MOODY'S INVESTORS SERVICE

CREDIT OPINION
5 April 2017

Update

Rate this Research

RATINGS

ISS Global A/S

Domicile	Denmark
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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ISS Global A/S

Update to Credit Opinion

Summary Rating Rationale

ISS is a leading provider of outsourced facilities services, with a diversified revenue profile and a strong long term track record of organic revenues and margin growth. Its core competitive advantages lie in its global scale and its ability to self-deliver large complex labour-intensive functions, leveraging its HR capabilities to drive efficiencies. The sector is attractive with above-GDP growth rates driven by increased outsourcing, and by expanding the service and geographic scope of existing customer contracts.

The company is pursuing a strategy of growing its Integrated Facilities Services (IFS) offering (37% of FY2016 revenues) which provides a range of activities and offers the opportunity for deeper customer integration and greater efficiencies. This is a competitive segment with a wide range of players including property-based facilities managers and technology providers and the company is building its technical services and technology offering to drive growth. The company continues to leverage its self-delivery model in this market and increases in automation which could reduce staff levels and erode its competitive advantages are likely to present greater challenges only in the mid to longer-term.

Trading has remained solid in the year ended 31 December (FY) 2016 despite a range of headwinds particularly in relation to commodity sectors and with slow economic growth in its core European markets. Revenue growth is likely to remain modest in the first half of 2017 and we expect stronger growth to resume in FY2018 as the benefit of new contracts and a more positive commodities market outlook gradually takes effect.

ISS maintains conservative financial policies, with strong cash generation and modest Moody's-adjusted leverage of 3.2x in FY2016. It has focused to date on relatively small bolt-on M&A. The acquisition of Guckenheimer (unrated) announced in April 2017 is expected to result in a small and temporary increase in leverage of 0.1x - 0.2x on a Moody's-adjusted basis. The company has ambitions to grow further in the US, an attractive market where it has a relatively small presence, which could drive larger M&A. ISS is expected to continue distributing surplus cash to shareholders which is likely to result in financial metrics remaining stable at current levels.

Credit Strengths

» Large scale and diversification with wide geographic footprint

» Positive market growth profile

» Strong record of organic revenue growth through the cycle

- Continued solid trading performance and high cash generation
- Conservative financial policies

Credit Challenges

- Competitive and fragmented industry
- Low operating margins and inflationary pressures
- Currency translation exposures

Rating Outlook

The stable outlook reflects our assumptions that ISS will continue on a path of organic growth with stable or growing margins. It also assumes that the company will maintain its existing conservative financial policy with low leverage and with surplus cash applied for bolt-on acquisitions and shareholder distributions.

Factors that Could Lead to an Upgrade

Moody's could consider upgrading the rating to Baa1 if the company's leverage, measured by debt/EBITDA as adjusted by Moody's, moves sustainably below 3.0x with a retained cash flow (RCF) / Net Debt moving towards the mid-20s.

Factors that Could Lead to a Downgrade

Negative pressure could develop if the conditions for a stable outlook are not met, if ISS's leverage moves above 3.5x for a sustainable period of time or if the company's RCF/ Net Debt moves below the high teens.

Key Indicators

Exhibit 1
Key Indicators
ISS Global A/S [1] [2]

	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Revenue (USD Billion)	$11.8	$11.8	$13.2	$14.0	$13.7
EBITA Margin	6.0%	6.0%	5.9%	5.4%	6.2%
Debt / EBITDA	3.2x	3.3x	3.5x	5.1x	5.1x
EBITA / Interest	6.1x	5.6x	3.4x	1.8x	1.6x
RCF / Net Debt	17.2%	22.9%	21.5%	12.2%	8.9%

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

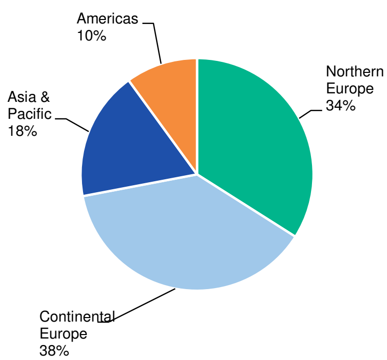
Detailed Rating Considerations

LARGE SCALE AND DIVERSIFICATION WITH WIDE GEOGRAPHIC FOOTPRINT

With around DKK 79 billion (EUR 10.6 billion) of revenues in FY 2016, ISS is a leading facilities services provider in an industry that remains fragmented. Whilst it continues to have a high exposure to cleaning services, which represented 50% of total revenues in FY2016, 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 Integrated Facility Services (IFS, 37% of FY2016 revenues) and multi-services (15% of FY2016 revenues) in ISS's business mix and believe this makes the company a more attractive partner to global companies. IFS revenues grew by 14% in FY2016 through conversion of single-service customers and new contract wins.

