MOODY'S
INVESTORS SERVICE

Credit Opinion: ISS Global A/S

Global Credit Research - 09 Dec 2014

Denmark

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating -Dom Curr	Baa3
Senior Unsecured	Baa3

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Key Indicators

[1][2]**ISS Global A/S**

	9/30/2014(L)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Revenue (USD Million)	$13,595.5	$13,970.9	$13,723.6	$14,507.0	$13,199.7
Pretax Income (USD Million)	$333.4	$171.0	$139.5	$108.0	$158.5
RCF / Net Debt	11.6%	8.5%	6.7%	6.3%	7.0%
FCF / Debt	4.0%	3.1%	1.8%	0.8%	1.6%
(EBITDA-CapEx) / Interest Exp	2.1x	1.5x	1.4x	1.3x	1.5x
Debt / EBITDA	4.6x	6.2x	6.1x	6.7x	6.6x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics [2] All historical data based on ISS A/S financial data

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Financial policies have grown more conservative

- Further de-leveraging is expected

- Diversification and large scale reduce volatility risk

Corporate Profile

Headquartered in Copenhagen, ISS Global A/S is 100% owned by ISS A/S. ISS is one of the world's leading facility services providers. As of end December 2013, the company reported DKK78 billion (EUR 10 billion) in revenues and DKK 4.3 billion (EUR 0.6 billion) in operating profit before other items.

ISS is an integrated service provider. In addition to cleaning services, which represent approximately half of ISS's revenues, the company also provides services such as property, catering, office support, security and facility management.

ISS A/S announced on 13 March 2014 it had priced its IPO at DKK160 per share, giving it a market capitalisation of around DKK29.6 billion (EUR4 billion). Funds advised by EQT Partners and Goldman Sachs Capital Partners - that used to be the majority shareholder of the company - have following the IPO reduced their ownership stake to 32.7% in September and again to 19.3% nov in December (from 48.2% at the time of the IPO). 80.7% of the shares are currently in free float (including the stakes of Ontario Teachers' Pension Plan and KIRKBI Invest A/S).

SUMMARY RATING RATIONALE

ISS's Baa3 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 its 102% cash conversion ratio in 2013. At the same time, the ratings take into account (1) ISS's current leverage which is still considered to be on the high side for an investment-grade name (2) the competitive and fragmented nature of the facility services market.

DETAILED RATING CONSIDERATIONS

FINANCIAL POLICIES HAVE GROWN MORE CONSERVATIVE OVER TIME

During the IPO, ISS raised approximately DKK8.0 billion (EUR1.1 billion) of gross proceeds that the company has applied towards reimbursing certain debt liabilities during the course of 2014 (approximately DKK820 million of outstanding EMTN notes have been repaid in full at maturity on 8 December 2014). The successful listing has contributed to a significant decrease in the company's net leverage to around 3.1x Net Debt/ EBITDA (as reported by the company) as of the end of Q3 2014. ISS has over the past 2-3 years taken a number of steps to gradually improve its capital structure. These have, among others, included an equity injection by new investors (Ontario Teachers Pension Plan and Kirkbi in 2012) and disposals of non-core assets where proceeds have been applied towards redemption of debt. As such, we consider the listing to be a continuation of the company's financial policies which gradually have grown more conservative over time. We would expect ISS to maintain a balanced approach to shareholders and creditors post the IPO.

FURTHER DE-LEVERAGING IS EXPECTED

While acknowledging ISS no longer is burdened by the aggressive capital structure it had in the past, we consider the company's leverage - which was running at around 4.6x Moody's adjusted debt/ EBITDA for the twelve months to September - to still be on the high side for an investment-grade name.

Together with its second quarter results, ISS revised downwards its guidance for organic growth in 2014 and alluded to a difficult macro-economic backdrop in certain European markets. Whereas we anticipate ISS's EBITDA will benefit from a lower amount of restructuring costs in 2014 (DKK379 million charged in 2013), we expect the company's leverage (Moody's adjusted) to be above 4.0x by the end of 2014. As such, we would expect the company to continue de-leveraging going forward. Moody's understands the company targets its reported net leverage ratio to fall below 2.5x while maintaining a solid investment-grade rating.

As the debt-burden has been materially decreased, we expect the company's cash flows to strengthen considerably as interest costs abate. Moody's also notes ISS obtained a more attractive pricing on its unsecured senior facilities which were put in place in connection with the IPO. Whilst ISS will be aiming towards a 50% dividend payout-ratio on profit before goodwill amortisations and impairment on brands and customer contracts starting 2015 (for financial year 2014), we would nonetheless expect ISS to maintain strong free cash flows allowing for net leverage to continue decreasing. ISS has over the past few years focused on organic growth. We would expect the company to pursue a similar strategy going forward. Whereas smaller bolt-on acquisitions financed by free cash flow can be accommodated within the rating category, we do not expect ISS to embark upon larger debt-financed acquisitions.

