MOODY'S
INVESTORS SERVICE

CREDIT OPINION
3 April 2018

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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CLIENT SERVICES

Americas	1-212-553-1653
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ISS Global A/S

Update to Credit Opinion

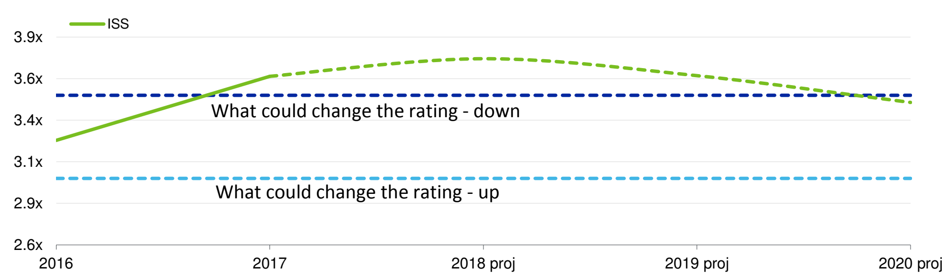
Summary

ISS Global A/S (ISS or the company) is a leading global provider of outsourced facilities management services, with broad revenue diversity and a long term track record of organic revenue growth and margin stability. It is focused on the self-delivery of services and employs approximately 489,000 staff, in sectors where high staff turnover means there is a critical HR and workforce compliance component to its service offering.

Whilst customer concentration is low the timing of contract gains and losses is expected to impact results over the next 2-3 years, with trading headwinds in 2018 before a large contract with Deutsche Telekom AG (Baa1, stable) commences from mid 2019. In addition ISS expects adverse currency movements to reduce revenues in 2018.

The company increased its gross debt in 2017 to take advantage of low long term interest rates and as a result Moody's-adjusted leverage has increased to 3.6x from 3.2x in 2016. We expect leverage to remain above 3.5x over the next 12-18 months. However the company is carrying increased levels of cash, with net debt in line with prior periods, and we expect leverage to reduce from 2019-20.

Exhibit 1
Moody's-adjusted debt/EBITDA



Moody's projections for 2018-20 are Moody's opinion and do not represent the views of the issuer
Source: Moody's Investors Service

We note the recent challenges facing certain companies within wider outsourcing sectors in the UK, but see limited overlap with ISS in terms of business models, risk profiles and exposure to large one-off projects and construction activities.

Credit Strengths

» Large scale and diversification with wide geographic footprint

» Strong record of organic revenue growth through the cycle with positive market growth

- Significant growth potential from Deutsche Telekom contract roll out
- Conservative financial policies

Credit Challenges

- Competitive and fragmented industry
- Headwinds from recent contract losses and adverse currency movements
- Low operating margins and inflationary pressures
- Moody's leverage expected to remain above 3.5x for next 12-18 months

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 2

Key Indicators

ISS Global A/S [1] [2]

USD Billion	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-2018 proj [3]	Dec-2019 proj [3]	Dec-2020 proj [3]
Revenue	$13.7	$14.0	$13.2	$11.8	$11.8	$12.1	$11.9	$12.3	$13.0
EBITA Margin	6.2%	5.4%	5.9%	6.0%	6.0%	5.7%	5.6%	5.6%	5.6%
Debt / EBITDA	5.1x	5.1x	3.5x	3.3x	3.2x	3.6x	3.7x	3.6x	3.5x
EBITA / Interest	1.6x	1.8x	3.4x	5.6x	6.3x	6.2x	6.1x	6.3x	6.7x
RCF / Net Debt	8.9%	12.2%	21.5%	22.9%	17.2%	19.6%	17.8%	16.4%	17.4%

[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.
[3] Moody's projections for 2018-20 are Moody's opinion and do not represent the views of the issuer
Source: Moody's Financial Metrics

Profile

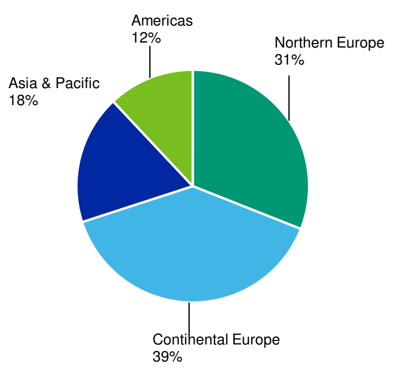
Headquartered in Copenhagen, ISS Global A/S (ISS, or the company), with 2017 revenues of approximately DKK 80 billion, is one of the world's leading facility services providers. The company is an indirect wholly-owned subsidiary of ISS A/S, which has been listed on the OMX Nasdaq Copenhagen Stock Exchange since March 2014. On 23rd March 2018 ISS A/S had a market capitalisation of approximately DKK 41 billion.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.

