

Rating Action: **Moody's upgrades ISS to Baa3 from Ba3; stable outlook**

Global Credit Research - 28 Mar 2014

London, 28 March 2014 -- Moody's Investors Service has today upgraded the corporate family rating (CFR) of ISS A/S (ISS) three notches to Baa3 from Ba3 and withdrawn the Ba3-PD probability of default rating. Concurrently, Moody's has also upgraded the company's senior subordinated notes to Ba1 from B2. The Ba2 ratings and the outlook of the senior secured facilities of ISS Global A/S have been withdrawn as they have been repaid in full 18 March, 2014. The outlook on the ratings of ISS is stable. The upgrade concludes the review which was initiated on 20 February.

RATINGS RATIONALE

"The upgrade of the CFR to Baa3 reflects the reduction in ISS's net leverage following its successful IPO," says Knut Slatten, Moody's lead analyst for ISS. "As the gross proceeds are being applied towards the redemption of certain debt instruments, we anticipate a considerable strengthening of free cash flows as interest payments diminish", adds Mr Slatten.

On 13 March, ISS announced it had priced its IPO at DKK160 per share, giving it a market capitalisation of around DKK29.6 billion (EUR4 billion). The IPO raised approximately DKK8.0 billion (EUR1.1 billion) of gross proceeds that the company will be applying towards reimbursing certain debt liabilities during the course of 2014. Moody's expects that the company's leverage -- defined as adjusted debt/EBITDA -- will be slightly above 4.0x by the end of 2014. The rating agency notes ISS's financial policies have grown more conservative over time and expects that the company will maintain a balanced approach to shareholders and creditors post the IPO.

On 18 March, ISS requested a drawdown under its new senior unsecured facilities. Together with cash on hand and proceeds obtained through the IPO, ISS has repaid in full its senior secured facilities on March 18, 2014. As a consequence, Moody's has withdrawn its ratings on the senior secured facilities. Furthermore, we understand ISS seeks to reimburse in full its outstanding subordinated notes around the 15th of May, 2014. Moody's will withdraw its ratings on the subordinated notes when these are no longer outstanding.

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.

Moody's expects that ISS's liquidity profile will be good going forward and notes the new senior unsecured facilities do not mature until 2017 and 2019, respectively. Moody's expects that ISS will maintain solid headroom to the maintenance covenants it has to meet.

The stable outlook reflects Moody's expectation that ISS will continue deleveraging, allowing for leverage to improve further from an anticipated high-point slightly above 4.0x by year-end 2014 on an adjusted basis. Moreover, the stable outlook also incorporates Moody's expectation that ISS will maintain conservative financial policies post the IPO, allowing for cash flow metrics to strengthen.

WHAT COULD CHANGE THE RATING UP/DOWN

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. Conversely, 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.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was the Global Business & Consumer Service Industry Rating Methodology published in October 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Based in Copenhagen, Denmark, ISS is one of the leading facility services providers in the world. The company recorded revenues of DKK78 billion (EUR10 billion) in financial year 2013.

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