ISS (ISS HOLDINGS A/S)

Corporate bonds • Sector: Service • Rating: BB-/B2 • 17.07.2009

JYSKE MARKETS JYSKE BANK

Recommendation:

ISS GLOBAL A/S: 2010: SELL

ISS Financing Plc: 2014: BUY

ISS Holding A/S: 2016: BUY

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New ISS issue maturing in 2014

Company Description

ISS is one of Europe's largest companies within cleaning and facility services. Facility services cover all service-related jobs in a company such as cleaning, property services, mail handling, reception services and much more.

Bond Ratings

The issues of ISS Global A/S: B (stable)
The issue of ISS Financing Plc: B (stable)
The issue of ISS Holding A/S: Caa1/B (stable)

Issues

	Bid/offer	Y-t-w	Spread	Bond ID
EUR 4.75% 9-2010*	99.00	5.65%	499 bp	B69092
EUR 11% 06-2014**	103.00	10.14%	806 bp	B04750
EUR 8.875% 5-2016***	85.00	12.17%	996 bp	B01283

*Issued by ISS Global A/S

** Issued by ISS Financing Plc, which lent the proceeds to ISS Global A/S on an unsecured basis. The issue has an equity claw exercisable until December 2011. Moreover, the bond is callable first up to December 2011 at 105.50.

*** The issue of ISS Holding A/S is callable in 2011 at 104.438 and then every year. There is also a make-whole of +50 bp until May 2011.

The issue from ISS Holding A/S is subject to a change-of-control covenant at 101.

Recent Developments

Last week ISS was allowed by its senior lenders to issue a new 5-year bond with the object of refinancing the EUR 4.75% 2010 issue which will expire in September next year. Already last Monday ISS sent an offer to investors holding the 2010 issue about early redemption of the bond at 100. ISS will buy up bonds worth EUR 500bn out of the total issue of EUR 850m. The buy-back will be financed by a new issue for EUR 525m expiring on 15 June 2014. The new issue was launched yesterday with a coupon of 11%, which was at the low end of our expectations. The new issue will rank on level with the 2010 issue in the capital structure and will thus be senior to the 2016 issue. There was lively demand for the new issue, and its price rose in the secondary market immediately after the launch.

The proceeds of the new issue will be spent on redemption of the existing 2010 issue (outstanding volume EUR 850m). According to ISS, the company has got the investors' acceptance of buying back about EUR 617m-worth of the 2010 issue. The redeemed bonds will be settled pro rate, ie, investors who accepted the buy-back offer, will have about 81% of their holdings redeemed. The remaining EUR 350m-worth of the 2010 issue is expected to be refinanced by means of securitisation of accounts receivable, and this is expected to be in place by the end of 2009.

In connection with the issue, ISS provided information about its performance over the first five months of 2009. As expected, ISS is doing fine during the difficult economic circumstances. Sales rose at constant exchange rates by 5% to DKK 28,176m. The rise in sales was driven by 1% organic growth; acquisitions accounted for 4% and negative exchange-rate effects for 4%. The EBIT margin fell from 5.1% during the corresponding period of 2008 to 4.6%, mainly due to lower earnings in France, the Netherlands and Germany, were ISS has high exposure to the heavy industries.

Recommendation

Market participants have long focused on the risk of redemption of the 2010 issue, and with the new issue the large part of the refunding is already in place, which is favourable for the bond issues. For the future we see a stronger risk that the company will find it somewhat more difficult to lower its financial gearing because of the narrow margin and the higher interest expenses. Yet we regard ISS as an attractive investment in the high-yielding segment and will start covering the new 2014 issue with a BUY recommendation. We also maintain our BUY recommendation for the 2016 issue. After the buy-back offer of the 2010 issue we regard the potential of this issue as very limited, so we have changed our Hold recommendation to SELL.

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Strengths/Opportunities

- Diversified customer portfolio.
- Rising trend among companies towards outsourcing non-core support services.
- Low capital intensity and limited investment requirements.
- Market leader in most of its business areas.
- Flexible cost base (staff costs account for about 64% of sales).
- Sponsor exit via an IPO.

Weaknesses/Threats

- High financial gearing.
- Aggressive acquisition strategy
- General economic slowdown in primary markets.
- Competitive industry with low margins (highly fragmented).
- Many of the company's assets are intangible.
- Privately owned and thus subject to lenient disclosure rules.
- Uncertainty about bank debt covenants.

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This is a recommendation and not an in-depth investment report.

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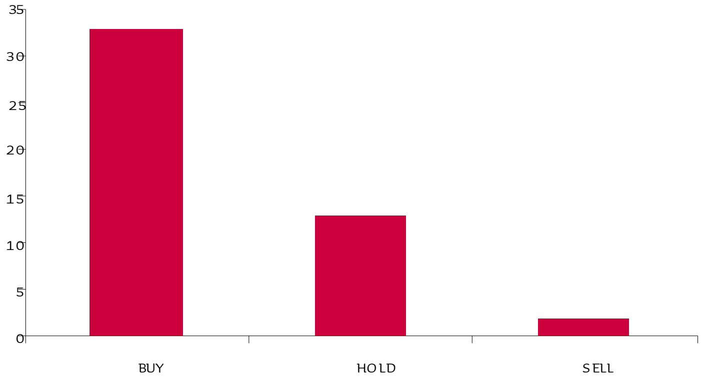
Jyske Bank's corporate bond recommendations – current breakdown

Breakdown of recommendations, corporate bonds (number)



Source: Jyske Bank

Financial models

Jyske Bank uses mainly Credit Edge from Moody's.

Risk

Investment in this corporate bond is associated with risk. Movements in the credit market, the sector and/or the news flows, etc. regarding the company may affect the price of the bond. See the front page of the research report for our view of the risk associated with the corporate bond. The risk factors stated and/or calculations of sensitivities in the research report are not to be considered all-encompassing. If the corporate bond is denominated in a currency other than the investor's base currency, the investor accepts an FX risk.

Update of the research report

The planned update of the report will be prepared immediately upon the release of the company's financial statements.

See the front page for the initial date of publication of the report.
All prices stated are the latest trading prices at the time of the release of the research report, unless otherwise stated.

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Recommendation concepts

Our recommendations are based on market developments and an assessment of the expected return. A positive recommendation (BUY) is based on expectations that investment in the corporate bond will generate a return above that of the general credit market. On the other hand, a negative recommendation (SELL) implies that we expect investment in the corporate bond to generate a return below that of the general credit market.

The future and historical returns estimated in the research report are stated as returns before costs since returns after costs depend on a number of factors relating to individual customer relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors.