# PRIVATE EQUITY FUNDS

## Is the business model viable in the future?

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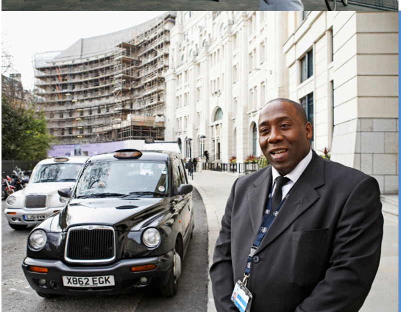
dt Group

FINANCIAL ENGINEERING


GOVERNANCE ENGINEERING

OPERATIONAL ENGINEERING

STRATEGIC ENGINEERING

ISS

Copenhagen Business School
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# EXECUTIVE SUMMARY

The purpose of this thesis is to look at what the private equity ownership entails and what changes the funds implement in their portfolio companies in order for these to achieve the returns that private equity funds have produced historically.

The analysis of the business model of the funds was motivated by the fact that the historically primary element of the funds; the financial, is under pressure. Increasing tax legislation has removed the majority of the tax shield that the funds have benefitted from earlier, and furthermore the current financial situation has frozen the financial markets and thereby eliminated or at least decreased the possibility of gearing the portfolio companies. We therefore wanted to look into the other value creating elements of the business model that has to be emphasized now.

We decided to analyze four pillars of the business model, which we believe are the most important; Financial, Governance, Operational and Strategic Engineering. The analysis was built on an already exited case and an ongoing case, DT Group and ISS respectively. This was done in order to capture the effect of the timing issue, while the number of cases was held to a minimum to ensure that the case study was able to go into depth with the engineering used in the two cases.

Through the in-depth case study we have found that the changes implemented were of a relatively large significance. This was especially the case within the governance engineering where great changes were implemented for both companies. Nevertheless based on calculations from the CAPM formula, ISS underperforms compared to the market when the leverage is taken into account. However both companies have experienced enormous growth both in turnover and employees, and the development have been accelerated after the takeovers.

The analysis of the business model of the private equity funds was combined with an outlook into the likely developments that will influence and change the business environment that the private equity firms operate in. This covers both some of the future business opportunities, as well as discussing some of the many challenges that the private equity sector are facing. It is essential that the private equity firms manage to adapt to changes in the business environment, in order for the business model to be viable in the future.

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# 1: INTRODUCTION

## 1.1: PREFACE

The business model of private equity firms has been criticized by many, but also acclaimed by some. Some theorists have argued that private equity ownership is making the firms more efficient, resulting in value creation and growth, for both investors and the society. On the other hand opponents argue that private equity owners are only profit maximizing and short-sighted, entailing liquidation of firms, rather than development, altogether causing staff cut and minimal tax payments. The disagreement about private equity firms has led to several government actions, which have shaken the foundation of their business model, since it has limited the tax benefits of high gearing significantly. Moreover there have been discussions regarding the performance of the private equity firms and their portfolio companies, as empirical research has shown diverging results. Rapid changing legislation concerning private equity firms and the current economic climate has made it even more relevant to evaluate the work of these funds.

Due to the conflicting opinions about private equity funds, the authors of this thesis have found it interesting to investigate the business model of the firms, to clarify where and how the actual value creation is taking place.

## 1.2: ACKNOWLEDGEMENTS

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## 1.3: PRIVATE EQUITY FUNDS VS. PRIVATE EQUITY FIRMS

In this thesis, the terms “private equity funds” and “private equity firms” are used interchangeably. In brief, the “private equity fund” is the actual owner/investor of the portfolio company, whereas the “private equity firm” is the management company that establishes the fund and subsequently controls and executes the ownership of the portfolio company.

## 1.4: THESIS STATEMENT

In the last decades private equity ownership has been widely discussed. In this thesis, private equity is limited to concern leveraged buyout, hence not venture capital or the like. At times it has been questioned whether private equity owned companies have in general outperformed regular listed companies. Additionally, due to altered market conditions, it has recently been questioned whether the firms' business model is viable in the future or not. Therefore the main purpose of this thesis is to investigate the following question:

***"Is the business model of private equity firms viable in the future?"***

In order to answer the overall question, and to establish a prudent foundation, the thesis will initially analyze the structure, strategies and overall performance of these firms. In continuation of this, the value drivers and working methods of private equity firms will be examined to clarify:

*"What is the business model of private equity firms?"*

Apparently it is very difficult to differentiate the sources of value creation, mainly because some value creating elements can be immeasurable and interrelated. Therefore an investigation of the value creation requires an in-depth analysis of the many aspects. Moreover recent legislation and the current financial situation, limits or at least increases costs of financial engineering, thus funds have to prove that they can create value from other elements of their business model. This thesis will therefore look in to:

*"How do private equity funds create value in the portfolio companies?"*

To investigate this, and de-mystify the term "active ownership, the thesis will analyze four pillars of their business model, being financial engineering, operational engineering, strategic engineering and governance engineering.

This analysis will be based upon two companies; DT Group and ISS, to identify and analyze the changes implemented by the private equity firms upon the acquisition. The two cases were carried out at very different time points; DT Group just before a boom while ISS was acquired just before a downturn hit the world economy. By using two opposite states of the market, it enables the thesis to analyze the importance of timing and how this affects the value creation in the portfolio companies.

The case studies form the basis of a performance analysis, which will analyze how the change in ownership and applied engineering have influenced the performance. Throughout the case study, the development will be compared with relevant benchmarks, in order to uncover the following question:

*"How does the development in the case companies differ from the competitor's?"*

The last part of the thesis will look to establish an outlook concerning the future of the private equity industry, and analyze if the business model is sustainable. The outlook will be linked to findings and reflections from the case study insights, and attempts to answer the following question:

*"What are the major future challenges for private equity funds?"*

## 1.5: THESIS STRUCTURE

As illustrated in the figure below, the thesis can be grouped into three parts; theoretical framework, case studies and outlook. The three parts consist of a number of sub chapters, of which the contents are briefly described below.


**Figure 1: Thesis structure.**

**Part 1 – theoretical framework:**

*Chapter 3* starts out by setting the foundation of the thesis, by presenting the subject of private equity fund to the reader, to ensure that the necessary background information is provided. Here the structure and legal setup of the funds are reviewed together with the acquisition and exit strategies. Furthermore the investment level and the general performance of the funds and portfolio companies are investigated, and are to some degree compared to public companies.

The business model of the private equity funds forms the overall setting of the theoretical framework and is handled in *chapter 4*. The vital part of their business model is divided into four value drivers, being Financial Engineering, Governance Engineering, Operational Engineering and Strategic Engineering. This framework provides the ongoing structure of the thesis, and the case studies later on are based on these value drivers.

**Part 2 – case studies:**

*Chapter 5* represents the case studies, the first of the two analytical parts. The preceding chapter defined the areas, which private equity funds are believed to focus on, seen from a theoretical point of view. Hence this chapter study two cases, DT Group and ISS, by analyzing the actual changes implemented after the takeovers became reality. In part of the case studies, the development in the portfolio companies is compared to relevant peers.

