Research Update:

ISS Upgraded to 'BB-' On Improving Financial Performance; Outlook Stable

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Rationale

On May 30, 2008, Standard & Poor's Ratings Services raised its long-term corporate credit ratings on Denmark-based facilities services provider ISS Holding A/S and related entities (ISS) to 'BB-' from 'B+'. The outlook is stable. At the same time the 'B' short-term corporate credit rating on group member ISS A/S was affirmed.

The upgrade reflects our expectations that ISS will maintain a strong operating performance which should support a further strengthening of its financial risk profile and credit measures. Supported by strong organic growth and growth from acquisitions, ISS's operating cash flows have continued to grow. This has led to a gradual improvement in credit measures, despite increased debt levels from funding acquisitions. The group is, however, likely to remain highly leveraged over the near to medium term.

The ratings on ISS continue to reflect its highly leveraged financial profile and weak credit measures. This is mitigated by the group's strong business profile, underpinned by its solid business position in an attractive--albeit fragmented and competitive--industry.

On March 31, 2008, adjusted total debt was about Danish krone (DKK) 33.0 billion (€4.4 billion) including unfunded postretirement liabilities.

With sales of DKK63.9 billion and organic growth of 6% in 2007, ISS benefits from a strong business position, particularly in Northern Europe, where it is a leader in most of its markets. The group benefits from good geographical diversity and a highly diversified customer base. We consider the group's business sector attractive, as it is resilient to recession and likely to benefit from increasing outsourcing.

Although there are few barriers to entry and pricing is competitive within the sector, the group has a good record of contract retention, and is large enough to benefit from economies of scale.

Acquisitions have been and are likely to continue to be part of the group's strategy to add competencies and build critical mass and geographical presence. Although this acquisition strategy adds some risk to the business, the group's track record is good, with management successfully integrating acquired companies. As a result of the competitive nature of the facilities services business, the group's operating profit margins are relatively low, although they improved in 2007. The group's EBITDA margin was about 7.3% (not adjusted for operating leases) in 2007, up from about 7.1% in 2006.

The group is highly leveraged following a buy-out in May 2005 by a private equity consortium consisting of funds advised by EQT Partners and Goldman Sachs Capital Partners. As a consequence, its credit measures are weak, though improving. In 2007, adjusted debt to EBITDA was about 6.6x (not lease adjusted), and EBITDA interest coverage was 1.9x. We expect a continued gradual improvement in credit measures, supported by strengthening operating cash flows, although this should be tempered by the group's acquisitive growth strategy.

Acquisition spending is flexible, however, and acquisitions are normally immediately cash flow enhancing. Free operating cash flows are relatively small due to high interest expenses, but the group's highly flexible cost base (primarily related to staff) and low capital expenditure needs are likely to provide some cushioning in the event of a downturn.

Liquidity

The group's liquidity resources are adequate, with modest expected annual debt maturities before September 2010. On March 31, 2008, short-term debt was DKK1.1 billion. Most of this was drawings under the group's major liquidity resource, a DKK2.4 billion committed revolving credit facility. On March 31, 2008, about DKK0.8 billion was drawn under the facility and an additional DKK1 billion was allocated to support performance bonds issued by operating subsidiaries. In addition, the group has a letter of credit/guarantee facility of DKK500 million and separate acquisition facilities totaling DKK4.9 billion (of which DKK1.8 billion had been drawn on March 31, 2008). All the group's current credit facilities mature in 2012, 2013, or 2015 and include financial covenants. Headroom under the covenants is expected to be sufficient. We expect the group to continue to post positive free operating cash flow (before acquisitions, and adjusted for seasonal working-capital swings).

Recovery analysis

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

We have also raised our issue rating on €850 million notes due 2010 and €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, to 'B', two notches below the corporate credit rating. The recovery rating of '6' remains unchanged, and 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", to be published today on RatingsDirect.

Outlook

The stable outlook reflects our expectation that the group's operating performance will remain steady thanks to its ability to generate strong cash flows. We expect a further gradual improvement of credit measures over the near term supported by continued organic growth in the mid-single digit range. We also expect debt increases from acquisitions to be essentially offset by cash flow contribution from the acquired companies. This should allow adjusted debt to EBITDA to decline towards 6x, and EBITDA interest coverage to increase above 2x over the near to medium term. We also expect the group to refinance its €850 million (DKK6.3 billion) euro medium term notes ahead of their maturity in September 2010.

Downside rating risk would primarily be related to a change in acquisition strategy towards larger debt-financed acquisitions or a significant drop in organic growth rates towards 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. Standard & Poor's does not currently incorporate any impact from a potential IPO into the ratings.

Ratings List

	To	From
ISS Holdings A/S		
Corporate credit rating	BB-/Stable/--	B+/Stable
Subordinated debt	B	B-
Recovery rating	6	6
ISS A/S		
Corporate credit ratings	BB-/Stable/B	B+/Stable/B
ISS Global A/S Corporate credit rating	BB-/Stable/--	B+/Stable/--
Senior unsecured debt	B	B-
Recovery rating	6	6

Additional Contact:
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Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017. Members of the media may also contact the European Press Office via e-mail on: media_europe@standardandpoors.com.