Moody's Global
Corporate Finance

Analysis

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ISS Holding A/S

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Corporate Profile

ISS A/S is the wholly owned subsidiary of ISS Holding A/S (B2/STA) and one of the leading facility services providers in the world. In 2008, the company reported revenues in excess of DKK68.8 billion (circa €9.3 billion) up from DKK63.9 billion a year earlier and in excess of DKK4 billion (circa €520 million) in operating profit before other items and impairment (DKK3.8 billion in fiscal year 2007).

Figure 1 – Revenues per Segment

DKK Million	Revenues			
	2005	**2006**	**2007**	**2008**
Cleaning	28,315	32,060	34,773	36,528
Office Support	1,602	2,936	3,881	4,146
Property Services	10,719	12,632	15,186	15,410
Catering	2,487	3,635	4,198	5,727
Security	-	2,427	3,406	4,344
Facility Management/IFS	2,958	2,082	2,478	2,674
Discontinued Operations	359	-	-	-
TOTAL	**46,440**	**55,772**	**63,922**	**68,829**

Source: Company data

The implementation of management's plan to broaden its revenue base and transform ISS into a truly integrated services provider has increased ISS's revenue diversity, although the majority of sales are still derived by the lower margin/low barriers to entry cleaning business.

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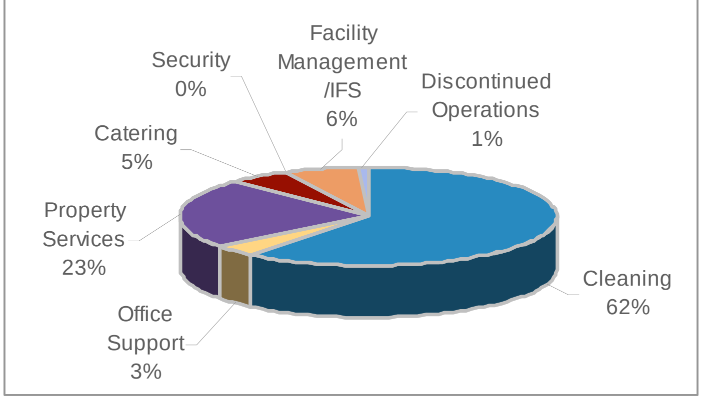
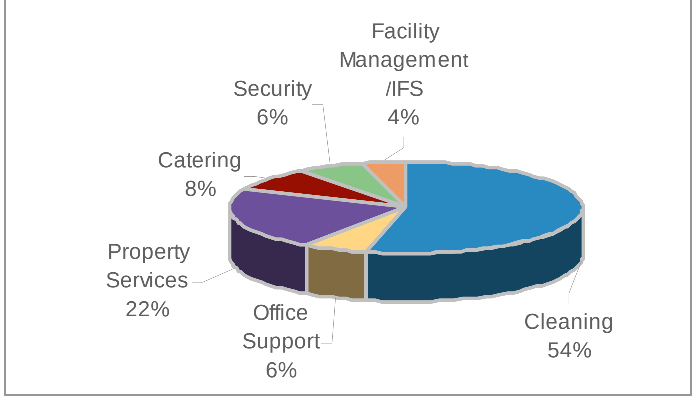
Figure 2 – Segment Revenue Distribution 2005 vs. 2008





Source: Company data

As shown in the Figure 3 below, ISS's business in more mature markets including Europe, the Nordics and the US have been most affected by the economic downturn, both in terms of revenues and margin contraction. This is partly due to the higher severity of the downturn in these regions but also to the typically more complex and higher value added nature of the contracts in mature markets, which renders them more sensitive to economic cycles.