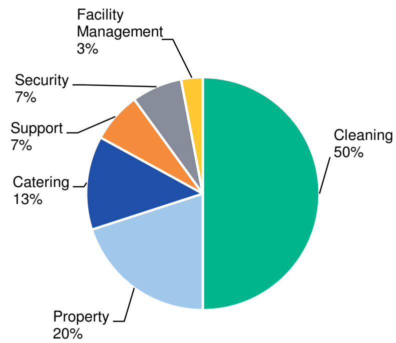
With a presence in 74 countries, ISS has a relatively wide global footprint, which helps protect it against more regional downturns or issues in operating performance. ISS's operations remain focused on Europe (72% of group revenues in FY2016), including the Nordics (19%), the UK (15%), Switzerland (7%), France (6%) and Spain & Portugal (6%). However the company derives an increasing proportion of its revenues from high-growth regions in emerging markets, which grew by 7% organically and represented 25% of group revenues in FY2016. It has relatively low penetration of the North American market (6% of FY2016 revenues) and as a growing and potentially high margin market increasing presence in this region is a key strategic focus.

Exhibit 2
FY2016 revenues by geography



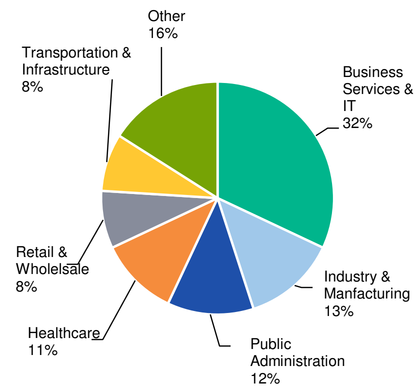
Source: Company reports

Exhibit 3
FY2016 revenues by activity



Source: Company reports

Exhibit 4
FY2016 revenues by customer segment



Source: Company reports

However we also note that the company currently generates around 15%-20% of its group revenues through above-base work (i.e. once-only) under existing contracts. We believe these 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.

POSITIVE MARKET GROWTH PROFILE

The global outsourced facility services market is large and highly fragmented with different levels of maturity and demand dynamics across regions. The company has estimated that the market is growing annually at mid-single digit rates, driven by a combination of economic activity and greater levels of outsourcing, as customers increasingly seek to focus on their core activities and in the context of an increasing complexity of health, safety and environmental compliance. In emerging markets growth is considerably faster due to lower levels of outsourcing penetration and is focused to a greater extent on single services. In more mature markets customers are trending towards IFS, a subsector exhibiting near double-digit growth, as larger more sophisticated buyers seek vendor consolidation, value-added partnerships and an element of risk-transfer of compliance issues.

Customers typically commence IFS in limited regions or within a small scope of services and subsequently expand, allowing attractive and relatively predictable growth with existing customers. We expect that the expansion of IFS will require a continued strong focus on technology to deliver efficient and value-added services. The smaller regional single service market is by contrast somewhat more challenging and price-sensitive as customers continually demand cost savings which become incrementally harder to achieve. This market is better suited to larger players with high network density, and as customers transfer to more complex IFS contracts a wider range of cost saving opportunities becomes available.

COMPETITIVE FRAGMENTED INDUSTRY

As the market has evolved the nature of competition has become very broad, from local or regional players focused on smaller single service contracts, to a range of global facilities management companies approaching IFS from a more narrow historic specialism. As the distinction between companies with different legacy activities becomes more blurred a wider range of competition is emerging. ISS competes with a range of players within the IFS space include providers of property related (or “hard FM”) services such as Jones Lang