ISS has a relatively wide global footprint with a presence in over 70 countries. The company's operations are focused on Europe (70% of group revenues in 2017), including the Nordics (16%), the UK & Ireland (14%), Switzerland (7%), France (6%) and Spain & Portugal (6%).

ISS's origins are in cleaning services, which represented 49% of total revenues in 2017, and over time it has developed a wider offering. In particular the company's Integrated Facility Services (IFS, 38% of 2017 revenues) makes the company a more attractive partner to global companies and are a key growth driver.

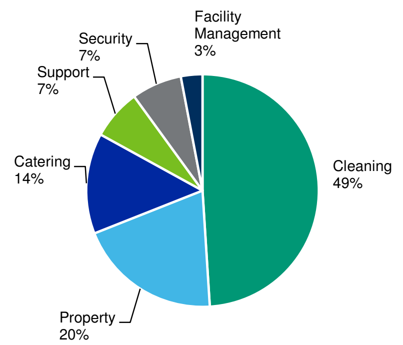
The company generates around 15%-20% of its group revenues through above-base (“non-portfolio”) revenues under existing contracts. This are inherently more variable and more vulnerable to cyclical effects.

Exhibit 3
2017 revenues by geography



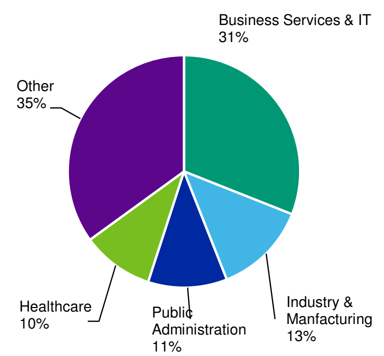
Source: Company reports

Exhibit 4
2017 revenues by activity



Source: Company reports

Exhibit 5
2017 revenues by customer segment



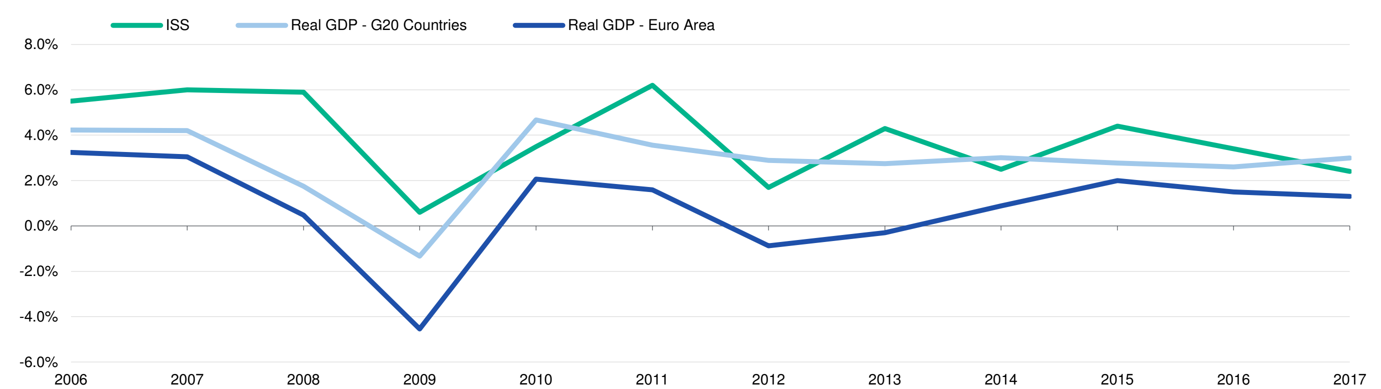
Source: Company reports

Detailed Credit Considerations

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 2009. Revenues are relatively closely correlated to economic growth in the company's key regions and hence European GDP growth is an important revenue driver.