Figure 3 – Operational Highlights

DKK Million	Revenues			Growth			Operating Earnings			Operating Margin		
	2007	2008	H1 09	2007	2008	H1 09	2007	2008	H1 09	2007	2008	H1 09
Nordic	16,488	17,071	8,106	6.5%	3.5%	-4.7%	1,162	1,189	516	7.0%	7.0%	6.4%
Western Europe	37,709	39,337	19,184	12.0%	4.3%	-1.4%	2,356	2,356	884	6.2%	6.0%	4.6%
Central and Eastern Europe	1,226	1,663	747	31.1%	35.6%	-5.1%	91	124	41	7.4%	7.5%	5.5%
Asia	2,409	3,147	1,990	32.5%	30.6%	42.7%	158	210	137	6.6%	6.7%	6.9%
Latin America	1,484	1,890	976	41.5%	27.4%	13.8%	86	109	57	5.8%	5.8%	5.8%
USA	1,100	2,131	1,309	-	93.7%	39.3%	62	128	70	5.6%	6.0%	5.3%
Pacific	3,519	3,614	1,726	23.6%	2.7%	-4.3%	225	230	115	6.4%	6.4%	6.7%
Other Eliminations	-13	-24	-16	-			-305	-285	-121	-	-	-
TOTAL	63,922	68,829	34,022	14.6%	7.7%	0.9%	3,835	4,061	1,699	6.0%	5.9%	5.0%

Source: Company data

Northern Europe and Continental Europe still represent the main markets for the company, and in 2008 accounted for 25% and 57% of its turnover, respectively. ISS is aiming to increase its presence in high-growth countries including Eastern Europe, Asia and Latin America, where it expects higher growth rates. Expansion in the US is also high in the agenda. Revenues from the US comprised 3% of total turnover in 2008 (1% in 2007).

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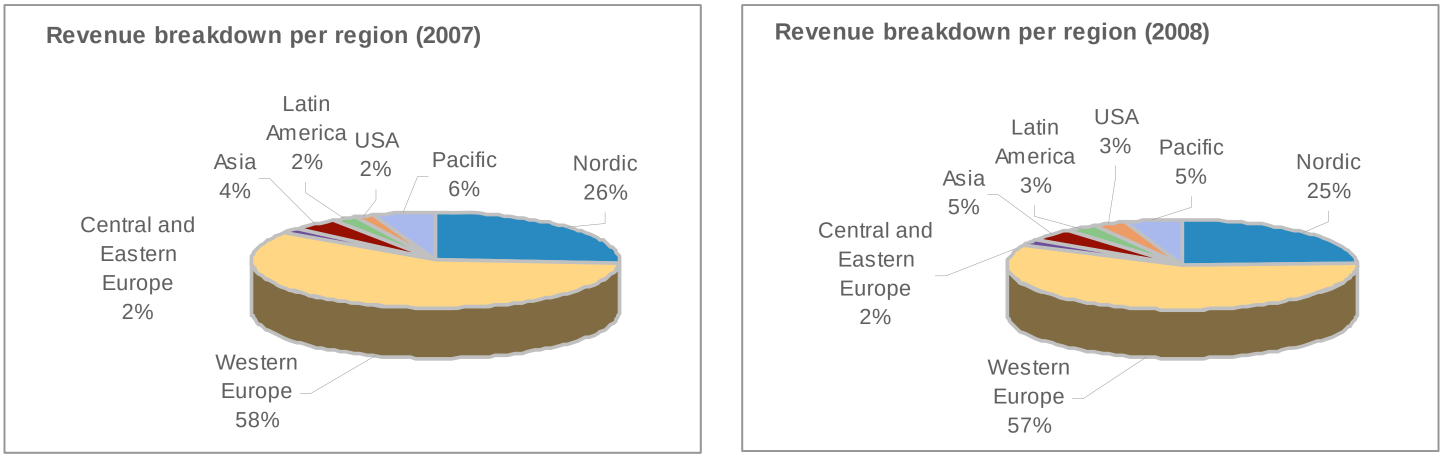
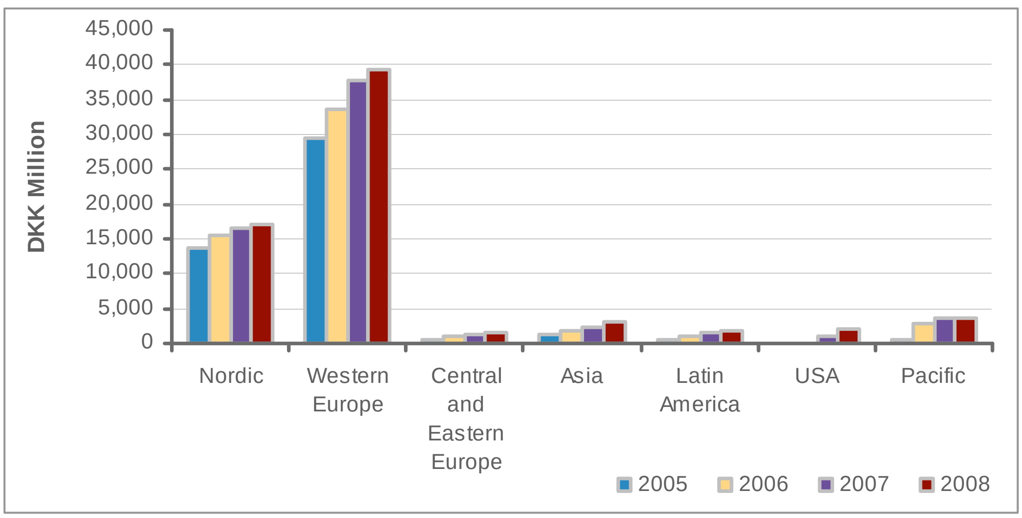
Figure 4- Revenue Breakdown by Region 2007 vs. 2008