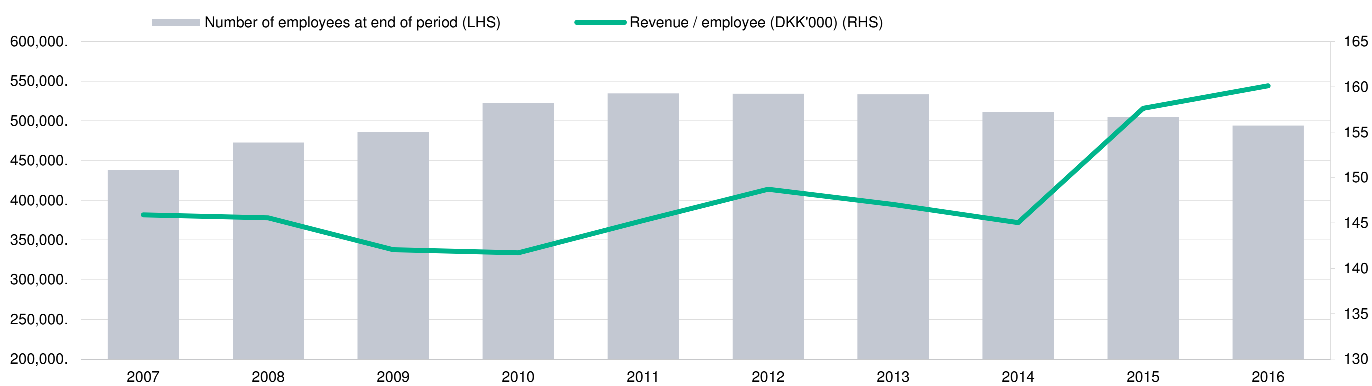
Lasalle Incorporated (Baa2, Positive), CBRE Services, Inc. (Baa3, Stable) and Cushman & Wakefield (issuing through DTZ UK Guarantor Ltd - B2 stable), and global outsourcers Compass (A3, Stable) and Sodexo S.A. (unrated). In addition technology companies such as Oracle Corporation (A1, Negative), Cisco Systems, Inc. (A1, stable) and IBM (Aa3, negative) have entered the facilities management market with automated solutions in areas such as security and reception.

ISS's competitive strengths reside in its scale and global leadership and its focus on self-delivery of highly labour-intensive activities - it employs 494,000 staff - requiring a complex HR management capability. Hard FM players typically used third party providers for a large proportion of their services and ISS has greater potential to extract cost savings from activities managed internally and to leverage the efficiency, productivity and compliance benefits of its HR platform. Nevertheless hard FM players represent important competitors as larger contracts typically contain a high proportion of building-related technical services such as heating and ventilation, and property management. Technology and data analytics are likely to play an increasing part in market development, as evidenced by ISS's partnership with IBM, and whilst automation may start to reduce the staff management component of the market we expect ISS's activities to remain highly labour-intensive in the medium term.

As ISS has carried out divestments, shifted towards more technical services and IFS, and rationalised its European operations its staff profile has changed and this is shown in a gradually reducing headcount and increases in revenue per employee as shown in the table below:

Exhibit 5

Employee numbers and revenues per employee



Changes in revenues / employee are affected by organic growth, currency movements and acquisitions and divestments

Source: Company repots

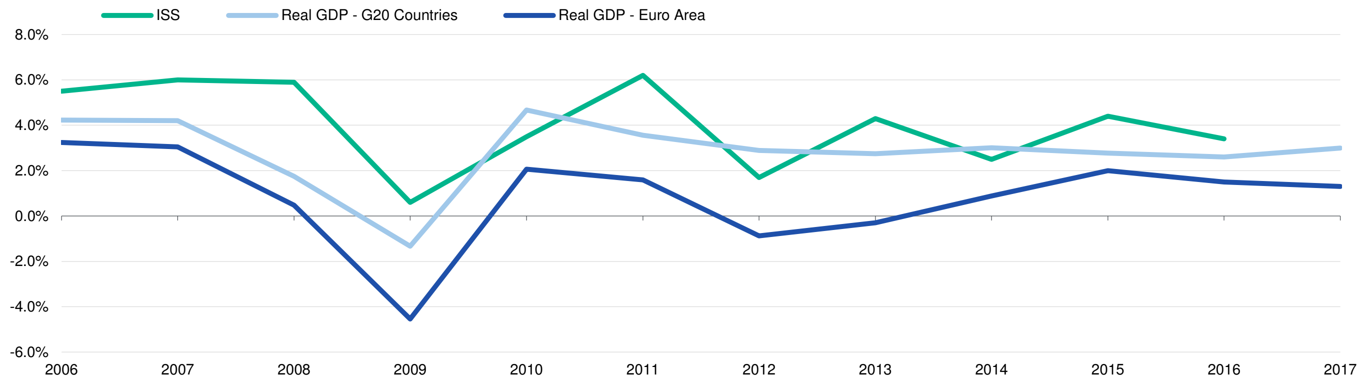
STRONG TRACK RECORD OF ORGANIC REVENUE GROWTH THROUGH THE CYCLE

ISS has a strong trading record over the economic cycle. In each of the last 10 years the company has recorded positive organic revenue growth, with the lowest level of 0.6% recorded in FY2009. Revenues are relatively closely correlated to economic growth particularly in Europe which represents 72% of FY2016 revenues.