**Part 3 - outlook:**

*Chapter 6* presents the second analytical part, which will attempt to provide an outlook into some of the future challenges and possibilities that the business model of private equity funds is facing. This chapter will build on some of the findings from the case study, as well as other trends and issues in the market.

# 2: METHODOLOGY

We will in the present chapter elaborate on the methodology applied in this thesis, and state the reasons for our choices. Throughout this thesis we have encountered external and internal factors that have affected the nature and scope of the project. The following sections seek to highlight the desired approach of the thesis, and outline how the choice of theory, case study design and other factors may have affected our thesis in a substantial way. It is clear that when an aspect is chosen to be included other aspects are often opted out by nature. Furthermore, we will elaborate on the limitations or lack of data, which have delimited and created the scope of this thesis. Finally the reliability, validity and generalization of our findings will be deliberated, and we will put forward possible improvements within the scope of this thesis.

## 2.1: THESIS APPROACH

The topic of private equity is by no means untouched as of this date, as a flood of articles and academic studies have been discussing the subject for years. Historically speaking, studies have been more focused on the industry's performance as a whole, by looking at fund level and the yield of the funds. Analyses of the private equity firms, which in fact execute the ownership, occur less often, and furthermore existing studies have emphasized on the financial element of private equity firm's business model. The authors find that the value drivers of the private equity firm's business model are interconnected, thus a coherent study of the business model should therefore entail an analysis of all value drivers, rather than just the financial engineering.

As results of this attitude towards the processing of the topic, the thesis look into the application of the firm's tools, and subsequently the effect of the tools is reviewed by analyzing the financial performance before and after the private equity ownership. Therefore the thesis have taken a case based approach, in order to analyze the work of the private equity funds more in-depth, than it would have been possible if the approach had been more general with a broad data set. The case study approach is closely linked to the main purpose of this thesis, which is to evaluate the business model of private equity funds. Thus the focus in the case study is not concentrated solely on the performance, and how this may differ from the general picture, but rather looking at the tools that the private equity funds have implemented to deliver value creation. Such analysis can only be conducted by in-depth qualitative research, instead of quantitative research of the performance.

Due to this approach, the academic foundation of this thesis does not rely on a deep theoretical framework, but is rather driven by a practical application of the theoretical framework. We sense that this thesis' approach is not as widespread as others, thus we do not see it as a shortcoming, that there exist a substantial amount of studies already. If anything, the existing studies have rather been the source of motivation for taking precisely this approach, and some of the findings from the existing studies will also be used in the thesis as basis of the discussions.

## 2.2: THEORIES, LITERATURE AND DATA SELECTION

We have chosen three main areas of theory to include and study in this thesis; Agency-Theory, Capital Structure and the Capital Asset Pricing Model (CAPM), which are of course further supported by related theories and literature.

The Agency-Theory as by Steven Ross (1973), Michael Jensen (1986) et al, is essential when describing the pitfalls of conventional governance structures. It is applied to treat some of the difficulties that arise under conditions of incomplete and asymmetric information, together with difference in interests. The agency-theory deals with various mechanisms, used by the private equity funds to reduce the agency costs and align the interests of the parties, and related to this, the theory concerning the free cash flow problem is also incorporated.

The Capital Structure, as treated by Franco Modigliani and Merton Miller (M&M) (1958, 1963) amongst others, is indispensable when handling the subject of private equity funds. The alteration of the capital structure in the portfolio companies is one of the most important characteristics of private equity funds, and M&M established the fundamental line of thought within this field.

Finally the theory of CAPM, composed by Harry Markowitz (1959), Jack Treynor (1961, 1962), William Sharpe (1964) et al., is introduced in the paper, and serve as the major pillar in the risk-return discussion. The model is used to determine a theoretically appropriate required rate of return of a given asset, taken risk and the option of diversification into account. The CAPM is a widely used tool and build on a strong foundation, but like any other model constructed from a set of underlying assumptions, the theory is lacking in some areas.

First of all, there are some practical data measurement problems, e.g. both the betas and the market portfolio return are based on historical data, and may not be appropriate predictors of the variability and risk of future returns. Furthermore the CAPM theory uses variance as a risk measuring tool, however this may not be an adequate risk measuring tool, as variance in itself is not necessarily negative. A company with a high variance but with consistent increasing returns the variance is not a correct measure for risk. Additionally the CAPM theory includes the assumptions that there is no tax, transaction cost (Mayshar, 1981) and that the market should be perfect and efficient, so in a market with imperfections investors will have difficulties eliminating specific risk.

Other elements of criticism has been put forward by R. Roll on the fact that the theory is not testable on less the true market portfolio is known and used, whereas the theory is not testable (Roll, 1977). However the theory provides a good illustration on the link between risk and return, which is essential in a comparison between private equity owned companies and publicly held companies.

The choice of theory described above form the underlying basis and mindset of the thesis, but since the nature of this thesis is practical in approach, and not a deep theoretical study, the greater part of the thesis relies on thorough field research and financial data, together with a broad spectrum of books, articles and journals, together representing the primary and secondary data.

The primary data has been the main source of data, and it consisted of a number of interviews with key persons in the case companies. The interviews were arranged and carried out under some guiding themes, which were prepared on the basis of the early research and theoretical framework. In addition to the interviews, an online survey was conducted among partners from the private equity funds, concerning their working methods. Other primary data has been the annual reports and press releases of the relevant companies, i.e. the two case companies and their peers.

However, secondary data do also make for a central part of the thesis. Secondary data has an inherent problem with being just that, secondary, hence comments on validity and reliability will be made later on. Throughout the paper theories, findings and analysis are supported by research, reports and articles on the subject, published through the past 30 years. Chapter 3 for instance, applies a wide number of industry reports from both the Danish and the European Venture Capital and Private Equity Association (DVCA and EVCA). Findings are underpinned by research of Centre for Economic and Business Research (CEBR) and The World Economic Forum, as well as research from Boston Consulting Group, McKinsey, Deloitte, PWC and Ernst & Young among many others. Furthermore, a vast amount of articles from well-reputed journals, magazines and news papers, such as The Economist, Financial Times, Berlingske Business and the Harvard Business Review, just to mention a few, are applied to the thesis.

The extensive databases of Bloomberg, Thomson Reuters and Standard & Poors, have been used to obtain financial data for the case companies and their competitors. Moreover a range of market analyses from investment banks such as Danske Markets and Jyske Markets have been used in the case studies.

## 2.3: CASE STUDY DESIGN

### 2.3.1: COMPANY SELECTION

The approach of the thesis was clear, but the design of the case study was also of great importance. Initially a list of buyouts in Denmark was studied carefully, and the original plan was to make a case study of six companies, which previously have been owned by private equity funds. It was found relevant to select case companies that represented different industries (being manufacturing, wholesale and retail), to study differences in the private equity ownership across industries. However, it was deemed that this case study approach would have been too complex, and gathering adequate data would be a problem, in particular the primary data.

In the wake of the current financial climate, the discussion regarding the sustainability of the funds has rekindled and been subject to extensive media coverage. The global press has described the suffering private equity funds, facing a general liquidity shortage and poor market conditions, limiting the exit possibilities. As result of this, the "importance of timing" was brought up, and it was found appropriate to study whether the business model of private equity funds is superior to that of the conventional business model, especially in tough times. We decided to pursue with two fairly large cases, in terms of acquisition price and media exposure; one taking place when the state of the market was booming, and one carried out during an economic downturn.