Source: Company data

Figure 5 shows the growth of revenues in different markets, with the US, Central and Eastern Europe, Asia and Pacific recording the fastest growth, albeit on a lower base.

Figure 5 – Revenues Geographic Distribution



Source: Company data

FS Funding A/S, the predecessor of ISS Holding A/S, was incorporated in March 2005 for the purpose of acquiring ISS and is 100% owned by funds advised by EQT Partners and Goldman Sachs Capital Partners.

Management strategy

IFS and portfolio clients to continue to offer highest protection to business volatility

Despite a relatively stable business profile, ISS's performance has been particularly exposed to the negative economic cycle in those regions where its business was mainly linked to the manufacturing industry (particularly automotive) including France, Germany, Spain and Belgium. Moreover, business related to one-off or single-service clients has been less resilient than portfolio-based business; although some of the portfolio clients have also reduced the value and the extent of their contracts with ISS. Portfolio-based business continued to grow organically despite the economic cycle. The better performance of stable clients for bundled services reinforces the benefits of moving from a single-service contract model toward a more integrated facility services model. Bad debts remained at low levels in 2008.

Costs to be realigned to business activity in underperforming regions and segments

In countries most affected by the negative cycle the company has implemented a number of actions to realign its cost base to the reduced activity and increase margins. In H1 2009, revenues in Western Europe and Eastern Europe declined by 1% and 3% organically, respectively, while all other countries contributed positively to organic growth. Europe has also been the region most affected in terms of margin reduction given the drop from 5.8% to 4.6% in Western Europe and from 6.6% to 5.5% in Eastern Europe. In those countries suffering business contraction, ISS has implemented turnaround plans and reduced costs on a group-wide basis. Given the relatively high flexibility of its cost base and the improved prospects for the second half of the year in most markets, Moody's does not expect further deterioration of the company's operating margin, down from 5.5% in H1 2008 to 5% in H1 2009.

Country-level strategies reflecting maturity of the market

ISS's strategy reflects the different stages of development of the service sector in the different countries. In the Nordic region, one of the most mature markets in Europe, ISS will continue to focus on organic growth within both the single service and IFS aiming to achieve excellence in each of the single service markets. A similar strategy will continue to be implemented in Europe, where customers continue to shift toward a multi-services or IFS model to achieve cost savings. In Eastern Europe, Latin America and Asia, where ISS presence is less developed and markets less mature, the company is focused in adding new service capabilities typically on a strong cleaning base, as the market slowly shifts toward an integrated facility service model. The US is a mature market, where outsourcing of facility services and facility management are well accepted but where few players are able to provide IFS. ISS will continue building up capabilities on the Sanitors' platform acquired in June 2007.

