

RatingsDirect®

ISS A/S

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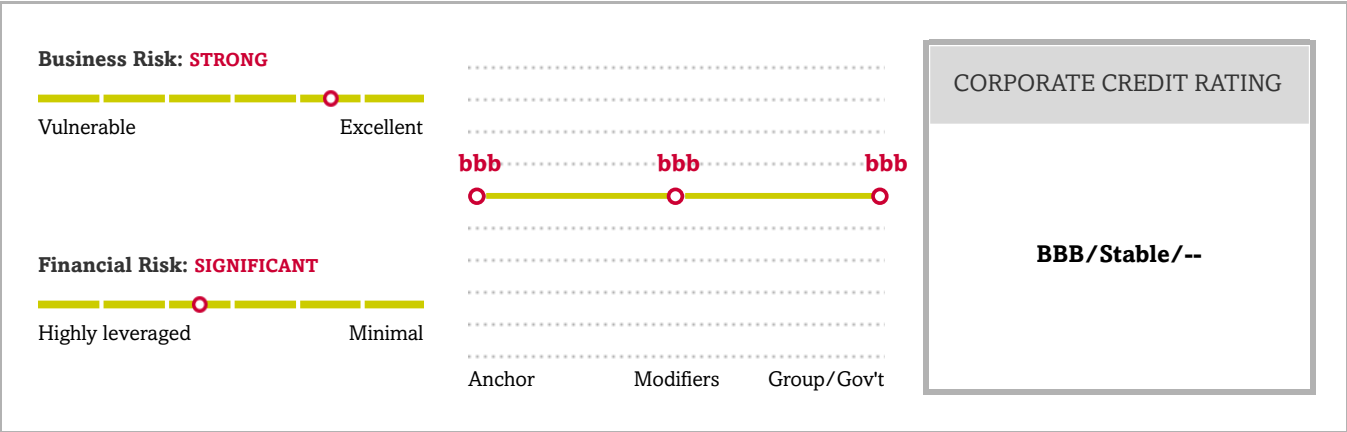
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ISS A/S



Rationale

Business Risk: Strong	Financial Risk: Significant
<ul style="list-style-type: none">• Leading player in the facilities services industry.• Wide geographic and customer diversity.• Resilient nature of basic services business.• Highly competitive and fragmented facilities management sector, with relatively low margins.• Limited flexibility in pricing.	<ul style="list-style-type: none">• Strong cash generation from business operations, with low fixed asset intensity and capital expenditure needs.• High cash conversion rates.• Bolt-on acquisition strategy targeted at enhancing core service offering.• Forecast funds from operations (FFO) to debt of 26%-30%.

Outlook: Stable

The stable outlook on ISS A/S reflects S&P Global Ratings' expectation that the company will continue to experience modest levels of 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' FFO to debt of 20%-30% as commensurate with the current rating level, and expect the company to remain at the higher end of that range.

Upside scenario

We could raise the rating if ISS' operating performance continues to be stable while maintaining 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 FFO to debt be sustained above 30%.

Downside scenario

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

Our Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> GDP growth of 1.4% in the eurozone, 1.4% in the U.K., and 2.4% in the U.S. in 2016. Organic revenue growth of 2%-3% in 2017 and 2018. Stable operating margins. 		2016a	2017e	2018e
	Adj. EBITDA margin (%)	8.0	7.5-8.5	7.5-8.5
	Debt/EBITDA (x)	2.6	2.6-2.9	2.5-2.8
	FFO/debt (%)	27.4	26.0-29.0	27.0-30.0
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.

During 2016, ISS reported revenue of Danish krone (DKK) 79.1 billion (2015: DKK79.5 billion), reflecting organic growth of 3.4% (2015: 4.4%). Emerging markets continued to perform well and delivered 7% organic growth (8% in

2015). Reported EBITDA fell slightly to DKK5.1 billion (2015: DKK5.3billion) due to restructuring charges relating to the company's ongoing operating efficiency program.

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

In April 2017, ISS announced the acquisition of California-based catering company Guckenheimer for about DKK1.5 billion, to be financed using its existing credit facilities. We see the acquisition as in keeping with ISS's objective to increase its footprint in the U.S. catering market.

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 a 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 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.

Additionally, our business risk assessment incorporates our view of the global facilities services industry's intermediate risk and ISS' low country risk.