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



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

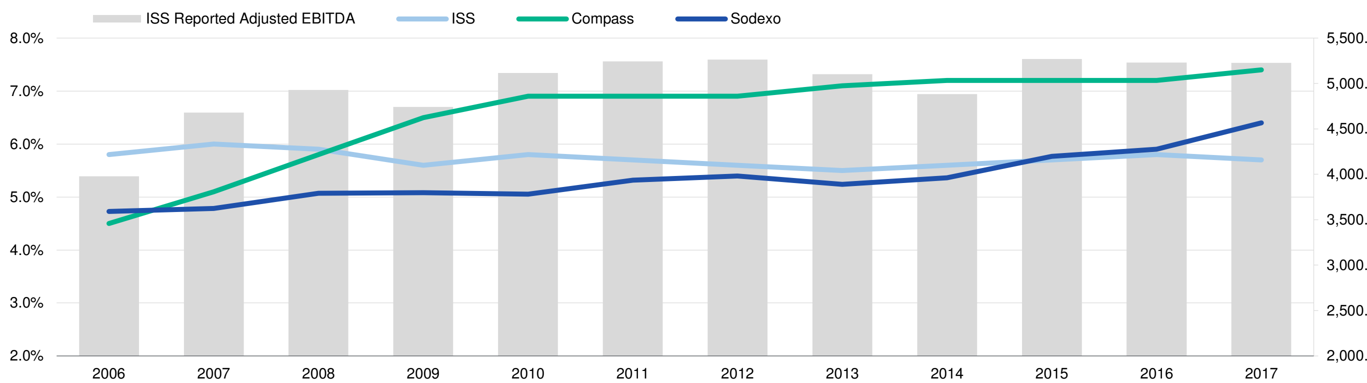
Whilst the non-portfolio business is generally more vulnerable to economic conditions, the historic trends support the sustainability of revenues driven by high levels of contracted income, strong retention rates and high geographic, customer and service line diversity.

There was only a modest fall in profitability in this period, with reported EBITDA before exceptional items falling by approximately 4% in 2009. This was followed by a swift recovery, with organic revenue growth of 3.5% in 2010 and reported EBITDA recovering above 2008 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 5.7% in 2017 from 5.5% in 2013 as the company focused on integrating past acquisitions, divested non-core operations and reorganised its cost base.

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 increasing complexity of health, safety, workforce 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.