Priority to de-leveraging going forward

ISS's is expected to continue to focus on three operational objectives: (i) cash flow; (ii) operating margin; and (iii) profitable organic growth, in line with the strategic plan "The ISS Way". In particular, in light of the high leverage and refinancing needs of the company, ISS has taken the strategic decision of slowing down the acquisition pace. Bolt-on acquisitions will be mostly funded through internal cash flow going forward. As a result, the DKK 1 billion of undrawn Acquisition Facility B was cancelled and the availability under this credit line was reduced to DKK 2,500 million with effect from 14 April 2009. On 11 May 2009, the expiration date of the availability period for Acquisition Facility B, ISS had drawn a total of DKK 2,149 million of the facility and an un-drawn amount of DKK 351 million was automatically cancelled.

In accordance with the provisions of the Senior Facilities Agreement, 50% of the Excess Cash flow of 2008 was used to repay DKK 366 million under Acquisition Facility A in May 2009.

In 2008, the company acquired 66 companies and 20 more in H12009. Except for BGM Industries, a facility services provider in the US with a turnover of DKK510 million, all the acquired entities had turnover below DKK300 million, with the large majority below DKK100 million. The acquisitions completed in 2009 were closed at 5.8x EBITA which compares to the average 7.6x EBITA in 2008.

Although we think that currently ISS's leverage is too high and its priority on deleveraging and organic growth is therefore a credit positive, we nonetheless note how in most regions outside of Europe, ISS still lack the scale and the scope to achieve and consolidate a clear market leadership. In this context and in light of the overall higher affordability of targets compared with previous years, we believe cash availability for external growth would be beneficial to the company.

Refinancing of the remaining outstanding 2010 EMTNs high on the agenda

ISS's most important refinancing needs in the near future is the EUR350 million portion of the EUR 850 million Medium Term Notes maturing in September 2010.

In July 2009, ISS has successfully issued EUR 525 million of new Senior Notes due 2014. The Notes have been issued through ISS Financing Plc, a newly formed special purpose vehicle. The proceeds from these Notes have been on-lent to ISS Global and were used to complete the tender offer for EUR 500 million of the 2010 EMTNs plus accrued interest.

The outlook on ISS's ratings is stable and reflects our expectation that the company will implement in a timely fashion the necessary steps to fulfil its refinancing obligations. At this end, ISS has studied the feasibility of securitizing a portion of its trade receivables in certain countries to be implemented in phases. ISS has mandated HSBC plc and Nordea Bank Danmark A/S to arrange and participate in a securitization program of up to EUR 500 million. Moody's understands the implementation is progressing well having secured up to EUR75 million from the sale of Spanish receivables.

Rating Drivers

ISS's current B2 corporate family rating reflects its strong business profile, which comfortably positions the company within the Baa range and is sustained by its global presence and leadership in the facility services industry and by the broad range of services the company is able to offer which increases the opportunity of cost synergies, cross selling and bundling. The company's business profile is also characterized by low customer concentration, which combined with the company's global penetration, reduces the impact of market volatility on operating margins and by the company's generally stable margins and high cash conversion ratios, thanks to relatively low capital expenditure requirements and good control over working capital.

However, the company's low pre-tax income and financial strength position it in the low single B range, reflecting the company's highly leveraged capital structure, high nominal debt and interest burden, with a Debt/EBITDA ratio still above 7.0x and negative pre-tax income at the end of 2008. The rating assessment also reflects the limited post-acquisitions cash flow generation of the company, with FCF/Net debt at 3.1% in 2008 and cash flow interest coverage slightly above par positioning the company at the low end of the single B rating category.

Current ratings also reflect the low barriers to entry and fragmentation of the facility services market, which increase the competitive pressures on the company, ongoing integration risk linked to the company's strategy, the inherent risk in fixed fee contracts and the potentially negative impact on margins resulting from them, partly mitigated by the company's relatively flexible cost base. The development of the company's performance this far has remained in line with Moody's expectations and has been consistent with the B2 rating category.

