9 bil.
EBITDA decline to default	35%	Net enterprise value	DKK19.6 bil.
EBITDA at default	DKK3.2 bil.	Priority claims	DKK3.5 bil.
Implied enterprise value/EBITDA multiple	6.5x	Senior debt outstanding at default	DKK19.0 bil.
Margin rise*	600 bps	Unsecured EMTNs and €525 mil. notes	DKK4.5 bil.
		Recovery expectation	0%-10%
		Second-lien notes	DKK4.5 bil.
		Subordinated notes outstanding at default	4.2 bil.
		Recovery expectation	0%-10%

Note: All debt amounts include six months of prepetition interest. *Only on variable debt. Bps--Basis points. DKK--Danish krone. EMTN--Euro Medium-Term Notes.

Simulated default scenario

To calculate recoveries, we simulate a default scenario. We believe that a default would be triggered mainly by high leverage and significant debt maturities, an inability to manage the cost base, and reduced free cash flow as a result of deteriorating operating performance. In our opinion, the time lag between any decline in the group's revenues and an appropriate reduction in its cost base would hamper its profitability and ability to generate free cash flow. We assume the main drivers of the hypothetical default scenario to be:

- Declining revenue growth, paired with an inability to manage the cost base, leading to reduced cash flow generation.
- Increased interest charges for the unhedged portion of the floating-rate facilities to cover potential increases in market rates and significant debt maturities.
- A continuing economic slowdown and intense competition leading to price pressure.

We assume that the amortizing payments on term loan A and acquisition facility A are met, and that this debt is repaid in full at default. The RCF, the letter of credit facility, and the securitization program maturing in September 2013, on the other hand, are all refinanced with similar instruments under our hypothetical default scenario. Moreover, we assume that the RCF would be fully drawn at default.

Under our simulated scenario, we assume that a default would occur in 2014, at which point we estimate that the group's EBITDA would have fallen to about DKK3.24 billion.

Valuation

Given our view of the group's strong business risk profile, leading market position, well-known brand, and large customer base, we value ISS on a going-concern basis.

We value the group using a combination of discounted cash flow and market-multiple approaches, resulting in a stressed enterprise value of about DKK21.21 billion. This translates into a stressed EBITDA multiple of about 6.5x.

Outcome

After deducting enforcement costs of DKK1.91 billion from our gross stressed enterprise value of DKK21.21 billion, we calculate a net stressed enterprise value of about DKK19.30 billion. We then deduct priority liabilities totaling about DKK3.51 billion, comprising 50% of the pensions deficit, the securitization program, operating leases, as well as local debt facilities and prepetition interest. We also deduct the prior-ranking DKK20.59 billion senior secured credit facilities outstanding at default, including letters of credit and the fully drawn revolver; the extended term loan B and acquisition facility B; and prepetition interest. This leads to our view that the recovery prospects for the holders of the EMTNs, the €581.5 million subordinated notes, and the €525 million secured notes, would be negligible (0%-10%).

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Facilities Services Firm ISS 'BB-' Rating Affirmed, Off Watch Pos On Termination Of Acquisition By G4S; Outlook Stable, Nov. 2, 2011
- COMIs in EU Insolvency Proceedings And Their Bearing On Standard & Poor's Recovery Ratings, July 8, 2008
- Update: Jurisdiction-Specific Adjustments to Recovery And Issue Ratings, June 20, 2008
- Debt Recovery For Creditors And The Law Of Insolvency In Denmark, Dec. 7, 2006

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