#### DT Group

DT Group, a Do-It-Yourself retailer (DIY), was selected as one of the two case companies, as this business case appear as a state-of-the-art example. When CVC acquired DT Group in 2003, the global stock markets were low, after the burst of the IT-bubble followed by a period with limited growth. The company is operating in the building industry, one of the most cyclical industries (DVCA, 2008, p. 46), thus it is a good indicator of the market conditions that apply. At the time of the acquisition the markets had started to improve at high-speed, and a building boom was taking place. Derived from these facts, DT Group seemed like a text-book example of a private equity ownership under favorable market conditions. Moreover the company was subject to significant publicity when CVC acquired the company in 2003 and also during the exit in 2006.

Moving on to the choice of benchmark, this process was linked with some issues. Preferable the benchmark company would have been a public company, present in the same geographical area and in direct competition with DT Group. However, the number of listed DIY retailers is very limited (if any) in the Nordic region. Alternatively, global listed DIY-chains, such as 84 Lumber and Travis Perkins, could have been included, but differences in regional market conditions would have lead to great uncertainty. Likewise the benchmark area could have been expanded to comprise the overall building industry, opening for Nordic peers such as

NCC and TK Development, but we do not believe these to be an appropriate benchmark as their main activity is not in retail.

Due to the facts stated above, unlisted DIY-stores became the scope of comparison, and here Bygma was chosen as the benchmark company of DT Group. Bygma is operating in the same industry and in the same geographical area as DT Group, and furthermore the ownership structure is similar, i.e. all stores are owned by a parent company that publishes consolidated accounts. Regardless, it is important to bear in mind that Bygma is one fifth the size of DT Group, in terms of turnover, and that Bygma is operating only 48 units in Denmark and Sweden (A/S Bygma, 2008, p. 7) - compared to the 250+ units that DT Group is operating. Other unlisted competitors were trickier to use for comparison. XL-Byg, the largest DIY-chain in Scandinavia with 146 stores and a turnover of about DKK 16 billion, the ownership is still dispersed to the local stores[1], so XL-Byg is rather a collaboration of procurement and marketing activities.

**ISS**

ISS, a Facility Service Provider, was selected as the other case company. The company was acquired by a consortium comprising EQT and Goldman Sachs Capital Partners in the spring of 2005, when the global economy was growing and the financial markets still well-functioning. After two years of ownership, the development of the company was going as planned, and in June 2007 the current CEO Jørgen Lindegaard announced that the company was already working goal-oriented towards an initial public offering (IPO) (Hansen, 2007). However, at the exact same time, in the summer of 2007, the global financial crisis began to show its effects, after it had been brewing for a while. All around the world stock markets have fallen, large financial institutions have collapsed or been bought up and governments in even wealthy countries have had to come up with rescue packages to bail out their financial systems. The financial crisis, have resulted in significant losses of the banks and giving rise to an economic crisis. Consumer spending has decreased dramatically, investments have been cancelled or postponed, the global production has slumped and major layoffs have been daily news. The financial crisis have entailed that the banks have become more reluctant to lend out money, and many private equity funds have been suffering from this averse behavior. ISS was acquired through a leveraged buy-out, and the company is still heavily indebted, which the case study will also confirm. Furthermore, due to declining stock markets, the market values of corporations have declined – including comparable companies to ISS (Otkjær, 2006). Also the investors' behavior has been very restrained, which all in all has reduced the urgency of an IPO. The private equity funds troubles of divesting the company induced a new concern – refinancing of the maturing debt from the takeover. With all these challenges in mind, ISS seemed like a perfect example of a private equity investment under

[1] Xl-Byg: http://www.xl-byg.dk, August 2009.

unstable market conditions. Finally the company is open to the public and the press, and its annual reports are very informative.

Similar to the case of DT Group, the benchmark selection of ISS was also difficult, since the boundaries of ISS's competitive landscape are very blurry. Facility Service Management is an overall term, covering many different business areas, such as cleaning services, catering services, office support and security services. This means that ISS is providing services across industries, while most of ISS's competitors are focused within a narrower field of services, e.g. Sodexo and Compass focus on catering, G4S on security and Rentokil Initial on pest control. Besides this, there are a great number of facility managers, such as Johnson Controls, who does not produce the facility services themselves, but instead compounds a facility service package by the use of third-party sub contractors. In general the market trends goes towards increased outsourcing by the clients, thus the potential market is growing rapidly (Trepka, 2008). Moreover the clients are also switching away from individual service providers, hence the industry is moving towards offering integrated solutions (the full palette). ISS has been a pioneer within Integrated Facility Services Management (IFS), but because of the recent market drivers, the key competitors of ISS, such as Sodexo, Compass and Derichebourg are all moving towards IFS management. The business segmentation and its impact will be further analyzed in the later case study.

In addition to this, the industry is characterized by its global platform. There is a fierce competition with many global players with large deviations in market shares across nations, e.g. Derichebourg and Sodexo are dominant in France and Rentokil in the United Kingdom. Furthermore, the area of Corporate Clients is gaining ground, which means that many large and multinational customers centralize the purchasing decision making, by entering global contracts on facility service management. This is in line with the industry trends, that the customers to a higher degree demands global IFS suppliers.

Because of the complex competitive environment within the facility service industry, it has been decided to accomplish the case study of ISS with three competitors as benchmark, being Sodexo, G4S and Rentokil. The respective competitors are believed to cover some of the differences among the many business areas of ISS.

### 2.3.2: EVENT WINDOW

As the thesis approach aim to investigate the actual changes carried out in the portfolio companies, and the related performance, the choice of event window is crucial to the case approach. The case studies, and in particular the parts regarding the financial engineering and the financial performance will be based on an event window, consisting of two years prior the takeovers, the takeover-year and 2-3 years after the takeover. This event window is presumed to reflect the majority of the initiatives taking by the private equity firms, knowing that the average length of ownership is 3-5 years. The choice of event window is illustrated in the figure below (in which "t" equals the year of the acquisition):

| | t -2 | t -1 | t | t +1 | t +2 | t +3 |
|---|---|---|---|---|---|---|
| DT Group | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 (EXIT) |
| ISS | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |

Figure 2: Choice of event window.

### 2.3.3: FINANCIAL METHODOLOGY AND KEY RATIOS

To form the basis of the financial analysis, covering both engineering and performance, the annual reports of the case companies, as well as of the relevant benchmark companies, have been revised (Elling, 2005). This is done in order to distinguish between profit generated from the operational activities and the financial activities, and also allocate the tax payment on the basis of this distinction. Thereby the financial statements can be used for analytical purpose. Recalling that financial engineering is only one out of the four pillars in the private equity business model; other elements will also contribute with value creation in the portfolio companies. The development in the financials will be linked with the three remaining pillars in the business model, to look into what "active" elements and initiatives the funds have implemented – which origin from active ownership.