Exhibit 6

ISS has a long term track record of organic revenue growth

Change in organic revenues compared to G20 countries and Euro Area Real GDP



Real GDP estimated data shown for 2016 and 2017

Source: Company reports, Haver, IMF, Moody's Macroeconomic Board

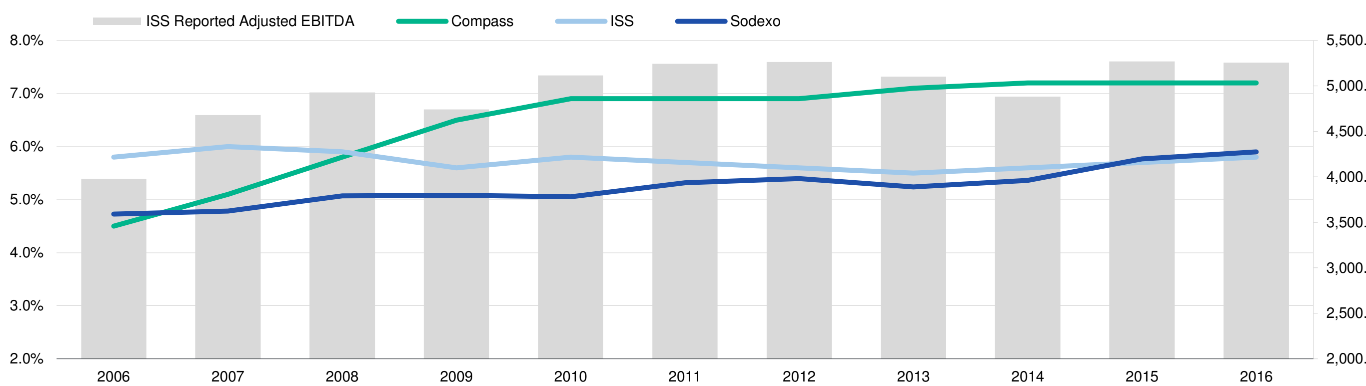
Whilst the non-portfolio business is generally more vulnerable to economic conditions, the historic trends support the sustainability of revenues driven by high levels of contracted income, strong retention rates and high geographic, customer and service line diversity.

There was only a modest fall in profitability in this period, with reported EBITDA before exceptional items falling by approximately 4% in FY2009. This was followed by a swift recovery, with organic revenue growth of 3.5% in FY2010 and reported EBITDA recovering above FY2008 levels.

Exhibit 7

Reported adjusted EBITDA and operating margins show resilience over the cycle

Reported adjusted operating margins for ISS, compared to Compass and Sodexo and ISS reported adjusted EBITDA



Data refers to financial years ending 30 September for Compass, 31 December for ISS and 31 August for Sodexo

Margins refer to reported operating profit margin before exceptional and non-recurring items

Source: Company reports

Reported adjusted operating margins have been relatively stable, with a gradual improvement to 5.8% in FY2016 from 5.5% in FY2013 as the company focused on integrating past acquisitions, divested non-core operations and reorganised its cost base.