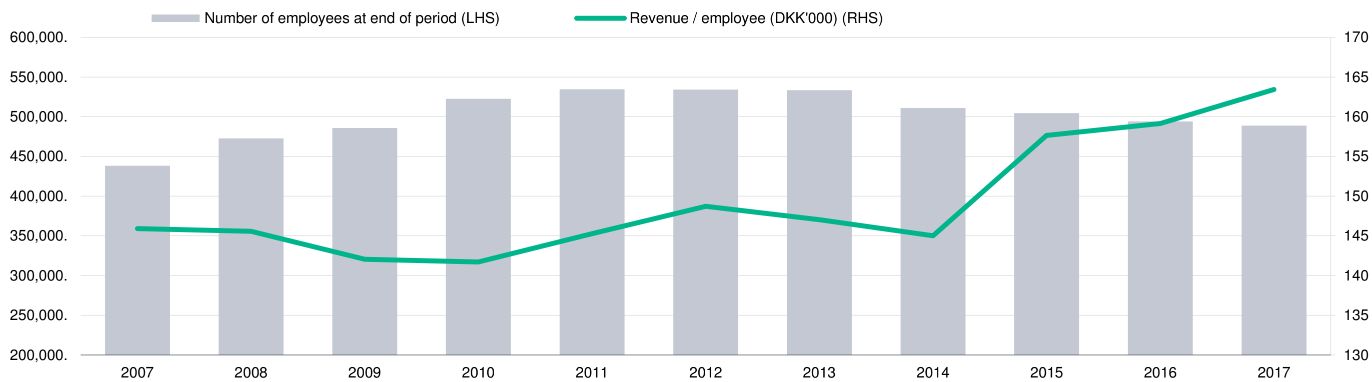
COMPETITIVE AND FRAGMENTED INDUSTRY

The market is fragmented with a wide range of local and regional players focused mainly on smaller single service contracts. Within IFS competition is limited mainly to large global companies such as Sodexo and also includes providers of property related (or "hard FM") services such as Jones Lang Lasalle Incorporated (Baa1, stable), CBRE Services, Inc. (Baa3, positive) and Cushman & Wakefield (issuing through DTZ UK Guarantor Ltd - B2 stable). In addition technology companies such as Oracle Corporation (A1, Negative), Cisco Systems, Inc. (A1, stable) and IBM (A1, stable) 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 489,000 staff - requiring a complex HR management capability. Hard FM players typically use 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 8
Employee numbers and revenues per employee



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

HEADWINDS FROM RECENT CONTRACT LOSSES AND ADVERSE CURRENCY MOVEMENTS

ISS grew organic revenues by 2.4% 2017, compared to 3.4% in 2016. Growth was below the longer term trend rates of approximately 3.6% as a result of strategic decisions to downsize the company's operations in China and Brazil, prior year contract losses in Australia, and increased competition in Sweden. These factors also impacted the company's adjusted operating margin reduced slightly to 5.7% from 5.8%. Contract churn also had a dilutive margin effect due to lower initial margins on new contract launches.

ISS is likely to face increasing labour cost inflation, particularly in the UK and US. However we expect the company to manage this through a combination of contractual cost pass-through, efficiencies and innovation, and retendering or renegotiating with customers.

In addition ISS was adversely effected by currency movements in 2017 which reduced revenues by approximately 1.9% and is expected to have a further -4% revenue impact in 2018.

As the company moves increasingly towards IFS contracts and a focus on larger key accounts, there is a growing level of revenue volatility. The effects remain relatively small, with the top 41 key accounts representing approximately 23% of 2017 revenues. However 2018 will be impacted by three larger contract losses (DXC Technology Company - Baa2, stable, HP Inc. - Baa2, stable and the EMEA operations of a global account) which will have a -2% impact on revenues in the year, and a dilutive effect on margins. As a result the company is expecting organic revenue growth of 1.5-3.5% in 2018 and margins to reduce by 5-10 basis points.

We expect faster growth to resume from mid 2019 due to contract wins, in particular the new contract with Deutsche Telekom which the company estimates will add approximately 4% to annual revenues.

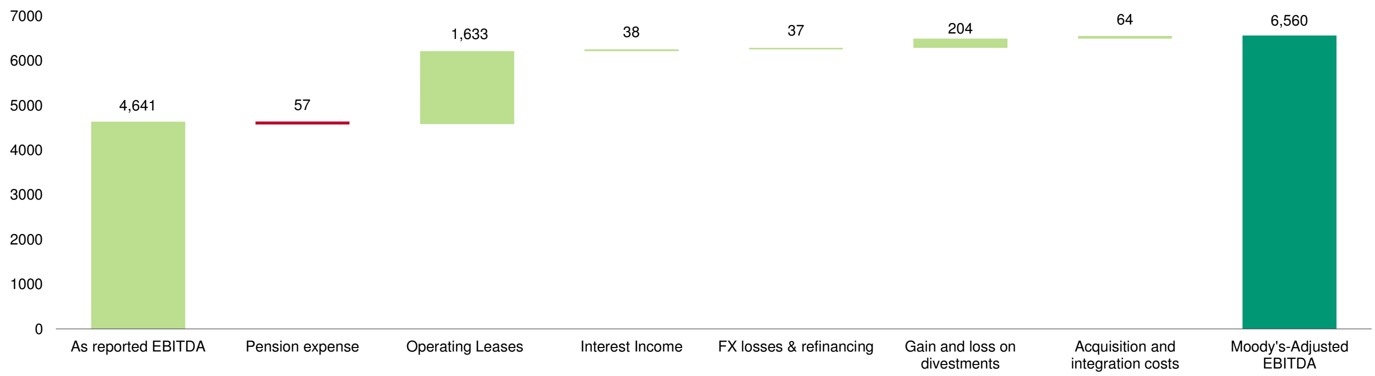
MOODY'S LEVERAGE EXPECTED TO REMAIN ABOVE 3.5X FOR NEXT 12-18 MONTHS

In 2017 ISS's leverage increased to 3.6x from 3.2x on a Moody's-adjusted basis. This was largely due to an increase in the company's gross debt following the issuance of €600 million of senior unsecured notes, of which €300 million were applied in repayment of existing debt. Leverage was also impacted by the debt-financed acquisition of Guckenheimer and by adverse currency effects.