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Figure 6 – Business & Consumer Services Industry Rating Factor Analysis

Business & Consumer Services Industry	Aaa	Aa	A	Baa	Ba	B	Caa-C
Factor 1: Size and Profitability (30%)							
a) ROA (NPATBUI / Avg. Assets)							-1.9%
b) Pretax Income (USD)							-112.2mln
Factor 2: Financial Strength (50%)							
a) (CFO-Dividends) / Net Debt						8.0%	
b) FCF / Debt						3.1%	
c) (EBITDA-CapEx) / Interest Expense						1.3x	
d) Debt / EBITDA							7.2x
Factor 3: Business Profile (20%)							
a) Business Profile				X			
Rating:							
a) Indicated Rating from Methodology						B2	
b) Actual Rating Assigned						B2	

ISS's business profile appears strong for the rating category, mainly due to the breadth of its operations, both in terms of operations and geography, and its diversified customer base. On the other hand, the company's financial flexibility remains constrained by a leveraged financial profile and limited cash flow generation after discretionary acquisitions. According to the Global Business & Consumer Service Industry methodology (August 2007), the main credit drivers are as follows:

Factor 1: Size and Profitability (30%)

Figure 7 – Operating Earnings & Profitability

DKK Million (as reported)	2006	2007	2008	H1 2009
Operating Profit before other items*	3,234	3,835	4,061	1,699
Operating Margin before other items	5.8%	6.0%	5.9%	5.0%
Interest Expense	2,203	2,388	2,468	1069
Other Items**	-1,580	-1,425	-1,715	-1,394
Net Income/(Net Loss)	-809	-442	-631	-848

**Before integration costs, goodwill impairment and write-down and amortisation of brands and customer contracts.*
***Include integration costs, goodwill impairment and write-down and amortisation of brands and customer contracts.*
Source: Company data, Moody's Financial Metrics

With a presence in 50 countries, ISS is one of the largest facilities services providers in the world. The company's turnover increased from about DKK63.9 billion in 2007 to over DKK68.8 billion in 2008, the result of 5.3% organic growth and a 6% contribution from acquisitions. Currency adjustments negatively affected sales by around 3%.

ISS has benefited from stable operating margins over the past three years, mainly sustained by tight cost control measures. To a certain extent, ISS's operating flexibility is high given that about two-thirds of its cost base is related to personnel, and with high employee turnover rates the company is deemed to be able to adjust relatively quickly to market cycles. The company's profitability is not immune to cycles though, as demonstrated by the contraction of ISS's margins to 5.0% from 5.5% the previous year. Most of the margin contraction is due to the downsizing of part of its contracts especially in countries with a heavy manufacturing base such as France, Germany, Belgium and Spain. In these countries, the reduction of the scope of the contracts which remained in existence curtailed revenues while workforce to service those contracts could not be dismissed. The result was a contraction in operating margins. ISS is also witnessing a reduction in the number of once-only projects which represent approximately 20% of ISS total portfolio, the remaining being portfolio-based businesses. One-off projects typically offer higher margins but are more vulnerable in downturns.

ISS's profitability remains constrained by the sizeable interest burden resulting from the company's highly leveraged capital structure and from the intense price competition in the company's relevant markets, favoured by the fragmented nature of the services business and by low barriers to entry. To a certain extent, ISS may be prone to competition from companies exploiting illegal workers to keep their prices low and from in-house service providers, which may ultimately result in a compression in its margins. Moody's notes that competition may also increase as more single-service providers migrate towards an integrated services offering. Reputation risk is also a factor, as the company increases its presence in less developed countries and security services.

Factor 2: Financial Strength (50%)

ISS's financial profile is characterised by a healthy cash conversion ratio (defined as operating profit before other items post capital expenditure as a percentage of operating profit before other items), historically around 100% but remains constrained by a high leverage and a low interest coverage.

Figure 8 – Corporate Debt Structure

DKK Million	2006	2007	2008
Short-Term Debt	728	764	895
Long-Term Debt	27,912	31,157	31,594
Total Financial Debt	28,640	31,921	32,489
Free Cash & Marketable Securities	2,275	2,664	2,961
Net Financial Debt	26,365	29,257	29,528
Other Net debt Adjustments:			
Pensions	840	627	747
Leases	10,152	11,004	11,256
Adjusted Debt	40,742	43,981	44,492
Adjusted Net Debt	38,467	41,317	41,531
Adjusted Debt / EBITDA	7.8x	7.1x	7.2x
RCF / Adjusted Net Debt	5.3%	7.0%	7.6%

Source: Company data, Moody's Financial Metrics

ISS's leverage at the end of December 2008 remained above 7.0x which is high for a B-rated company. The company's debt represents approximately 60% of total assets and results from ISS's history of debt-funded acquisitions over the past three years and from the initial LBO transaction. In the context of difficult economic conditions, the company recently announced its intention to slow down the pace of its acquisitions going forward. This decision was also concomitant to the expiration of drawing under the acquisition facilities in May 2009. De-leveraging is likely to be slow and is conditioned to the company's ability to protect and grow its operating profit margins and maintain healthy cash flow generation.