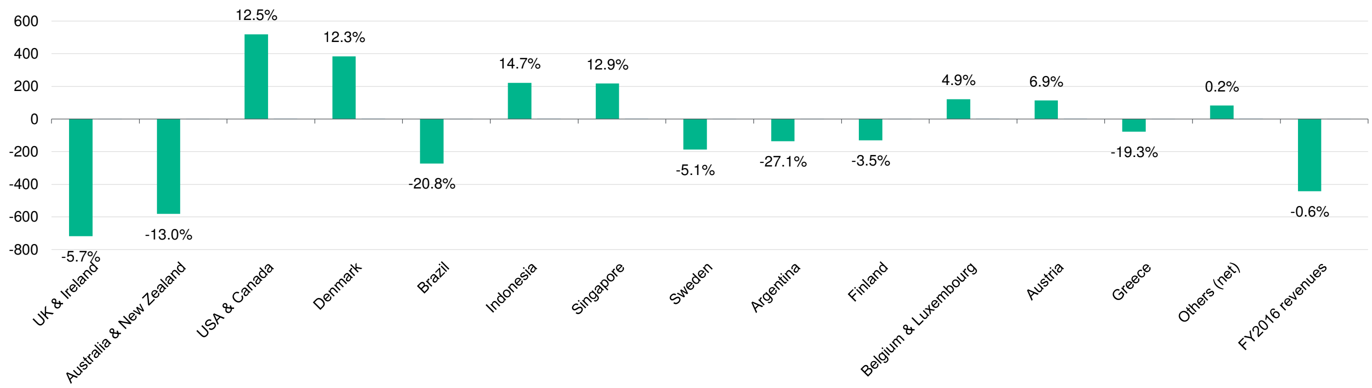
CONTINUED SOLID TRADING PERFORMANCE AND HIGH CASH GENERATION

ISS has continued to deliver solid trading in FY2016, with organic revenues growing by 3.4% in the year, offset by adverse currency movements of 3%, mainly from the depreciation of sterling against Danish Krone. Profitability has improved with reported adjusted operating margin increasing to 5.8% in FY2016 from 5.7% in the previous year. The company remains highly cash generative, with low capital expenditure, representing 1% of revenues in FY2016, and total free cash flow before financing activities of DKK 2.9 billion. Moody's-adjusted leverage remains stable, down slightly to 3.2x at FY2016 from 3.3x last year.

The trading performance demonstrates the company's diversity and resilience in the context of significant headwinds and a low growth environment in its core markets. In particular three major contracts were lost or completed in Australia, two of which within the resources sector, which drove a 13% revenue decline in Australia and New Zealand region in the year (in DKK equivalent). The market in Brazil continued to contract and the company downsized its operations resulting in a 21% revenue fall in DKK equivalent. These two regions accounted for approximately 7% of group revenues in FY2015.

Exhibit 8

FY2016 total revenue changes by country (including currency effects)



Changes in revenues in DKK millions include the effects of currency movements, acquisitions and divestments as well as organic growth

Source: Company reports

These effects were offset by strong organic growth in other regions, particularly emerging markets (up 7% organically), North America, the UK and Denmark driven principally by new contract wins.

Organic revenue growth has slowed towards the end of the year, at below 2% in the fourth quarter excluding the effects of one-off non-portfolio revenue growth, due to the contract losses in Australia and the annualisation effect of new contract start ups at the end of FY2015. As a result growth is expected to be slow in the first half of FY2017 and the company is guiding towards growth in the full year of 1.5-3.5%, depending on the pace of new wins later in the year. This will be supported by a new contract with Shire plc (Baa3, Stable) which when fully rolled out will add 1% to revenues from FY2018. The company reports a low level of major contract renewals pending, with two of the ten global corporate clients renewing in FY2017. ISS is currently in dialogue with these clients and contracts are expected to be renegotiated.

We expect growth in the mid to higher end of guidance, with relatively slow growth continuing in Europe. Whilst the outlook for commodities markets is improving, we expect limited effect in FY2017 with a more positive effect from FY2018 and beyond.

We expect the company to continue to distribute surplus cash to shareholders.

CONSERVATIVE FINANCIAL POLICIES

The company has adopted conservative financial policies since its IPO in 2014. We expect ISS continue to focus on organic growth, continuing its strategy adopted over the last 5-6 years, with acquisitions likely to be mainly small bolt-on transactions financed from existing credit facilities and cash flow. The company is seeking to maintain reported net leverage of below 2.5x at all times. Whilst it is currently below this level at 2.1x at December 2016, seasonal cash outflows and the dividend payment are expected to move reported leverage back towards the target maximum.

In April 2017 ISS announced the USD225 million acquisition of Guckenheimer, which is strategically significant in expanding the company's capabilities in food service in the US. The transaction will be debt funded and is expected to result in a small temporary increase in reported leverage of 0.2x (0.1x - 0.2x on a Moody's-adjusted basis). We anticipate that leverage metrics will return to target levels within 12-18 months.

