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Research

## Research Update: Corporate Credit Rating On Denmark-Based ISS Lowered To 'B+'; Still On CreditWatch Negative

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**Credit Rating:** B+/Watch Neg/B

### □ Rationale

On May 17, 2005, Standard & Poor's Ratings Services lowered its long-term corporate credit ratings on Denmark-based facilities services group ISS A/S and wholly owned subsidiary ISS Global A/S to 'B+' from 'BB+'. At the same time, Standard & Poor's lowered its senior unsecured debt ratings on ISS Global to 'B' from 'BB+'. All long-term ratings remain on CreditWatch with negative implications, where they were placed on March 29, 2005. The 'B' short-term corporate credit rating on ISS A/S was affirmed.

The lowering of the long-term ratings follows the announcement by PurusCo A/S (a private equity-backed vehicle) of the preliminary financing structure in connection with the acquisition of ISS. The financing structure indicates total debt of about Danish krone (Dkr) 23 billion (\$3.9 billion). Adjusted for estimated operating lease commitments of about Dkr2.4 billion, total debt to EBITDA is expected to initially be about 7x-8x.

This leverage is high even for the 'B+' rating, but is compensated for by ISS' strong business profile. In addition, even at this high leverage, ISS is expected to continue to post positive free cash flows. Although the 'B+' corporate credit rating is a likely final outcome, the long-term ratings remain on CreditWatch with negative implications as the capital structure is not yet finalized, and detailed information about the group's future business and financial strategies, including acquisition policies, are still not known.

The rating on ISS' existing unsecured debt was lowered to one notch below the corporate credit rating. This reflects the likelihood that there will be a high level of liabilities ranking ahead of the existing bonds, as PurusCo will, insofar as is possible, seek to secure loans under its senior credit facilities with guarantees from certain subsidiaries. Depending on the final outcome of the financing structure and the level of priority liabilities ranking ahead, the difference between the existing bonds (and the future unsecured debt of the group) and the corporate credit rating could be widened to two notches.

Once further information becomes available, Standard & Poor's intends to meet with the new owners and discuss the abovementioned outstanding items, before resolving the CreditWatch placement.

ISS is a leading European provider of facility services, and benefits from its strong business positions, geographical diversification, the stable nature of the business services sector, and low capital expenditure requirements. PurusCo is owned by a private equity consortium consisting of EQT III and EQT IV (EQT) and Goldman Sachs Capital Partners. PurusCo will act as a holding company for ISS.

## Liquidity

At March 31, 2005, ISS had at least Dkr6.9 billion undrawn under long-term committed credit facilities, and about Dkr3.6 billion of cash and short-term investments, compared with short-term debt of about Dkr1.0 billion. Future liquidity resources are expected to consist of a Dkr5.5 billion acquisition facility, and a Dkr500 million revolving credit facility for general corporate purposes. In addition, there is a cash bridge facility of Dkr2.4 billion. The senior facilities agreement provides for secured term loans up to Dkr6.2 billion. Although its maturity is not known, it is expected to be at least medium-term. It is not known, however, if the facilities include financial covenants. The two existing bonds totaling €1.35 billion, which PurusCo has said it intends to remain in place, mature in 2010 and 2014, respectively, and do not include any change-of-control clauses.

## □ Ratings List

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	To	From
ISS A/S		
Long-term corporate credit rating	B+/Watch Neg	BB+/Watch Neg
Short-term corporate credit rating	B	
ISS Global A/S		
Long-term corporate credit rating	B+/Watch Neg	BB+/Watch Neg
Senior unsecured debt	B/Watch Neg	BB+/Watch Neg

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