We expect leverage to increase slightly in 2018 largely as a result of currency headwinds, before reducing from late 2019 and into 2020 as growth accelerates.

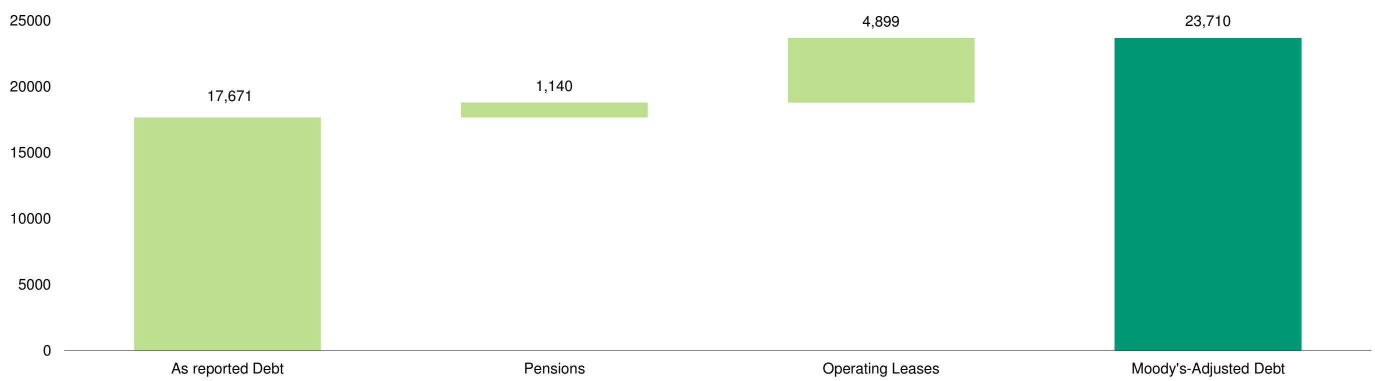
As a result we note that leverage likely to remain the expected limit for the rating category of 3.5x for the next 12-18 months. However we note that the debt issuance in 2017 served to lock in low long term interest costs and that the company maintains high cash balances (approximately DKK 6.3 billion at December 2017, compared to DKK 4.3 million at December 2016). We also note the timing of contract gains and losses and the high growth profile expected from 2019-20.

Exhibit 9
Moody's-adjusted EBITDA reconciliation for 2017



Source: Moody's Financial Metrics

Exhibit 10
Moody's-adjusted Debt reconciliation for 2017



Source: Moody's Financial Metrics

CONSERVATIVE FINANCIAL POLICIES

The company has adopted conservative financial policies since its IPO in 2014. We expect ISS to 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 2.2x at December 2017, seasonal cash outflows and the dividend payment are expected to move reported leverage back towards the target maximum.

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 to be declared once other cash requirements are identified.

ISS has a rigorous corporate governance environment which complied with all of the Danish Corporate Goverance recommendations (except in relation to board member retirement age stipulations). Compliance with labour regulations and adherence to workplace standards are key risks which are addressed through wide-ranging policies and procedures. ISS self-delivers the majority of its services and this enables the company to exercise stronger control over labour compliance risks than under sub-contractor models, and effective management of customers' own compliance risk is a key part of its service offering.

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 2017) and hence the company's leverage levels are exposed to depreciation in the rates of its basket of currencies against the Euro. Approximately 33% of company adjusted operating profit in 2017 was denominated in Euros. Key currency exposures are to emerging markets (c. 25%), UK sterling (18%), Swiss franc (11%), Nordic currencies (c. 10%) and USD (3%). The appreciation of DKK and Euros against a basket of other currencies, in particular of sterling, has had an adverse effect in 2017 and will further affect 2018 results as detailed above. Earnings volatility is expected to continue and the growing exposure to emerging markets increases the company's risk of adverse currency effects in future.

