ISS

The LBO of ISS

- What is the total cost of the deal?
- What is the company's debt capacity, and how much additional private equity financing is needed?
- How long do you estimate it will take for PurusCo to pay down its debt?
- What approximate rate of return can

ISS Danmark
- A World of Facility Services

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Resources in Finance

Case Study

The LBO of ISS

Prof Ian Giddy
New York University

In early 2005 the Danish management team of the world's largest cleaning services company, ISS, was considering a leveraged buyout of their company. For several months they had worked closely with a Swedish private equity firm, Permira, on analyzing the possibilities. At last they had come up with some numbers to show the banks and potential equity investors. The idea was that the equity partners would form a new company, PurusCo, to buy ISS.

The new company would issue debt secured by the shares of ISS. Once PurusCo had accumulated a controlling stake in ISS, the two companies would be merged and ISS would be delisted. The proposed purchase price was €3.1 billion. In addition the new company would assume €500 million of the existing 4.5%, 10-year bonds issued by ISS the previous year. Fees were expected to run at 2% of the purchase price. Expected restructuring costs were estimated at €40 million up front. After these investments, capital expenditures were expected to continue at a rate of about 3% of sales.

ISS expected to have EBIT of €330 million in the first year after purchase. This was predicted to grow at 10% for the first 5 years and 3% thereafter. Depreciation expenses amounted to some €82 million in 2004. The company's effective corporate tax rate was 31%.

The challenge was financing the buyout. Recent LBOs had been financed at a level of 6xEBITDA. For ISS, discussions with banks suggested that for this kind of business it might be difficult to syndicate an acquisition loan unless EBIT interest coverage was at least 1.8. At this level, the cost of funds would be quite high, but the prospective owners hoped to be able to repay the loans within 4-5 years. Ideally the equity partners would have liked to fund as much as possible with debt, but they knew that the more ISS borrowed, the more expensive would be the average cost of debt funding. The table below gives a rough indication of the tradeoff between the EBIT/interest cost ratio, and the spread over government bonds that the company would face. At the time, the German government bond rate was 3.1%.

The company's managers, who would continue to run the company, have managed to raise €15 million among themselves to invest in PurusCo. The remaining equity must be raised by the private equity firm, whose investors generally look for a

How ISS Was Financed

Senior Facilities (Committed)

	Senior Term A	Senior Term B	Letter of Credit Facility	Revolving Credit Facility	Acquisition Facility A
Facility Size	DKK 2,000,000,000	DKK 3,675,000,000	DKK 500,000,000	DKK 1,750,000,000	DKK 1,750,000,000
Drawn Amount	DKK 2,000,000,000	DKK 3,300,000,000	L/C Facility - issued approx. EUR 57,270,000		DKK 604,000,000
Commitment	Committed	Committed	Committed	Committed	Committed
Drawdown	SEK, NOK, CHF	EUR and GBP	Multi Currency	Multi Currency	Multi Currency
Maturity	7 years	8.5 years	7 years	7 years	7 years
Repayment	Amortizing	Two Bullets, equal installments at 8 and 8.5 years	Revolving	Revolving	Amortizing/ Revolving
Prepayment Penalties	None	None	None	None	None
Initial Margin	2.25%	2.75%	2.25%	2.25%	2.25%
Benchmark	Interbank Offer Rate	Interbank Offer Rate	Interbank Offer Rate	Interbank Offer Rate	Interbank Offer Rate
Margin Ratchet	Applicable	Applicable	Applicable	Applicable	Applicable

How ISS Was Financed

Temporary Financing

	Subordinated Bridge Facility	**PIK Bridge Facility**
Amount	DKK 6,567,000,000	DKK 925,000,000
Maturity until conversion	364 days	364 days
Maturity after conversion	9 years	10 years
Initial Libor Margin	7.25%	11.00%
Step-up	8.50% from November 1 to November 10, 2005; 9.00% from November 11 to February 10, 2006; and 9.50% thereafter	25bps/qtr capped at 12.00%
Post Conversion Libor Margin	Tranche A: 5.50% Cash + 6.00% PIK Tranche B: 4.00% + 4.00% PIK + warrants, to achieve an IRR of 11.50% over cost funds	11.00% + warrants, to achieve an IRR of 14.5% over cost of funds

It is expected that the Subordinated Bridge Facility and PIK Bridge Facility will be refinanced prior to maturity, potentially through the issuance of debt securities by ISS Holding and/or the issuance of payment-in-kind notes by ISS Equity A/S, ISS Holding's parent company.

ISS Refinancing

Issued bonds

FS Funding A/S has issued two types of High Yield Notes:

Pricing date:	8 May 2006	8 May 2006
Issuer:	FS Funding A/S	FS Funding A/S
Issue Amount:	EUR 454 million	EUR 850 million
Maturity Date:	15 May 2016	15 May 2016
Coupon:	8.875% (semi ann.)	Euribor + 6.625% (quart.)
Listing:	Luxembourg	Luxembourg
ISIN:	XS0253471964 (144A) XS0253470644 (REGS)	XS0253476500 (144A) XS0253472772 (REGS)
Reuters:	DK025347064=	DK025347277=
Joint Bookrunners:	Citibank & Goldman Sachs International	Citibank & Goldman Sachs International

Standard & Poor's assigned a single B senior unsecured debt rating to the bonds.

Source: issworld.com

ISS Actual Financing

Sources	DKK millj.	%	EBITDA[1]		Uses	DKK millj.	%	EBITDA[1]
Cash Equity - EQT	4.231,2	13%	1,3		Shares Purchases	21.896,0	66%	6,7
Cash Equity - Goldman Sachs	3.461,9	10%	1,1		warrents and options pı	216,0	1%	0,1
Total Equity	*7.693,0*	*23%*	2,3		Fees and Expenses	872,0	3%	0,3
Term Loan A	*2.024,0*	*6%*	0,6		Cash over funding	256,0	1%	0,1
Term Loan B	*3.679,0*	*11%*	1,1		EMTN	10.074,0	30,4%	
Acquisition Facility (Drawn)	*604,0*	*2%*	0,2					
drawn Revolver	*1.393,0*	*4%*	0,4					
Total Senior Debt	7.700,0	23%	2,3					
EMTN	10.074,0	30%	3,1					
Subordinated Bridge	6.679,0	20%	2,0					
PIK Bridge Facility	967,0	3%	0,3					
Total Debt	25.420,0	77%	7,7					
Total sources	**33.113,0**	100%	10,1		**Total uses**	**33.314,0**	101%	10,1
Undrawn Facilty					**Undrawn Facility**			
Revolving Credit Facility	2.250,0	7%	0,7		Revolving Credit	2.250,0	7%	0,7
Acquisition Facility	1.750,0							
Total Undrawn Facility		0%	0,0	<<	*Headroom*	*0,0*	0%	0,0
Total funds	**33.113,0**	100%	10,08	<<	**Total debt facility**	**33.314,0**	101%	10,14
Total Debt	*7.700,0*	23,3%		>>	*Of total funds*	7.700,0	50,0%	
Total Equity	*7.693,0*	23,2%		>>	*Of total funds*	7.693,0	50,0%	
[1] *July LTM 2005 EBITDA*	3.285,0							