In connection with the figures from the annual reports of the different companies introduced in the thesis, the given numbers for comparison may vary due to changes in the accounting standards. Thus a number from 2004 may not be derived from the 2004 annual report, but rather from a later annual report to ensure that the numbers have the best comparability. In that respect some inaccuracies may occur, but in the event of this, it is not considered to change the overall analysis and conclusions.

#### Comments on DT Group

Up to the takeover in 2003, the revised accounts are based on the annual reports of DT Group, the parent company at that time. From 2003 to the exit in 2006, the revised accounts are based on the annual reports of new parent company DT Holding 1. However, since DT Holding 1 did not prepare a full year report in the establishing year, the revised income statement for 2003 is based on numbers of the annual report of DT Group (Danske Trælast), which makes sense, since DT Group is the firm with operations. However there is a difference in the financial items, because the debt is placed in DT Holding 1. Due to this fact, the financial items are based on a straight-line calculation based on the amount reported in DT Holding 1's annual report covering 8 1/3 months, which is believed to provide a fair picture of the full year financial expenses of the parent company. The revised balance of 2003 is based on the annual reports of DT Holding 1, but equity-related key ratios (D/E-ratio) is based on the equity of the former parent company, DT Group (today the operating subsidiary). Finally January 2004 is not covered in the revised accounts, because the financial period was changed as a result of the takeover, hence the company changed its year-end from December to January, but this absent is not meant to influence the analysis, nor the conclusions.

### Comments on ISS

Up to the takeover in 2005, the revised accounts are based on the annual reports of ISS A/S, the parent company at that time. For the years 2006, 2007 and 2008, the annual reports of the new parent company, ISS Equity, are used. For the year of 2005, the annual report of the ISS Holding is used, as there is not published a full-year report for ISS Equity in the year of the acquisition. As the majority of the company's debt is issued in the subsidiary ISS Global A/S, which is below ISS Holding in the company hierarchy, the debt and financial items should be consolidated in the consolidated accounts of ISS Holding, thus the numbers of ISS Holding is not adjusted. Overall, this procedure is not believed to affect the results and conclusions.

### Key ratios

The financial parts of the thesis will focus on the following key figures, as this should provide a fair picture of where the funds' have put their emphasis. However, to the extent it has been found relevant, supplemental key ratios are used in the analysis.

A widely used measure to illustrate alteration in a firm's capital structure is financial leverage. In order to review the development in a more objective way, the analysis will make use of two variations of this key figure; one measuring the financial leverage in proportion to the company's equity (debt-equity-ratio), and another measuring the leverage in proportion to the company's operating profit (solvency ratio). The debt-equity-ratio indicates what proportion of equity and debt the company is using to finance its assets. Often, private equity funds focuses on companies with low debt-equity ratio, as this means that they have unused debt-capacity. The solvency ratio measures the company's ability to meet its debt obligations, hence the lower a company's solvency ratio, the greater the probability that the company will default on its debt obligation. Especially the last ratio is important, considering the usually high leverage of the private equity funds. Another approach to evaluate a company's solvency is by looking at the interest coverage ratio, to determine how burdened the company is by its debt expenses, thus its capability to meet interest payments on outstanding debt.

The debt-asset-ratio is also analyzed, to indicate what proportion of the company's assets is being financed through debt. This ratio is very similar to the debt-equity-ratio, but since the asset-base is also a key point of the funds, this figure is providing some useful information, because the funds often try to streamline the asset-base by disposals and working capital optimization.

Finally, one of the most important key ratios used for management and performance evaluation is ROIC (Wedeby et al, 2006), as this ratio measures the company's ability to generate profit, in the light of the allocated recourses; hence it is also a vital part of this analysis. It has been very important to analyze the companies' ability to utilize the invested capital efficiently, thereby establish an opinion on whether the companies are in fact better run under the business model of the private equity funds, than a more conventional business model.

In addition to the key ratios, a number of other numbers will be analyzed, e.g. the development in the turnover and the number of employees, as this may possibly be good indicators of the original purpose of the acquisition. Simply speaking, the turnover can be declining if the funds are divesting subsidiaries, or it can be increasing if they are expanding or making acquisitions. Furthermore the development and the interaction between the operating profit and the net income will be analyzed, to observe what impact the net financials costs have on the bottom line.

The key ratios calculated and evaluated may differ from the key ratios provided by the respective companies, due to the fact that different calculation methods are used and the financial statements used in the analysis may be compounded differently. For instance the Operating Margin computed based on the revised accounts, is significantly lower than the one reported by the companies themselves, as the tax payment is split by operations and financials, as argued in the beginning of this sub chapter. Although the ratios differ, it does not affect the analyses and conclusions, as all numbers are based on revised accounts – also the ones of the benchmark companies. However, sometimes the officially reported ratios are used, in instances where it is found relevant.

For additional information about the calculation and use of the revised annual reports as well as the key ratios, reference is made to the enclosures.

### CAPM methodology

For the case study of ISS, the benchmark analysis will be combined with an analysis of the risk profile of the companies, by using the Capital Asset Pricing Model (CAPM) making it possible for the paper to establish a CAPM-graph that will illustrate the relationship between risk and return. To find the systematic risk (beta) of ISS we rely on the data of an extended peer group, while the risk free rate of return and the market return rely on the return of a government bond and the return on Standard & Poor's 1200 Market Index, respectively. The entire procedure is carefully derived in the relevant chapter, before it is applied.

It should be noted that the CAPM-theory is only applied to the case study of ISS, hence not DT Group. Firstly, this is attributed to the age of the DT-case and to the fact that the portfolio company has already been divested. Furthermore it would have been difficult to gather adequate data with regards to beta values, due to aforementioned problem about the lack of listed competitors. Altogether - ascribed to these circumstances, the risk-return-analysis has been omitted for DT Group.

## 2.4: VALIDITY

The theoretical framework of the thesis is based upon well known and widely used theory, which is an important step towards a reliable scientific product, and the input of other theorist acts as both criticism and affirmation of the theory used.

The empirical data such reviewed in the background information relies on a broad source of scientific material from industry organizations and academic scholars, which should be regarded as being of a very high validity.

We regard our primary and secondary data as highly valid but do recognize the fact that the data is compiled and presented by people, organizations and companies interested in the surroundings having a positive view on private equity in general and in particular their performance compared to public companies. Keeping this in mind, our other sources of theory and information come from acknowledged writers, journals web-pages etc. However it was observed that it is primarily a limited troop of journalists, who covers the topic of private equity, which may also reflect the approach and view of the articles.

## 2.5: RELIABILITY

With regards to the financial analysis this is believed to have a degree of reliability and creditability since it is built on international recognized analytical standards recognized by consultant firms, professors and financial institutions. Nevertheless, difference in accounting standards or the calculation methods, may blur the outcome as well as our own interpretation of the analysis could be to some degree affected by our personal believes. But being aware of this problem we hope to minimize the effects. Moreover, the data on investments from Vækstfonden/DVCA includes only investments in which the private equity fund is majority stockholder, whereas the data from EVCA does not apply this differentiation, but this is not believed to impact the thesis.

Financial figures are not absolute and may be influenced by the global economic environment and cyclical movements that can be difficult to determine the actual effect of. It is thus paramount that we remain objective and incorporate these uncertainties in our minds, analysis and conclusions.

## 2.6: GENERALIZATION

This thesis is based upon two Danish cases, which means that the case study is focused on Danish conditions concerning markets, legislation, organization etc. of the portfolio companies. However both cases involve foreign private equity funds whereby the international aspects are included. Furthermore both cases are cross border companies that are to a high degree influenced by other elements, in particular ISS who only have a miniscule part of their business based in Denmark. Moreover from the private equity funds point of view they are operating in an international competitive setting, so that financial engineering is an international matter.

We are aware that our base of investigation is very slim however we feel that the cases represent a fair picture of the implication of the business model, but we advise the reader not to generalize our results across other empirical findings, cases and time periods.

## 2.7: LIMITATIONS AND POSSIBLE IMPROVEMENTS

Since the main source of data has been the annual reports of the respective case companies as well as some interviews with relevant employees and associated parties, the main limitation in the data of this thesis lies in the limited access to employees of the case companies, as much of the data collection regarding the concrete operational changes is based on interviews with executive persons. The data stream could have been improved significantly if it had been possible to have a wider access to employees and other internal documents of the case companies.

Referring to the company selection, under optimal conditions the peer group should have consisted solely of public companies, as this would have ensured consistent information and accounting standards. Additionally the choice of the case companies may have been biased by the nature of the problem statement, seeking to include the timing aspect; still the reasons for the company selection are stated in the case study design.

Furthermore the general performance of private equity funds is based on existing research and extensive data on this matter could have been desirable, however as mentioned above the general performance is not the key area of investigation in this thesis.

These limitations and possible improvements, could serve as an inspiration on what sort of data and research could be conducted in the future within the scope of our thesis.

## 2.8: DEMARCATION

This thesis is confined within a certain page frame and a scope of investigation. In order to produce the most interesting and relevant thesis compared to our problem statement some aspects have to be included while others either have a poor theoretical or empirical fit and some, although interesting and relevant, might be out of the span we can cover in this thesis. In the next section we will elaborate on the delimitations of this thesis and state the reasons for our choices. We have structured our delimitations into two broad categories; delimitations in scope of investigation and theoretical delimitations.

Some of our delimitations might seem to cover relevant and interesting material, but we see the delimitations as a way of heightening the scope of this thesis and have a very specific approach and goal so our conclusions can be as precise and expressive to our problem statement as possible.

### 2.8.1: DELIMITATION OF SCOPE OF INVESTIGATION

When looking into the field of private equity it is important to distinguish between the different types of private equity, since private equity is an overall term for investments in unquoted shares of companies and as such is the equity financing of companies that are not quoted and traded on a regulated markets such as a stock exchange. The term is therefore in its broadest sense various ways of financing throughout different stages of the company's life. As a result private equity is used in both the startup phase, through various ways of venture capital including seed capital, start-up capital and expansion capital and in the more mature phase in the sense of buyout capital (Spliid, 2007; Brealey, Myers & Allen, 2006).

This thesis is solely looking into the area of leveraged buy-outs (LBOs), and not venture capital, business angels or any other form of private investments. The reason for this lies in the fact that LBO is by far the most dominant form of private equity representing more than 70 % of the total private equity market (EVCA, 2007). Furthermore the portfolio companies in both venture capitalism and business angels are small, newly established and insignificant compared to the ones of LBOs.

Moreover the thesis is concentrating on portfolio companies with headquarters in Denmark. However comparison of the portfolio companies will be made with various national and international corporations, and the selection of peers have been further elaborated above.

As mentioned earlier in the approach of the thesis, this paper will be focusing on the development in the portfolio companies, and the performance of these, executed by the private equity firm. Thus the thesis will not go into analysis of the level of the funds, as the funds can have owner's share in more than one company at a time. The demarcation of this is further illustrated below:

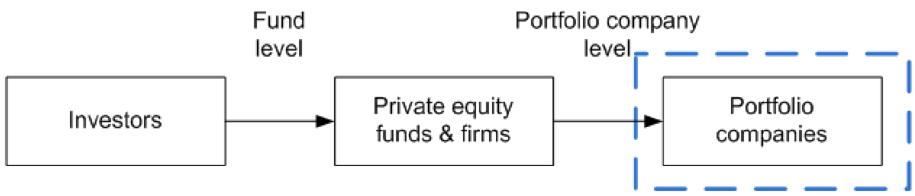


Figure 3: Scope of the thesis.

Further to this, the thesis will not look into elements such as carried interest, exit price, estimation on the fairness of the initial purchase price, development in enterprise value etc. as the thesis only looks into the actual development in the portfolio companies and the engineering applied by the private equity firms.

### 2.8.2: THEORETICAL DELIMITATION

The thesis will emphasize on the business model of the private equity funds used in their portfolio companies. Therefore the thesis will concentrate on internal matters of the case companies and will not go into depth with a stakeholder analysis, which includes issues such as legal and society matters.

Due to the complexity of the new fiscal rules concerning limitations in the deductible interest expenses, the impact of these will not be calculated thoroughly, however comments and estimates on the impact of the changes will be used in the thesis.

Furthermore the thesis will not be concerned with statistical testing of the models and the gathered data, as for this to be relevant, would have required a larger dataset, which would have been at the expense of the depth of the thesis.

The thesis will not go into depth with fiscal rules or the consequences of these, although the specific corporate tax rate (may vary due to difference in home country) will be used in the financial analysis, to calculate the tax payment and tax shield. Nor will joint taxation be taken into account, due to the complexity of this area and the limitation on the number of pages.

# 3: ABOUT PRIVATE EQUITY

## 3.1: STRUCTURE

Private equity is a structured form of investment where a private equity firm, sets up a private equity fund, which acts as a financial link between a limited group of investors and portfolio companies. In the illustration below the typical structure of a private equity organization is shown (DVCA, 2008, p. 12). The actual private equity fund is established as a limited partnership. This is a company construction with two different types of partners; the general partners from the private equity firm, that have joint and several liability, and limited partners who have limited liability and often are passive partner (Jensen, 2009). This means that the actual partners of the fund will be the general partners, though often they will do so through a limited company as to reduce the personal risk, and the limited partners will be the investors in the fund.