LIMITED READ THROUGH FROM CHALLENGES FACED BY THE WIDER OUTSOURCING SECTOR IN THE UK

The wider outsourcing sector in the UK has experienced difficulties as evidenced by the liquidation of Carillion in January 2018, and profit warnings issued by Capita, Mitie and Interserve. To a limited degree these companies compete or have competed with ISS for cleaning and facilities management contracts.

We consider that there is limited read through to ISS from issues facing certain companies active in the UK outsourcing sector. ISS retains a high diversity of revenues which are largely based on recurring maintenance activities and is not exposed to large one-off construction project or IT system delivery. The company operates with a relatively low level of complexity, focusing on cleaning and IFS. It is also focused on the business and industry sector with a lower exposure to the public sector than many of its wider peers in the UK. In addition ISS has a long term track record of managing contract profitability as evidenced by its growth and operating profit performance.

Liquidity Analysis

We expect ISS's liquidity profile to be good over the next 12-18 months. At 31 December 2017, ISS had cash balances of around DKK 6.3 billion (€843 million). Further liquidity cushion is provided by the company's undrawn €1 billion revolving credit facility, available until 2022. 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 €250 - 300 million. There are no near-term debt maturities with €700 million senior unsecured notes the first to mature in 2020.

Structural Considerations

ISS Global A/S is a wholly owned subsidiary of ISS World Services A/S, which is wholly owned by the listed company ISS A/S. ISS Global A/S is the direct or indirect parent of the group's operating companies and issues debt under its EMTN programme. ISS Global A/S is a borrower of intercompany loans of DKK 6.6 billion from its holding companies. However ISS A/S is managed as a group as a whole, ISS Global A/S carries a very low default risk and we expect over time the intercompany loans to reduce as cash is upstreamed to ISS A/S to pay shareholder distributions.

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 11

ISS Global A/S

Business and Consumer Service Industry Grid [1][2][3]	Current FY 12/31/2017		Moody's 12-18 Month Forward View As of 3/30/2018 [4]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$12.1	A	$11.9 - $12.3	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	5.7%	Caa	5.6%	Caa
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	3.6x	Ba	3.6x - 3.7x	Ba
b) EBITA / Interest	6.2x	Baa	6.1x - 6.3x	Baa
c) RCF / Net Debt	19.6%	Ba	16.4% - 17.8%	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 12/31/2017; Source: Moody's Financial Metrics™
[3] All data are based on ISS A/S financial data
[4] 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

Appendix

Exhibit 12

ISS A/S summary financials and ratios with projections

In DKK million	Dec-16	Dec-17	Dec-2018 Proj	Dec-2019 Proj	Dec-2020 Proj
Income Statement					
Net Sales	78,658	79,912	78,151	80,974	85,725
EBITDA	6,850	6,560	6,372	6,552	6,857
EBIT	3,969	3,885	3,664	3,798	4,027
Interest Expense	758	742	715	715	715
Balance Sheet					
Cash & Mkt Sec	4,300	6,275	6,507	6,383	6,722
Total Debt	22,108	23,710	23,704	23,704	23,704
Cash Flow Statement					
CAPEX	2,437	2,450	2,482	2,571	2,522
Retained Cash Flow	3,082	3,421	3,068	2,839	2,960
Free Cash Flow	719	1,225	433	76	538
RCF / Net Debt	17.3%	19.6%	17.8%	16.4%	17.4%
FCF/Debt	3.3%	5.1%	1.8%	0.3%	2.3%
Profitability					
% Change in Sales (YoY)	6.1%	1.6%	-2.2%	3.6%	5.9%
EBITA Margin %	6.0%	5.7%	5.6%	5.6%	5.6%
Interest Coverage					
EBITA / Interest Expense	6.3x	6.2x	6.1x	6.3x	6.7x
(EBITDA - CAPEX) / Interest Expense	5.8x	5.5x	12.4x	12.8x	13.1x
Leverage					
Debt / EBITDA	3.2x	3.6x	3.7x	3.6x	3.5x

All historic data are based on ISS A/S financial data.
Moody's projections for 2018-20 are Moody's opinion and do not represent the views of the issuer
Source: Moody's Investors Service

Ratings

Exhibit 13

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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