We expect the company to continue to utilise surplus cash for acquisitions and shareholder distributions. ISS's dividend policy remains a 50% payout ratio on profit before goodwill amortisation and impairment on brands and customer contracts. The company retains financial flexibility through a proportion of discretionary dividends (DKK 734 million in FY2016) to be declared once other cash requirements are identified. Accordingly we expect limited changes in the company's leverage metrics over the next 12-18 months.

LOW OPERATING MARGINS AND INFLATIONARY PRESSURES

ISS's reporting operating margins are low in the context of the broader business services sector, however this reflects the nature of its industry in which large amounts of non-core functions are outsourced to the company and efficiency savings are shared with customers. ISS has a strong long term track record of stable profitability and has achieved gradual growth in reported adjusted operating margin since FY2013.

The company has faced increasing cost inflation in FY2016 which we expect will continue in the next year. Minimum wage levels have increased in several countries including the UK and Turkey and further labour inflation is expected in the UK and certain US states. ISS manages inflation effects through a combination of contractual cost pass-through, efficiencies and innovation, and retendering or renegotiating with customers. It is also accustomed to operating in higher inflation emerging market economies. In addition IFS provides the opportunity to add greater value to customers and effectively manage cost inflation pressures through a broad-based dialogue across a range of services.

CURRENCY TRANSLATION EXPOSURE

The company is exposed to foreign currency rate movements principally through the translation of currency flows into its reporting currency, DKK. 97% of ISS's drawn debt is denominated in Euros (at 31 December 2016) and hence the company's leverage levels are exposed to depreciation in the rates of its basket of currencies against the Euro. Based on the split of revenues and operating profits we estimate that approximately 20-25% of cash flows are denominated in Euros. Key currency exposures are to emerging markets (c. 25%), Nordic currencies (15%), UK sterling (15%), Swiss franc (7%) and USD (5%). The depreciation of sterling had a significant adverse effect on results in FY2016, whilst the company expects a limited currency impact in FY2017. However earnings volatility is expected to continue and the growing exposure to emerging markets increases the company's risk of adverse currency effects in future.

Liquidity Analysis

We expect ISS's liquidity profile to be good over the next 12-18 months. At 31 December 2016, ISS had cash balances of around DKK 4.4 billion (EUR 584 million). Further liquidity cushion is provided by the company's EUR 850 million revolving credit facility, of which approximately EUR 807 million remained undrawn at 31 December 2016. We expect ISS to maintain a solid headroom to its maintenance covenants. The financial year end represents a seasonally high liquidity position with working capital outflows and dividend payments over the first four months of the year leading to cash outflows of approximately EUR 250 - 300 million. There are no near-term debt maturities with the EUR 300 million term loan B and the RCF the first to mature in 2019.

Profile

Headquartered in Copenhagen, ISS Global A/S (ISS, or the company) is one of the world's leading facility services providers. The company is an indirect wholly-owned subsidiary of ISS A/S, which has been listed on the OMX Nasdaq Copenhagen Stock Exchange since March 2014. ISS Global A/S is the issuer of the group's bonds and is the direct or indirect parent company of the group's operating subsidiaries. Consolidated accounts are prepared at the level of ISS A/S and financial information contained herein refers to ISS A/S consolidated data. On 30th March 2017 ISS A/S had a market capitalisation of approximately DKK50 billion.

Rating Methodology and Scorecard Factors

The principal methodology used in rating ISS was the Business and Consumer Service Industry Rating Methodology published in October 2016. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Exhibit 9
ISS Global A/S

Business and Consumer Service Industry Grid [1][2][3]	Current FY 12/31/2016		Moody's 12-18 Month Forward View As of 3/30/2017 [4]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$11.8	A	$11.8 - $12.2	A
Factor 2 : Business Profile (20%)				
a) Demand Characteristics	A	A	A	A
b) Competitive Profile	A	A	A	A
Factor 3 : Profitability (10%)				
a) EBITA Margin	6.0%	Caa	6.1% - 6.2%	Caa
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	3.2x	Ba	3.1x - 3.3x	Ba
b) EBITA / Interest	6.1x	Baa	6.2x - 6.4x	Baa
c) RCF / Net Debt	17.2%	Ba	14.5% - 16%	Ba
Factor 5 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2016; Source: Moody's Financial Metrics™
[3] All data are based on ISS A/S financial data
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

Ratings

Exhibit 10

Category	Moody's Rating
ISS GLOBAL A/S	
Outlook	Stable
Issuer Rating -Dom Curr	Baa2
Senior Unsecured	Baa2

Source: Moody's Investors Service

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