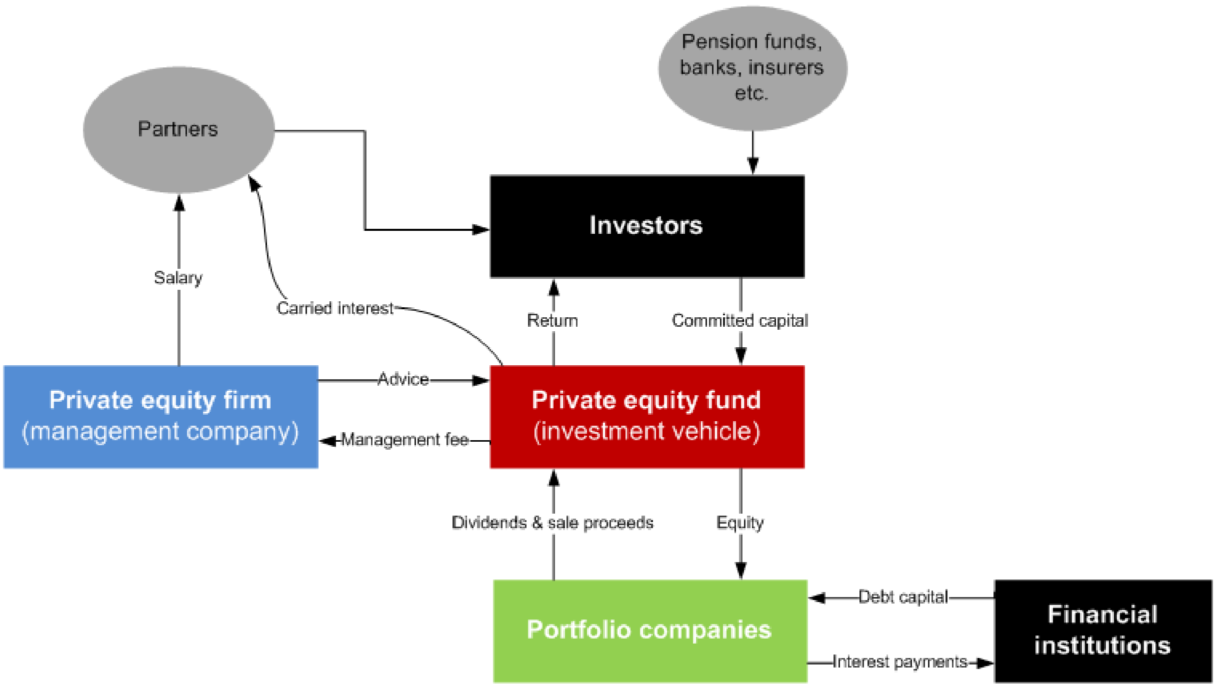


Figure 4: The structure of a private equity fund.

The main role of the private equity fund is, as shown above, to be the legal entity where the investors place their capital, which is then used to acquire different companies. The thesis will go in to depth with the criteria for the selection of these companies later. The private equity fund is controlled by the private equity firm (sometimes also referred to as a management company) that consists of a number of persons with investment experience. Most often, the partners of the private equity firm, have invested in the fund (DVCA, 2008), in order to align the interests. The private equity firm counsels and administers the fund, and is involved in the top level of the portfolio companies in order to develop the companies according to the plans made before the takeover. Thus the actual active ownership is performed by the private equity firm and not the private equity fund, which is merely a legal entity that the capital flows through. The financial benefit for the management company, i.e. the partners, can differ a lot from fund to fund, however the typical method gives a constant 1 % return on the cash that is invested in the private equity fund, as well as a performance fee called "carried interest" (Bennedsen, et al., 2008). The carried interest often represents the difference between an earlier set percentile of the total return typically 20 %, and a benchmark return also called the hurdle rate e.g. 8 % (DVCA, 2008). For the common investors the primary return comes at the time of the exit, when the portfolio company is sold. However there will often be an ongoing flow of capital to the investors during the ownership of the company through the dividend payment if the purpose of the dividend is not to bring down the amount of debt in the holding company.

The typical legal setup behind a private equity acquisition is shown below. The private equity firm establishes a fund (A), in which they place capital raised from investors. Whenever they spot a potential target company, an acquisition unit is established (B) which sole purpose is to act as a holding company for the target company. In this way, B is the company that actually acquires the shares of company C. Between company A and B a number of different companies may be established so that the debt can be distributed amongst them.

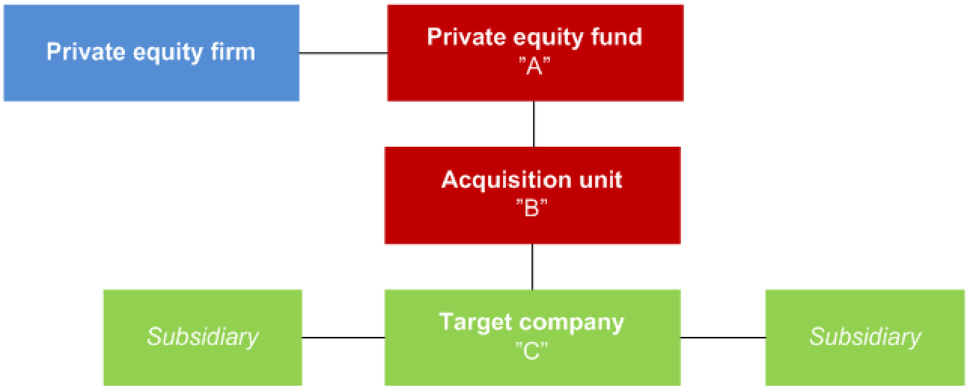


Figure 5: Legal setup of a buyout-situation.

## 3.2: CAPITAL FUNDING

The capital raised by private equity funds has increased significantly during the last 20 years, thus also the activity of the funds. On a European basis (EVCA, 2008) the funds raised annually have increased from EUR 12 billion in 1998 to EUR 59.9 billion in 2007 (app. DKK 447 billion) - peaking at EUR 84 billion in 2006. In 2007, EUR 3.9 billion or 7 % were raised by funds in the Nordic region. In this Nordic context, Swedish funds were by far the best in raising funds representing more than 75 % of the capital raised in the region, whereas Danish private equity funds accounted for only 1 % (app. DKK 340 million) of the capital resources raised for buy-out investments. In all fairness, the amounts raised in the prior years, were up to 15 times as large as in 2007, and it is worth notice that Denmark was one of the best Nordic countries when talking about raising funds earmarked for venture investments, an area which is not part of this thesis.

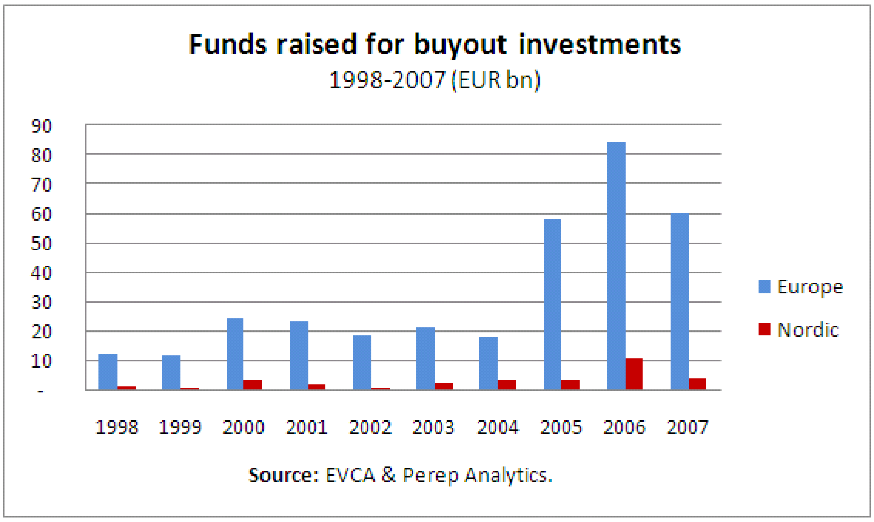


**Figure 6: Funds raised for buyout investments.**

With regards to the origin of the funds (EVCA, 2008), 56 % of the total funds raised in the Nordics in 2007 came from domestic sources, but as a matter of fact, Sweden, the top-raiser, raised more than 60 % of its funds outside Sweden, whereas the other Nordic countries raised more than 75 % domestically. The non-domestic fraction of the funds raised, originated mainly from other EU-countries such as Germany and UK, however US and Japanese investors also made a sizeable contribution to the Nordic fundraising. The types of the actual investors will be addressed later on.