Our Base-Case Operating Scenario

Our base-case scenario for ISS indicates marginally improving credit metrics supported by stable margins and continued organic growth. Key elements for our base-case scenario are:

- Total revenue growth of about 4% in 2017 and 2018, with limited impact forecast from foreign exchange movements and divestments.
- Organic revenue growth in Continental Europe to slow to about 2% in 2017 due to ongoing uncertainty in the eurozone with upcoming elections in France and Germany, and the aftermath of the U.K.'s referendum vote to leave the EU.
- Organic revenue growth in Northern Europe in 2017 to slow to about 2% due to the expected slowdown in economic growth in the U.K. as it negotiates its exit from the European Union.
- Organic revenue growth in Asia Pacific is forecast to closely follow 2017 GDP growth in the region of about 4%-5%, with slower growth expected in China, but with continued positive trends in India.
- Total revenue growth in the Americas in 2017 of about 18%, largely driven by the acquisition of Guckenhimer, which we expect to be consolidated from the start of third-quarter 2017. Our forecast also assumes organic growth of about 3% in the rest of the Americas business as we expect recovery in Latin America to augment continued growth in the U.S.
- Flat adjusted EBITDA margin of about 8%.

Peer comparison

Table 1

ISS A/S -- Peer Comparison

Industry Sector: Facilities Services

	ISS A/S	Compass Group PLC	Sodexo	G4S PLC	Securitas AB
(Mil. DKK)	--Fiscal year ended Dec. 31, 2016--	--Fiscal year ended Sep. 30, 2016--	--Fiscal year ended Aug. 31, 2016--	--Fiscal year ended Dec. 31, 2015--	
Revenues	79,137.0	168,720.6	150,675.7	69,494.7	65,898.0
EBITDA	6,333.0	17,513.8	11,619.1	5,174.7	4,845.7
Funds from operations (FFO)	4,601.6	13,886.9	8,164.4	3,201.9	3,553.0
Net income from cont. oper.	2,216.0	8,537.1	4,740.9	101.3	1,985.7
Cash flow from operations	4,596.6	14,119.3	7,725.3	2,847.5	3,340.7
Capital expenditures	875.0	4,974.3	2,567.7	1,124.0	1,082.8
Free operating cash flow	3,721.6	9,145.0	5,157.6	1,723.5	2,257.9
Discretionary cash flow	1,625.6	4,799.0	2,515.4	(38.4)	1,365.3
Cash and short-term investments	4,300.0	2,977.7	12,406.8	3,787.1	1,688.0
Debt	16,777.5	32,527.1	14,372.5	25,310.1	11,550.9
Equity	13,920.0	21,687.1	27,552.6	7,585.3	10,211.8
Adjusted ratios					
EBITDA margin (%)	8.0	10.3	7.7	7.5	7.4
Return on capital (%)	11.8	25.1	19.7	6.0	15.1

Table 1

ISS A/S -- Peer Comparison (cont.)					
Industry Sector: Facilities Services					
	ISS A/S	Compass Group PLC	Sodexo	G4S PLC	Securitas AB
(Mil. DKK)	--Fiscal year ended Dec. 31, 2016--	--Fiscal year ended Sep. 30, 2016--	--Fiscal year ended Aug. 31, 2016--	--Fiscal year ended Dec. 31, 2015--	
EBITDA interest coverage (x)	7.4	14.6	9.8	3.7	10.2
FFO cash int. cov. (X)	16.5	17.8	8.8	4.3	14.1
Debt/EBITDA (x)	2.6	1.9	1.2	4.9	2.4
FFO/debt (%)	27.4	42.4	56.8	12.7	30.8
Cash flow from operations/debt (%)	27.4	43.1	53.7	11.3	29.0
Free operating cash flow/debt (%)	22.2	27.8	35.9	6.9	19.6
Discretionary cash flow/debt (%)	9.7	14.5	17.5	(0.1)	11.9

DKK--Danish krone.

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 focus on organic growth in the near-to-medium term alongside a bolt-on acquisition strategy targeted at enhancing the company's core service offering.

We forecast that ISS' adjusted debt to EBITDA will marginally improve to about 2.6x-2.9x in 2017 and 2.5x-2.8x in 2018 as the company continues to generate organic revenue growth in the low-single digits while maintaining stable margins. Over the same period, we expect the company's FFO-to-debt ratio to be 26%-30%, 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 be maintained at 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 capital expenditure (capex) requirements.

Our Base-Case Cash Flow And Capital Structure Scenario

Our base-case forecast assumptions for the full-year 2017 include the following key elements:

- Capex of about 1% of annual revenues.
- Dividends of nearly DKK2.0 billion paid in 2017.
- Acquisition spend of about DKK1.7 billion in 2017.