ISS's leverage is also reflected in its low interest coverage ratio which maps in the lower end of the B category. At the end of December 2008, the company reported a low interest coverage ratio at 1.3x down from 1.5x the previous year. Interest expenses were mainly inflated by higher debt levels.

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Figure 9 – Cash Flow

DKK Million	2006	2007	2008
FFO	2,065	2,926	3,225
Dividends	8	14	22
Retained Cash Flow	2,057	2,912	3,203
Cash Flow From Operations	2,028	2,628	3,382
Capex	1,971	1,938	1,969
Free Cash Flow	49	676	1,391
Beginning Cash	1,293	2,216	2,581
Ending Cash	2,216	2,581	2,961
FCF / Debt	0.1%	1.5%	3.1%

Source: Company data, Moody's Financial Metrics

The company's cash flow generation has improved in 2008 thanks to the slow down in the acquisition pace – cash outflow for acquisitions was reduced by approximately DKK862 million – and was helped by historically low capital expenditure (around 1.4% of revenues) and working capital requirements. However, all cash flow measures would still position the company weakly within the B rating category. The FFO/debt ratio increased from 6.7% in 2007 and to 7.2% in 2008. The CFO-dividends on net debt increased from 5.2% to 8.0%. Free cash flow measures also improved, with a FCF/debt ratio more than doubling from 1.5% to 3.1%.

Positive pressure on the ratings could result from an increase in efficiencies leading to higher margins and to an improvement in the operating cash flow generation of the company leading to a lower leverage. A slower acquisition pace, while constraining operating profit growth, might be positive for the free cash flow levels.

Factor 3: Business Profile (20%)

As a global player, ISS appears less vulnerable to regional variations and changes in regulations than its local competitors. In addition, the broad range of services it can offer multiply cross-selling opportunities. The company benefits from some economies of scale, with the potential for cost savings especially in the purchasing and marketing corporate functions.

The services offered include cleaning, property services, catering, office support, security and facility management. In accordance with the strategic plan "The ISS Way" set out in 2008, the company continued to grow in all segments and to expand its Integrated Facilities Services. As a result, the relative contribution of cleaning services to total turnover decreased to 53% in 2008 from 65% in 2004, as the company continued to diversify into other areas. In 2008, the company spent DKK3.9 billion in acquisitions with main focus on catering, security and cleaning services (overall accounting for about three quarters of the acquired revenues).

The company's model encompasses three delivery models: single services, multi services and integrated facility services (IFS). Under the single service outsourcing, the company delivers a service solution based on a single service to its clients, which are divided into key accounts (22% of total revenues) and other (47% of total revenues). Clients agreeing to a multi-service contract will benefit from service integration whenever possible, while under contracts based on fully integrated facility services ISS will deliver two or more services under one single contract and through a single point of contact at the customer's premises.

Integrated facility services offer the highest potential of cross selling to ISS and represented around 16% of total sales in 2008.

Although ISS continues to strengthen its market position in specific market segments and to increase the penetration in specific geographic areas in line with its strategy, further improving its business profile, the company still generated around 82% of its 2008 revenues in Northern and Western Europe.

ISS's business profile is enhanced by its diversified customer base. The company has over 200,000 customers with the top ten accounting for less than 5% of 2008 revenues. Churn rates are also relatively low, with clients usually remaining with ISS for eight to ten years or more. About 80% of ISS's revenues are stemming from long term contracts, the remaining being generated by one-off projects.

The creation of the global Corporate Client organisation set up in 2007 to win IFS contracts with large global clients epitomises the drive toward an integrated facility services business. In March 2008, ISS won a contract with HP covering more than 45 countries and in H1 2009 the program led to the acquisition of EDS and Shell as global clients.