With the annual funds raised in mind, it is interesting to analyze more deeply on the Danish scene, and see how the assets under management[2] have developed. From 1998 to 2007 the funds operating in Denmark have experienced a sharp boost in its capital committed (Vækstfonden, 2009), increasing from DKK 5 billion in 1998 to DKK 45.5 billion in 2008, and especially from 2004-2007 where the funds doubled its assets under management.

[2] Assets under management = accumulated funds raised.

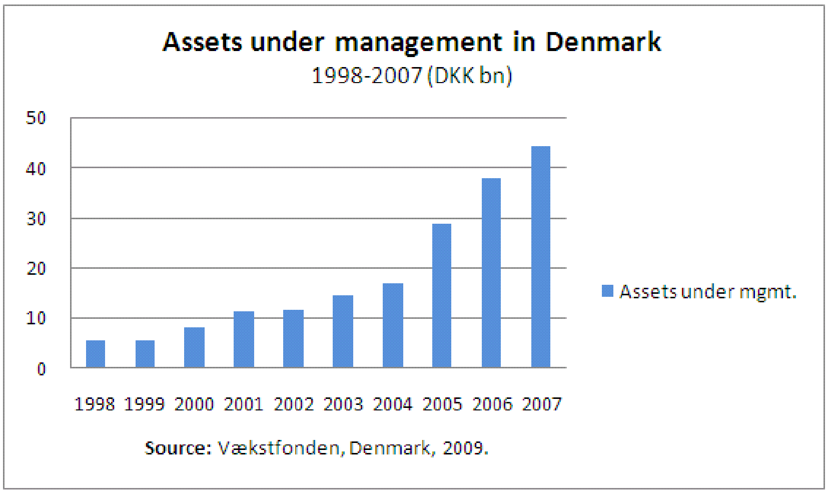


Figure 7: Assets under management in Denmark.

### 3.2.1: INVESTORS

The funding of the private equity funds primarily origins from these five major sources:

- Institutional investors
- Banks and insurance companies
- Public institutions
- Fund of funds
- Limited companies

In the diagram below you can see the distribution for the investors:

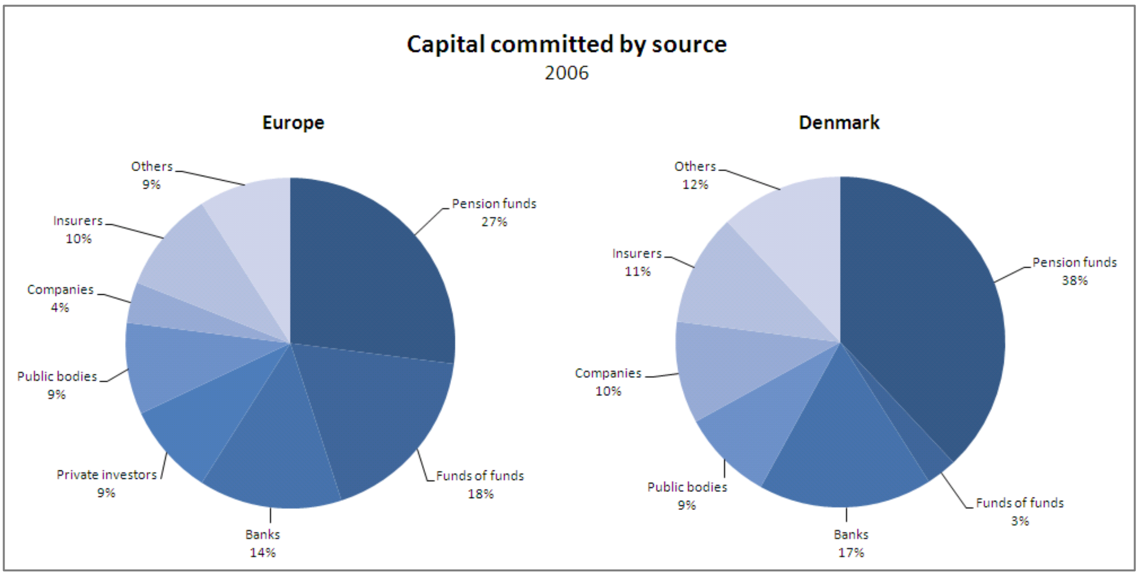


Figure 8: Europe & Denmark - capital committed by source in 2006.

As illustrated in the graph above the biggest investor group in both international and national terms is the institutional investors that account for almost 50 % of the capital raised in the funds. From this group pension funds account for nearly two thirds and are as such by far the biggest single investor group. Furthermore both banks and insurance companies are also large investors. In general the investor distribution for American and European private equity funds is quite similar to the investor distribution of regular publicly traded limited companies. However in Denmark where the market for private equity is not as mature as the Western European and American market, there are a much smaller percentile of private investors compared to the other markets (Bennedsen, et al., 2008, p. 15), though for the other groups the distribution is still quite similar to the one of limited companies.

The investor distribution for the Danish private equity market is however likely to change according to the standards of the international private equity market, as the Danish market matures, which would lead to a larger level of private investors.

## 3.3: ACTIVITY AND INVESTMENT LEVEL

As the level of funds raised has increased gradually during the last century, the investment activity of private equity funds has naturally followed. In Europe the investments (EVCA, 2009) made by private equity funds reached a new record level of €58.3 billion in 2007, although the number of investments declined from 1,653 in 2006 to 1,379 in 2007. Concordant with the overall European picture, the number of investments went down in the Nordic, making up 159 deals in 2007 – down 33 % from 2006.  The amount invested reached €5.4 billion in 2007, an increase of 42 % to the prior year, implying that the private equity funds are targeting larger companies.

| Number buyouts (by country) | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Europe | 1,144 | 1,201 | 866 | 754 | 854 | 1,089 | 1,221 | 1,441 | 1,653 | 1,379 |
| Danmark | 13 | 10 | 11 | 9 | 4 | 11 | 27 | 28 | 39 | 7 |
| Finland | 30 | 35 | 29 | 22 | 26 | 37 | 34 | 24 | 30 | 49 |
| Norway | - | 15 | 3 | 1 | 6 | 12 | 6 | 30 | 51 | 26 |
| Sweden | 17 | 54 | 28 | 29 | 23 | 83 | 61 | 94 | 92 | 77 |

**Figure 9: Number of buyouts in Europe and the Nordic.**

Private equity funds in Denmark started out in the early 1990's, and ever since the activity have increased significantly, going from a minor number of buy-outs in the beginning, to a relatively high level after the millennium. In the period of 1998 to 2007, there were 159 investments, and 87 % of those took place after the millennium. Half of the buyouts were made by funds located in Denmark, of which one third were carried out by the three most active funds. Naturally the investment focus and size of portfolio companies increases concurrently with the size of the fund.

