S&P Global
Ratings

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ISS A/S

Primary Credit Analyst:
Paul O'Reilly, London + 44(0)2071767087; paul.oreilly@spglobal.com

Secondary Contact:
Anna Stegert, Frankfurt (49) 69-33-999-128; anna.stegert@spglobal.com

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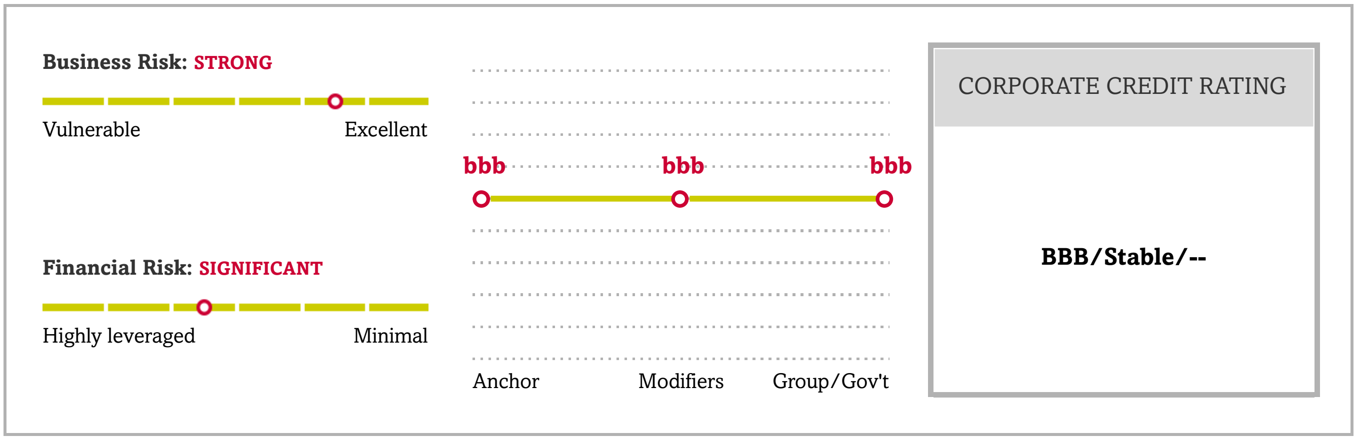

Rationale

Business Risk: Strong	Financial Risk: Significant
• Leading player in the facilities services industry. • Wide geographic and customer diversity. • Resilient nature of the basic services business. • Highly competitive and fragmented facilities management sector, with relatively low margins. • Limited flexibility in pricing.	• Strong cash generation from business operations, with low fixed asset intensity and capital expenditure (capex) needs. • High cash conversion rates. • Bolt-on acquisition strategy targeted at enhancing core service offering. • Forecast funds from operations (FFO) to debt of 22%-27%.

Outlook: Stable

The stable outlook on ISS A/S reflects S&P Global Ratings' expectation that the company will continue to see modest growth in revenues and will generate sustainable cash flows, while continuing to distribute excess cash to shareholders, such that credit metrics will stay relatively stable over time. We consider ISS' S&P Global Ratings-adjusted FFO to debt of 20%-30% as commensurate with the current rating, and expect the ratio to remain at the higher end of that range.

Downside scenario

ISS' credit metrics provide comfortable headroom at the current rating. However, we could lower the rating if shareholder distributions rose significantly, debt levels increased, or ISS' operating performance deteriorated such that FFO to debt fell below 20% on a sustained basis.

Upside scenario

We could raise the rating if ISS' operating performance continues to be stable while it maintains strong free operating cash flows. Additionally, we would need to observe the company implementing a financial policy targeted at a continued reduction in leverage and refraining from distributing excess cash to the shareholders. We could consider raising the rating should ISS sustain FFO to debt above 30%.

Our Base-Case Scenario

Assumptions

- GDP growth in the eurozone of 2.0% in 2018 and 1.7% in 2019, and of about 2.5% in 2018 and 1.9% in 2019 in North America. In ISS' other key operating region, Asia Pacific, we forecast GDP growth of 5.4% in 2018 and 5.6% in 2019.
- About 2.0%-4.0% organic growth in 2018 and 2019.
- A slight deterioration in the adjusted EBITDA margin to 7.0%-7.5% in 2018, followed by a rebound to 7.5%-8.0% in 2019.

Key Metrics

	2017a	2018e	2019e
EBITDA margin* (%)	7.5	7.0-7.3	7.5-8.0
Debt/EBITDA (x)	2.8	2.9-3.2	2.6-2.9
FFO/debt (%)	26.5	22.0-24.0	25.0-28.0

*S&P Global Ratings-adjusted. a--Actual. e--Estimate. FFO--Funds from operations.

Company Description

ISS is a large, long-established facilities services group with operations in over 50 countries in Europe, Asia, Latin America, Asia Pacific, and North America. ISS provides single services, multi-services, or integrated facilities services for private and public entities locally, regionally, and globally. Services include cleaning, property services, office support, catering, security, and facilities management. The company is publicly held following its IPO in 2014.

In 2017, ISS reported revenues of Danish krone (DKK) 79.9 billion (2016: DKK78.7 billion), reflecting organic growth of 2.4% (2016: 3.4%). Emerging markets continued to perform well and delivered 4% organic growth (7% in 2016). Reported EBITDA fell to DKK4.7 billion (2016: DKK5.1 billion) due to restructuring charges relating to the company's ongoing operating efficiency program, a loss on divestments, and acquisition and integration costs.

Over the past few years, ISS has made significant disposals to allow it to focus on its core competencies. ISS has reinvested a proportion of the proceeds in acquisitions, allowing it to shift toward technical services, which are key to facilitate the expansion of its integrated facilities services.

In 2017, ISS acquired California-based catering company Guckenheimer for about DKK1.5 billion. We see the acquisition as in keeping with ISS' objective to increase its footprint in the U.S. catering market. ISS is also looking to further expand its technical service offering, which it has complemented through bolt-on acquisitions over recent years.

Business Risk: Strong

ISS holds leading market positions in the facility services industry across its key geographies, mainly throughout the Nordic region and Western Europe, as well as in emerging markets. ISS has good geographic diversity, and a highly diverse customer base comprising thousands of private and public customers. Historically, ISS has had a strong track record of integrating its many acquisitions, which has produced a solid global service delivery platform with critical mass to support future organic growth opportunities. The company has also managed to maintain less volatile operating profitability (measured by EBITDA margin) than that of most its peers, contributing to what we see as its strong competitive position.

ISS' integrated facilities management business offers some barriers to entry due to the necessary scale required for global service offerings, while single services generally have low barriers. ISS exhibits good contract retention, which has remained stable in recent years at about 90%.

Our business risk assessment is constrained by the competitive nature of the facilities services sector, which leaves limited pricing flexibility for service providers, keeping operating margins at relatively low levels of about 4%-7% across the sector. Ongoing efforts to control overheads, staff costs, and food price inflation are therefore necessary.

Our Base-Case Operating Scenario

Our base-case scenario for ISS indicates a slight deterioration of credit metrics in 2018 followed by an improvement in 2019 to historical levels. Key elements of our base-case scenario are:

- Total revenue growth of about 0.5%-1.0% in 2018 and 3.5%-4.0% in 2019, with minimal impact from foreign-exchange rates in 2019. We do not factor in any additional divestments at this stage.
- Support for the stronger revenue growth in 2019 from the launch of the recently won Deutsche Telekom contract, which we expect to contribute 2% to revenue growth alone. Support also comes from continued strong organic growth within emerging markets and America, regions that have been key growth drivers for ISS in recent years.
- A moderate EBITDA margin decline in 2018 owing to restructuring expenses related to the company's reorganization program. This program largely targets the French and Swedish operations, with related expenses not adjusted for in our metrics. Improvements in the EBITDA margin in subsequent years, roughly back to 2017 levels.
- Strong adjusted free operating cash flow generation of around DKK2.8 billion in 2018 and around DKK3.5 billion in 2019.

Peer comparison

Table 1

ISS A/S Peer Comparison

	ISS A/S	Compass Group PLC	Sodexo S.A.	G4S PLC	Securitas AB
(Mil. DKK)	**--Fiscal year ended Dec. 31, 2017--**	**--Fiscal year ended Sept. 30, 2017--**	**--Fiscal year ended Aug. 31, 2017--**	**--Fiscal year ended Dec. 31, 2017--**	**--Fiscal year ended Dec. 31, 2016--**
Revenues	79,912.0	190,586.8	153,917.5	65,661.3	68,404.2
EBITDA	5,984.0	20,364.4	12,095.6	5,783.6	5,082.0
Funds from operations (FFO)	4,453.6	15,834.4	9,303.9	3,751.5	3,797.2
Net income from continuing operations	2,101.0	9,804.6	5,376.5	2,029.9	2,049.9
Cash flow from operations	4,524.6	15,606.4	8,560.3	3,617.3	3,183.5
Capital expenditures	992.0	6,038.2	2,297.8	914.3	1,286.7
Free operating cash flow	3,532.6	9,568.2	6,262.4	2,703.0	1,896.9
Discretionary cash flow	2,109.6	(3,496.2)	3,518.4	1,201.6	905.5
Cash and short-term investments	6,275.0	3,268.2	17,966.2	6,945.3	1,873.4
Debt	16,779.3	37,461.4	16,740.2	18,902.1	13,619.8
Equity	13,814.0	17,903.4	26,547.8	7,829.2	11,256.5
Adjusted ratios					
EBITDA margin (%)	7.5	10.7	7.9	8.8	7.4
Return on capital (%)	12.0	26.6	21.0	14.5	14.7