Other Considerations

Liquidity

The company's decision to slow down the pace of its acquisitions and the successful issue of a new bond used to repay EUR500 million of the Euro Medium Term Notes (EMTNs) maturing in September 2010, has improved ISS's liquidity position. However, we expect the company to secure sufficient funds well ahead of the maturity of the remaining EUR350 million EMTNs via the securitization of its receivables. Moody's expects the full amount to be secured by the end of Q1 2010.

At the end of June 2009, ISS cash on balance sheet stood at DKK1.8 billion down from DKK3.0 billion at the year ending December 2008 mainly due to seasonal effects. While revenues are usually stable over the year and profitability shows some degree of seasonality in the summer months (mostly thanks to lower salaries for temporary workers), working capital tends to fluctuate. In fact, it tends to have negative swings in the first quarter, when expenses such as pension contributions, insurance premium payments and bonuses are paid then show positive variations in the second half of the fiscal year, when most revenues are collected

At the end of the second quarter of 2009, the company had also access to a DKK2.4 billion revolving credit facility out of which DKK0.9 billion were already drawn. Acquisition facilities A and B expired in May 2009.

Rating Positioning & Peer Comparison

Figure 10 – Peer Comparison - Key Financials Indicators

USD'mln YE 2008	Corporate Family Rating	Revenues	Pretax Income	(EBITDA - Capex) / Interest Expense	Debt / EBITDA	FCF / Debt	(CFO - Dividends) / Net Debt
Aramark Corporation	B1 / STA	13,470	13	1.3x	5.8x	1.7%	8.6%
Global Cash Access, Inc	B1 / STA	672	51	2.9x	2.8x	23.3%	37.4%
Gate Gourmet Borrower LLC	B2 / NEG	2,693	6	1.9x	3.9x	-8.0%	3.1%
ISS Holding A/S	**B2 / STA**	**13,575**	**-112**	**1.3x**	**7.2x**	**3.1%**	**8.0%**
Unisys Corporation	B3 / STA	5,233	-2,201	0.3x	6.5x	0.6%	14.6%

Source: Moody's Financial Metrics

Given its large size and its wide range of services offered, ISS has no close comparable peer within its rating range. The above table includes companies rated by Moody's in line with its business and consumer services methodology.

Aramark Corporation (Aramark) is a US leading provider of a broad range of managed services to business, educational, healthcare and governmental institutions and sports, entertainment and recreational facilities. The company's uniform and career apparel business is the second largest in the United States and provides both rental and direct marketing services. ISS and Aramark have similar credit metrics although ISS is burdened by higher leverage.

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Global Cash Access, Inc. (Global Cash) is an American leading provider of cash access products and related services to the gaming industry in the U.S. and several international markets. The company's products and services provide gaming establishment customers access to cash through a variety of methods, including ATM cash withdrawals, credit card cash advances, check verification and warranty services as well as background credit check services. Global cash's B1 rating is sustained by the company's solid credit metrics and relatively stable business profile particularly enhanced by multi-year client contracts despite its limited scale.

Gate Gourmet Borrower LLC (Gate), is based in Luxembourg and is the largest independent airline caterer and hospitality and logistic services provider in the world. As ISS, Gate has a worldwide footprint but its core activities remain concentrated in two regions. In terms of credit metrics, Gate reported higher interest coverage and lower leverage than ISS in 2008. Gate's free cash flow was particularly low at YE 2008 due to the distribution of a special dividend in Q3 2008. Gate's ratings reflect our expectation of difficult trading conditions for airline-related services through 2009.

Unisys Corporation (Unysis) provides information technology (I/T) services and enterprise server hardware worldwide. The company's B3 rating is mainly constrained by weak credit metrics (including interest coverage barely above par, high leverage and weak cash flow generation) and the fact that it competes against much larger I/T services and hardware vendors with greater financial resources including Accenture, IBM (rated A1), Hewlett Packard (rated A2), and a number of services providers located in India, including Infosys and Tata Consultancy Services (rated A3).

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Moody's Related Research

Credit Opinion:

- ISS Holding A/S, July 2009

Rating Methodology:

- Global Business & Consumer Service Industry, August 2007 (104176)

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