

**Issuer Comment: ISS continues to dispose of non-core assets - a credit positive**

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ISS yesterday announced they have agreed to dispose of parts of its pest control business to Anticimex for an enterprise value of approximately DKK2 billion (EUR268 million). The proceeds from the sale is expected to be applied to reimbursement of debt. As such, the transaction - which is subject to approval from relevant authorities and expected to close by the end of May - confirms ISS's financial policy of reducing debt levels prior to an eventual IPO within the next two-three years at the latest. The transaction is a credit positive for the company.

The announcement follows two weeks after ISS launched an amend and extend request with its lenders in which the company among others ask for the authorization to apply disposal proceeds towards reimbursement of junior debt if leverage meets certain thresholds. Assuming the proceeds is being applied to such reimbursement, Moody's would expect ISS - in addition to reduce its leverage - to also strengthen its medium term cash flows thanks to a lowering of interest expenses. We would expect ISS to continue reviewing its portfolio of assets and potentially divest of further assets deemed to be non-core.

A higher focus on deleveraging has been part of the company's strategy since it presented an updated strategy together with its full-year results last year. Since then, the company has received an equity injection of EUR500 million in August 2012 applied for redemption of the EUR525 million senior notes in December 2012. The redemption eliminated interest expenses of around DKK430 million per year.

ISS reported a full-year organic growth of 1.7% and a decline in operating margin to 5.6% for 2012 (against 5.7% in 2011). Whilst 2013 is likely to be another challenging year in some of ISS's core markets in Western Europe, we would expect organic growth to get a boost from recent Integrated Facility Services contracts won in the latter part of 2012. We would also expect the company to continue experiencing strong growth in emerging markets (21% of 2012 revenues) and note ISS have retained its pest control activities in emerging markets.

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