Table 1

ISS A/S Peer Comparison (cont.)

	ISS A/S	Compass Group PLC	Sodexo S.A.	G4S PLC	Securitas AB
(Mil. DKK)	--Fiscal year ended Dec. 31, 2017--	--Fiscal year ended Sept. 30, 2017--	--Fiscal year ended Aug. 31, 2017--	--Fiscal year ended Dec. 31, 2017--	--Fiscal year ended Dec. 31, 2016--
EBITDA interest coverage (x)	7.1	14.9	13.1	4.6	8.9
FFO cash interest coverage (x)	13.9	19.8	11.5	4.4	16.3
Debt/EBITDA (x)	2.8	1.8	1.4	3.3	2.7
FFO/debt (%)	26.5	42.2	55.6	19.8	27.8
Cash flow from operations/debt (%)	27.0	41.6	51.1	19.1	23.3
Free operating cash flow/debt (%)	21.1	25.5	37.4	14.2	13.8
Discretionary cash flow/debt (%)	12.6	(9.4)	21.0	6.3	6.6

Financial Risk: Significant

ISS' financial metrics have improved following the company's focus on profitable organic growth and the divestment of noncore activities. We believe that ISS will continue to generate organic growth in the near-to-medium term through securing integrated facilities management contracts with new clients such as the 10-year contract with Deutsche Telekom announced in October 2017. We expect growth to be further bolstered by ISS' bolt-on acquisition strategy targeted at enhancing its core service offering.

We forecast that ISS' adjusted debt to EBITDA will marginally weaken to about 2.9x-3.2x in 2018 as restructuring costs are likely to burden operating results. We expect that leverage metrics will then strengthen to 2.6x-2.9x in 2019 as the company continues to generate organic revenue growth in the low-single digits, while benefiting from the newly won Deutsche Telekom contract and continued strong organic growth from the emerging markets. We expect the company's FFO-to-debt ratio to be around 22%-24% in 2018 and around 25%-28% in 2019, consistent with a significant financial risk profile.

Furthermore, we expect ISS to maintain its acquisition spending and shareholder returns policies in line with recent years such that credit metrics will not deviate materially from current levels. We believe that ISS will continue to generate healthy free operating cash flow given its high cash conversion rates and the flexibility it enjoys in terms of capex requirements.

Our Base-Case Cash Flow And Capital Structure Scenario

Our base-case forecast assumptions for the full-year 2018 include the following key elements:

- Annual capex of about DKK0.9 billion-DKK 1.0 billion over the coming years.
- A dividend payout ratio of about 50% according to ISS' financial policy, with an extraordinary dividend payout every two years.
- Mergers and acquisitions-related cash spending of about DKK0.4 billion annually over the next two years.

Financial summary

Table 2

ISS A/S Financial Summary

	--Fiscal year ended Dec. 31--				
(Mil. DKK)	**2017**	**2016**	**2015**	**2014**	**2013**
Revenues	79,912.0	78,658.0	79,579.0	74,105.0	78,459.0
EBITDA	5,984.0	6,314.0	6,312.5	6,011.5	5,929.5
Funds from operations (FFO)	4,453.6	4,608.6	4,467.3	4,056.2	2,826.2
Net income from continuing operations	2,101.0	2,224.0	2,211.0	1,011.0	(399)
Cash flow from operations	4,524.6	4,596.6	4,711.3	3,503.2	3,337.2
Capital expenditures	992.0	875.0	913.0	848.0	902.0
Free operating cash flow	3,532.6	3,721.6	3,798.3	2,655.2	2,435.2
Discretionary cash flow	2,109.6	1,625.6	2,891.3	2,655.2	2,435.2
Cash and short-term investments	6,275.0	4,300.0	4,526.0	3,557.0	3,277.0
Debt	16,779.3	16,839.9	17,177.6	16,723.6	26,905.7
Equity	13,814.0	13,920.0	14,504.0	12,920.0	4,246.0
Adjusted ratios					
EBITDA margin (%)	7.5	8.0	7.9	8.1	7.6
Return on capital (%)	12.0	11.8	11.9	10.3	7.0
EBITDA interest coverage (x)	7.1	7.5	7.2	4.6	2.7
FFO cash interest coverage (x)	13.9	16.5	13.7	5.9	2.9
Debt/EBITDA (x)	2.8	2.7	2.7	2.8	4.5
FFO/debt (%)	26.5	27.4	26.0	24.3	10.5
Cash flow from operations/debt (%)	27.0	27.3	27.4	20.9	12.4
Free operating cash flow/debt (%)	21.1	22.1	22.1	15.9	9.1
Discretionary cash flow/debt (%)	12.6	9.7	16.8	15.9	9.1