DIVERSIFICATION AND LARGE SIZE REDUCE VOLATILITY RISK

With around DKK78 billion (EUR 10 billion) of revenues in FY2013, ISS is a leading facilities services provider in an industry that remains fragmented. While it continues to have a high exposure to cleaning services, which represented 49% of total revenues in FY2013, the growing importance and scale of some of ISS's remaining services have allowed for a more complete service offering that differentiates the company from many of its competitors. In particular, we view as a positive the growing importance of multi-services (17% of revenues FY

2013) and Integrated Facility Services (26% of revenues FY2013, 30% Q3-14) in ISS's business mix and believe this makes the company a more attractive partner to global companies and provides some barriers to entry in an otherwise competitive industry. Moreover, these contracts were also a main contributor (together with emerging markets) to ISS's solid organic growth in 2013. In some regions, we believe there is an increasing market interest in the IFS product and we would expect the solid growth dynamics seen in recent years to continue.

With a presence in more than 50 countries, ISS has a wide global footprint, which helps protect it against more regional downturns or issues in operating performance. While ISS's operations remain focused on Western Europe and the Nordics, its home market - which represent 51% and 21% of group revenues, respectively - we note that the company is deriving a growing proportion of its revenues from high-growth regions in emerging markets. However, we note that the company currently generates around 20%-25% of its group revenues through above base business. We believe this type of contracts to be more vulnerable to the economic cycle and could exert pressure on ISS's operating performance should economic conditions deteriorate. Equally, the company is likely to derive additional benefits from such contracts as the economic environment improves.

Liquidity Profile

We expect ISS's liquidity profile to be good over the next 12 months and notes its unsecured facilities mature in 2019. As of 30 September 2014, ISS had cash-balances of around DKK2.0 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 maintenance covenants it has to meet.

Besides having a high cash-conversion, the company's liquidity is underpinned by historically low capital expenditures (capex) requirements representing around 1.1%-1.4% of revenues. While revenues are usually stable over the year, ISS's profitability shows a degree of seasonality in the summer months due to the nature of the business when it is at a low point. ISS's working capital tends to fluctuate, with negative swings in the first two quarters as expenses - such as pension contributions, insurance premium payments, holiday allowance and bonuses as well as a number of financial interests - are paid. Similarly, positive variations occur in the second half of the fiscal year when most revenues are collected.

Structural Considerations

On November 12, ISS announced it had put in place a new EUR2 billion EMTN programme at the level of ISS Global A/S. Debt issued under the EMTN programme will be senior unsecured and rank pari-passu with the company's current senior unsecured bank facilities also issued at ISS Global A/S. Moody's notes, however, that the EMTN-notes initially will be exposed to a degree of structural subordination to the bank facilities which benefit from a broader set of guarantors including ISS A/S - the parent company of ISS Global A/S - as well as certain subsidiaries sitting below ISS Global A/S in the group structure. Despite this degree of subordination, the EMTN-programme is not notched down because of (1) the degree of structural subordination is considered as moderate in the context of an investment grade issuer (2) Moody's understands that liquid funds should largely be kept at ISS Global A/S (3) the first drawings under the EMTN-programme have been applied to refinance part of the senior facilities, the EUR1.2bn TLA and (4) our expectations that ISS will strive to fully eliminate over time the current subordination in its financing structure.

Other Considerations

ISS mapped to a Ba2 under the grid for the Moody's Global Business & Consumer Service Industry Rating Methodology published October 2010 and based on estimated adjusted metrics for the twelve months to September 2014. We expect grid-indicated rating will further improve towards Ba1 by the end of 2014 as diminished interest costs have a favourably impact on credit metrics. The difference between the grid and the actual rating assigned reflects ISS's solid business profile and track record of resiliency as well as Moody's anticipation that credit metrics will continue to strengthen as ISS continues to emphasize further de-leveraging.

Rating Outlook

The stable outlook reflects Moody's expectation that ISS will continue deleveraging, allowing for leverage to improve further from an anticipated high-point by year-end 2014 on an adjusted basis. Moreover, the stable outlook also incorporates Moody's expectation that ISS will maintain conservative financial policies allowing for cash flow metrics to strengthen.

What Could Change the Rating - Up

Upward pressure on the rating could occur if ISS's adjusted leverage were to fall below 3.5x with an RCF/net debt in the high-teens.

What Could Change the Rating - Down

Negative rating pressure could arise if the group's operating profitability were to decline, with adjusted debt/EBITDA remaining above 4.25x and an RCF/net debt below 15% on a sustainable basis.

Rating Factors

ISS Global A/S

Business and Consumer Service Industry Grid [1][2][3]	**Current LTM 9/30/2014**		[4]**Moody's 12-18 Month Forward ViewAs of 12/09/2014**	
Factor 1: Size and Profitability (30%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Million)	$13,595.5	A	$13700 - $14000	A
b) Pretax Income (USD Million)	$333.4	Baa	$550 - $600	A
Factor 2: Financial Strength (55%)				
a) RCF / Net Debt	11.6%	B	14% - 16%	Ba
b) FCF / Debt	4.0%	B	2.5% - 4%	B
c) (EBITDA - CapEx) / Interest Exp	2.1x	B	3.5x - 4x	Ba
d) Debt / EBITDA	4.6x	B	3.8x - 4.1x	Ba
Factor 3: Financial Policy (15%)				
d) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Ba2		Baa3
b) Actual Rating Assigned		Baa3		Baa3

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This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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