Financial summary

Table 2

ISS A/S -- Financial Summary					
Industry Sector: Facilities Services					
	--Fiscal year ended Dec. 31--				
	2016	2015	2014	2013	2012
Rating history	BBB/Stable/--	BBB-/Positive/--	BBB-/Stable/--	BB/Positive/--	BB-/Positive/--
(Mil. DKK)					
Revenues	79,137.0	79,579.0	74,105.0	78,459.0	79,454.0
EBITDA	6,333.0	6,312.5	6,011.5	5,929.5	6,186.4
Funds from operations (FFO)	4,601.6	4,467.3	4,056.2	2,826.2	2,866.9
Net income from continuing operations	2,216.0	2,211.0	1,011.0	(399.0)	(447.0)
Cash flow from operations	4,596.6	4,711.3	3,503.2	3,337.2	3,266.5
Capital expenditures	875.0	913.0	848.0	902.0	881.0
Free operating cash flow	3,721.6	3,798.3	2,655.2	2,435.2	2,385.5
Discretionary cash flow	1,625.6	2,891.3	2,655.2	2,435.2	2,385.5
Cash and short-term investments	4,300.0	4,526.0	3,557.0	3,277.0	3,544.0
Debt	16,777.5	17,177.6	16,723.6	26,905.7	30,902.3
Equity	13,920.0	14,504.0	12,920.0	4,246.0	5,023.0
Adjusted ratios					
EBITDA margin (%)	8.0	7.9	8.1	7.6	7.8
Return on capital (%)	11.8	11.9	10.3	7.0	8.4
EBITDA interest coverage (x)	7.4	7.2	4.6	2.7	2.4
FFO cash int. cov. (x)	16.5	13.7	5.9	2.9	2.3
Debt/EBITDA (x)	2.6	2.7	2.8	4.5	5.0
FFO/debt (%)	27.4	26.0	24.3	10.5	9.3
Cash flow from operations/debt (%)	27.4	27.4	20.9	12.4	10.6
Free operating cash flow/debt (%)	22.2	22.1	15.9	9.1	7.7
Discretionary cash flow/debt (%)	9.7	16.8	15.9	9.1	7.7

DKK--Danish krone.

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
<ul style="list-style-type: none"> • Cash and cash equivalents of about DKK4.3 billion as of Dec. 31 2016; • Approximately DKK6 billion available under its current revolving credit facility; and • FFO of about DKK4 billion in 2017. 	<ul style="list-style-type: none"> • Capex and working capital requirements of DKK1.2 billion; • Dividend payment of about DKK2.0 billion; • Seasonal working capital requirement of about DKK2.0 billion; • Purchase price of Guckenheim of DKK1.5 billion; and • Short-term debt maturities of about DKK0.3 billion.

Debt maturities

- 2019: €1.15 billion
- 2020: €700 million
- 2021: €500 million
- 2024: €500 million

Other Modifiers

We assess the company's financial policy as neutral as the company has demonstrated its commitment to maintaining an investment grade capital structure as a public company. Given the company's 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 corporate 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, 2016--							
ISS A/S reported amounts							
(Mil. DKK)	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations
Reported	15,338	13,910	5,119	4,427	509	5,119	3,690
S&P Global Ratings' adjustments							
Interest expense (reported)	--	--	--	--	--	(509)	--
Interest income (reported)	--	--	--	--	--	44	--
Current tax expense (reported)	--	--	--	--	--	(909)	--
Operating leases	4,386.9	--	1,201.0	316.2	316.2	884.8	884.8
Postretirement benefit obligations/deferred compensation	1,277.6	--	(43.0)	(43.0)	35.0	(84.2)	21.8
Surplus cash	(4,268)	--	--	--	--	--	--
Share-based compensation expense	--	--	95	--	--	95	--
Non-operating income (expense)	--	--	--	44	--	--	--
Non-controlling Interest/Minority interest	--	10	--	--	--	--	--
Debt - Fair value adjustments	58	--	--	--	--	--	--
EBITDA - Business Divestments	--	--	(39)	(39)	--	(39)	--
D&A - Impairment charges/(reversals)	--	--	--	(844)	--	--	--
Total adjustments	1,454.5	10.0	1,214.0	(565.8)	351.2	(517.4)	906.6
S&P Global Ratings' adjusted amounts							
	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations
Adjusted	16,792.5	13,920.0	6,333.0	3,861.2	860.2	4,601.6	4,596.6

Table 3**Reconciliation Of ISS A/S Reported Amounts With S&P Global Ratings Adjusted Amounts (cont.)**

DKK--Danish krone.

Related Criteria And Research**Related Criteria**

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial 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 21, 2017)**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/--

17-Aug-2012

BB-/Positive/--

Ratings Detail (As Of April 21, 2017) (cont.)
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
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*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.

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