Liquidity: Exceptional

We assess ISS' liquidity as exceptional because we forecast that the company's sources of liquidity will exceed its uses by more than 2.0x over the next 24 months, and that sources less uses would continue to be positive should EBITDA fall by 50%. We consider that ISS has well-established and solid relationships with its banks and exhibits prudent risk management.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and cash equivalents of about DKK6.3 billion as of Dec. 31, 2017; • Approximately DKK7.2 billion available under its current revolving credit facility; and • Cash FFO of about DKK3.2 billion over the next 12 months.	• Capex and working capital requirements of DKK1.2 billion; • About DKK1.8 billion of assumed dividends and share repurchases; • Seasonal working capital requirement of about DKK1.4 billion; and • Post-retirement employee benefit top-ups of around DKK250 million.

Debt maturities

- 2020: €700 million
- 2021: €500 million
- 2024: €500 million
- 2027: €600 million

Other Modifiers

We assess ISS' financial policy as neutral as the company has demonstrated its commitment to maintaining an investment-grade capital structure as a public company. Given ISS' shareholder-friendly policies, we do not anticipate that the company will take specific actions to achieve material reductions in leverage from the current level.

We assess ISS' management and governance practice as strong. Our assessment takes into account our view of management's expertise and its ability to maintain stable operations, even in difficult economic environments. Management has consistently executed its strategy, including a number of successful acquisitions.

All of these factors result in our 'BBB' long-term issuer credit rating.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/--

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Exceptional (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Reconciliation

Table 3

Reconciliation Of ISS A/S Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2017--						
ISS A/S reported amounts							
(Mil. DKK)	**Debt**	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**
Reported	17,671.0	13,804.0	4,678.0	3,968.0	517.0	4,678.0	3,613.0
S&P Global Ratings' adjustments							
Interest expense (reported)	--	--	--	--	--	(517.0)	--
Interest income (reported)	--	--	--	--	--	38.0	--
Current tax expense (reported)	--	--	--	--	--	(708.0)	--
Operating leases	4,256.3	--	1,147.0	302.5	302.5	844.5	844.5
Postretirement benefit obligations/deferred compensation	1,079.0	--	(57.0)	(57.0)	22.0	(97.9)	67.1
Surplus cash	(6,254.0)	--	--	--	--	--	--
Share-based compensation expense	--	--	12.0	--	--	12.0	--
Non-operating income (expense)	--	--	--	38.0	--	--	--
Non-controlling interest/minority interest	--	10.0	--	--	--	--	--
Debt--fair value adjustments	27.0	--	--	--	--	--	--
EBITDA--business divestments	--	--	204.0	204.0	--	204.0	--

Table 3

Reconciliation Of ISS A/S Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)							
D&A--impairment charges/(reversals)	--	--	--	(611.0)	--	--	--
Total adjustments	(891.7)	10.0	1,306.0	(123.5)	324.5	(224.4)	911.6
S&P Global Ratings' adjusted amounts							
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	16,779.3	13,814.0	5,984.0	3,844.5	841.5	4,453.6	4,524.6

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 16, 2018)	
ISS A/S	
Corporate Credit Rating	BBB/Stable/--
Senior Unsecured	BBB
Corporate Credit Ratings History	
17-Mar-2016	BBB/Stable/--
30-Mar-2015	BBB-/Positive/--
20-Mar-2014	BBB-/Stable/--
20-Feb-2014	BB/Watch Pos/--
05-Dec-2013	BB/Positive/--
26-Nov-2013	BB-/Watch Pos/--
Related Entities	
ISS Global A/S	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB
ISS World Services A/S	
Issuer Credit Rating	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com