STANDARD & POOR'S

RatingsDirect®

April 27, 2009

Summary:
ISS Holding A/S

Primary Credit Analyst:
Mohammed Fayek, London (44) 20-7176-3408; mohammed_fayek@standardandpoors.com

Secondary Credit Analysts:
Alf Stenqvist, Stockholm (46) 8-440-5925; alf_stenqvist@standardandpoors.com
Peter Tuving, Stockholm (46) 8-440-5913; peter_tuving@standardandpoors.com

Table Of Contents

Summary:
ISS Holding A/S

Credit Rating: BB-/Stable/--

Rationale

The ratings on Denmark-based facilities services provider ISS Holding A/S and related entities (ISS) reflect the group's highly leveraged financial profile and weak credit measures. They also reflect the risks associated with the group's acquisitive policies, which are likely to remain part of its strategy to add competencies and build critical mass and geographic presence.

The group's weaknesses are partially mitigated by its strong business risk profile, underpinned by a solid business position in an attractive--albeit fragmented and competitive--industry, and a good track record in integrating acquisitions. With sales of Danish krone (DKK) 68.8 billion, ISS benefits from a strong business position, particularly in Northern Europe, where it is a leader in most of its markets. Although there are few barriers to entry and pricing is competitive in the facilities services sector, the group has relatively high contract retention rates of about 90%, and is large enough to benefit from economies of scale. It also benefits from good geographic diversity and a highly diversified customer base.

Key business and profitability developments

The group's operational performance for financial 2008 was broadly in line with our expectations. Organic growth for 2008 was 5.3%, slightly lower than the 6.0% achieved in 2007, owing mostly to softening economic conditions in the ISS' core Western European markets. The group managed to broadly maintain its profitability with a reported operating profit margin of 5.9% (6.0% in 2007), which we expect to remain stable in the near term given the group's flexible (staff-related) cost base. For 2009, we expect growth in the facilities services industry to be lower than in 2008, but to remain positive in low single digits given the sector's relative resilience to recessionary pressures and the general trend toward outsourcing.

Key cash flow and capital-structure developments

In our view, the group is highly leveraged. As a consequence, its credit measures are weak, although improving. In 2008, adjusted debt to EBITDA was about 7.0x (7.3x in 2007), and EBITDA interest coverage was 1.9x (1.9x in 2007). We expect a continued gradual improvement in credit measures, supported by strengthening operating cash flows. The improvement in credit measures is also supported by the expected slowdown in debt-funded acquisitions, with the expiry of drawdowns on the group's acquisition funding facility in May 2009. Acquisition spending is flexible and acquisitions are normally immediately cash-flow enhancing. Free operating cash flow (FOCF) is relatively low, due to high interest expenses, but the group's highly flexible cost base and low capital expenditure needs are likely to provide a cushion in the weakening economic environment.

Liquidity

ISS' liquidity resources are currently adequate for the ratings, with modest expected annual debt maturities before September 2010, when a €850 million (DKK6.3 billion) bond matures. We anticipate that ISS will refinance the bond well in advance of its maturity. On Dec. 31, 2008, short-term debt was DKK1.3 billion. About one-half of this amount was drawings under the group's major liquidity resource, a DKK2.4 billion committed revolving credit facility (RCF) maturing in 2012. On Dec. 31, 2008, about DKK0.8 billion had been drawn under the facility (partly reported under long-term debt) and an additional DKK1.0 billion had been allocated to support performance bonds issued by operating subsidiaries.

The unused amount under the RCF and available cash (DKK3.0 billion at the end of December 2008) sufficiently cover short-term maturities and peaks in working capital (in the first quarter of the year). We expect the group to continue to post positive FOCF (before acquisitions, and adjusted for seasonal working-capital swings). In addition, the group has a letter of credit/guarantee facility of DKK500 million and separate acquisition facilities totaling DKK4.9 billion (of which DKK2.7 billion had been drawn on Dec. 31, 2008). All these credit facilities mature in 2012 and include financial covenants as well as material adverse effect clauses. The unused portions of the group's acquisition facilities are available until May 2009, after which ISS will be dependent on its free cash flow for future acquisition funding. We expect headroom under the group's covenants to remain sufficient.

Recovery analysis

The issue rating on ISS Holding A/S's €454 million senior subordinated notes due 2016 is 'B', two notches below the corporate credit rating. The recovery rating of '6' indicates our expectation of negligible (0%-10%) recovery in the event of a payment default.

The issue rating on the €850 million notes due 2010 and the €110 million notes due 2014 issued under a €2 billion euro medium-term note program by group member ISS Global A/S (BB-/Stable/--), which is wholly owned by ISS Holding A/S, is 'B', two notches below the corporate credit rating. The recovery rating of '6' indicates our expectation of negligible (0%-10%) recovery in the event of a payment default.

For our full recovery report, see "ISS Holding A/S' Recovery Rating Profile", published May 30, 2008, on RatingsDirect.

Outlook

The stable outlook reflects our view that the group's operating performance will remain steady thanks to its ability to generate strong cash flows. Based on current information, we anticipate a further gradual improvement of credit measures over the near-to-medium term, supported by continued organic growth in the low single-digit range as well as lower debt-funded acquisitions. This should allow adjusted debt to EBITDA to decline toward 6x, and EBITDA interest coverage to increase to more than 2x over the medium term. We also expect that the group will refinance its €850 million (DKK6.3 billion) medium-term notes well ahead of maturity in September 2010.

Downside rating risk is most likely to arise from a change in acquisition strategy toward larger debt-financed acquisitions or a significant decline in organic growth rates toward zero or negative growth. Both factors could lead to a reduction in credit measures over a longer-than-acceptable period. Further upside potential in the ratings is constrained by the group's highly leveraged financial risk profile, despite recent improvements.

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com