## 3.4: ACQUISITION STRATEGIES

This chapter will go through the acquisition strategies of private equity funds. In order to enable the private equity funds to execute their active ownership, there are certain characteristics of the potential portfolio companies that private equity funds invest in. Most often the funds invest in companies, which have one or more of the following characteristics (Bennedsen, et al., 2008):

- Opportunity for high gearing
- Steady cash-flows
- Opportunity for sell-offs
- Opportunity for operational improvements
- Strategic opportunities
- Experienced and well-reputed top-management
- Low valuation

The high gearing has historically been one of the most important elements in the fund's business model. The high gearing reduce the tax payment, because of the deductable interest expenses, and in that respect, private equity funds have been criticized for their tax avoidance. However the funds argue that there are other important side effects of the gearing, as the debt stress the company to focus on its ongoing cash flows in order to serve the debt and interest expenses. This is closely related to another mark of the target companies, the stable cash flows. Constant and relatively high cash flows are important for two reasons; partly because it enables high gearing at a lower interest rate, due to lower risk and linked with this, the high and stable cash flows are crucial in order to pay the ongoing interest expenses. The opportunity for sell-offs is another important value driver in the business model of the private equity funds, as this entails focus on the companies' core competences. At the same time it frees capital, making it possible to pay off the debt, and thereby reduce the interest expenses. Furthermore private equity funds search for companies with great opportunities for operational improvements and thereby increase profits and enterprise value. Examples of operational improvements could be reduction in working capital, elimination of excess capacity, optimization of payment terms, organizational changes etc. Strategic opportunities are another important mark in the acquired companies, being the opportunity for industry consolidation, international expansion among many others. It can also be an advantage for the fund, if the company has an experienced and well-reputed top-management, or if not, the fund should promptly insert a new and skilled board of directors. This will send a signal to the creditors and give them confidence that the company will honor its debt. Lastly, the private equity funds seek out for companies, whose market value they believe is below the actual value, as this will improve the multiple when the fund desires to sell the company. The characteristics examined above, mention some of the initiatives the private equity funds take in the acquired companies, and that will be further elaborated in the next chapter dealing with the value drivers of active ownership.

Obviously, companies within certain industries are better suited for being acquired by a private equity fund, with the business model and investment characteristics mentioned above in mind. In this connection it is interesting to look at the industry allocation of private equity investments, which clearly indicate that the funds are focused on certain industries, hence three industries accounts for 85 % of the investments. As seen in the table below, which shows buyouts in Denmark from 1991-2008, manufacturing companies are by far the largest industry measured on the number of buy-outs, and represented almost two-third of all buyouts in Denmark. Service and retail businesses represented roughly 20 % of the buy-outs.

| Industry | Number | Percentage |
|---|---|---|
| Manufacturing | 122 | 64% |
| Service | 22 | 11% |
| Wholesale | 19 | 10% |
| Retail | 12 | 6% |
| IT development | 8 | 4% |
| Construction | 4 | 2% |
| Transport | 4 | 2% |
| Research | 1 | 1% |
| **Total** | **192** | **100%** |

**Figure 10: Number of buyouts by industry. Denmark 1991-2008.**

A similar study conducted by Citigroup, summarizing all global buyouts in 2005-2006, provided a similar picture, as manufacturing companies (industrial and consumer) accounted for almost 50 % of all buyouts completed worldwide. Furthermore real estate, infrastructure, technology and telecommunication companies represent a large fraction as well. Altogether, the funds pursue industries characterized by a relatively low operational risk, often meaning low volatility and steady cash-flows. This low operational risk allows the private equity funds to gear their investments, consequently increasing their financial risk.

## 3.5: PERFORMANCE

Knowing that the activity of private equity funds has been increasing rapidly within the last decade of time, it is interesting to see how the concept of private equity has performed. Performance can be measured on fund level and on portfolio company level, and moreover there are several ways to measure this performance. For instance as the growth in enterprise value at the time of the exit, the ongoing cash flows to and from the fund, the selling price etc. Because of the vast demand of data and complexity of the measurement, this chapter will not derive its own research, and will not go into the performance of specific company examples, but rather rely on existing studies about the overall private equity performance. A global investigation[3] carried out by Ernst & Young in 2007 (E&Y, 2008), showed that private equity funds over-all out-performed public companies, when performance is measured as growth in EV, EBITDA, valuation multiples and productivity. In total the private equity funds out-performed the public companies with 12 %, returning an annual growth rate of 24 %. The

[3] The study was based on 100 global exits, ranked after top-100 entry enterprise value.

best performance was seen in Germany, in which the private equity funds out-performed the public companies by 20 %, but what is more interesting, is the Nordic, where private equity funds in fact showed at negative growth on 2 %. The Ernst & Young study also found, that portfolio companies bought from private owners showed the highest performance, by 24 % outperformance. Target companies acquired from another private equity fund, i.e. secondary buyout, displayed 15 % outperformance, while those that were bought from listed companies only showed 3 % outperformance. Another research[4] (Cressy, 2007) that was based on the change in operating profit, and based solely on British buy-outs, gave similar results, showing that the profit margin was on average 4.5 % higher for companies backed by private equity firms. For industry specialized private equity funds, the profit margin was even higher, 8.5 % on average. Contrary to this research, is a study[5] of Danish buy-outs completed in 2008 (Vinten, 2008), in which it was found that the profit margin on private equity investments on average were 2-8 % lower than for comparable firms, using a 3 years event window after the takeover. Comparing the 3 different studies, it indicates that the results of the studies are very dependent on the sample data, and may very well blur the outcome, by looking at an average view.

However, neither the E&Y study, nor the other studies cited above, do take risk into account, despite the fact that an elementary part of the private equity business model is gearing, hence increased risk. Moreover an alternative way to measure performance of private equity funds, is by looking on the fund's overall performance, in which the investors actual place their money, and not rely on the performance of the individual companies in the portfolio. The following paragraph will handle this approach superficially.

A recent study[6] from Boston Consulting Group (BCG) (BCG2, 2008) addressed the pitfalls stated above, by looking at "fund performance" and by adjusting for risk. BCG discounted the funds return for leverage and illiquidity risk, and attributed for what they call "stability", referring to the acquisition strategies outlined above. By using this method, BCG found that private equity funds on average are more or less giving the same returns as public capital markets. That said, by de-averaging the sample material, the study found that the performance of most public companies tend to go towards the market average over time. By dividing the companies into quartiles depending on their base year performance, they discovered that the top-performing companies on the starting point were generating average returns after four years. Applying the same process to the funds, showed that the best private equity firms beat the public capital markets, and their return did not dwindle over time. From an investor's point of view, it is very relevant to know what characterize those "over performing private equity funds". Subsequent research proved that the outperformance by certain private equity funds could not be attributed to fund size, deal size, geographic diversification

[4] The study was based on 122 UK buyouts from 1995-2000.
[5] The study was based on 73 Danish buy-out from 1991-2004.
[6] The study was based on the performance of 66 public companies from 2002-2006.

nor industry diversification, so top performance must be ascribed to other factors, such as the active ownership.

In immediate continuation of the preceding paragraphs, the case study in chapter 4 will analyze the implications of the active ownership, by analyzing the financial performance in the case companies. The performance will be adjusted for risk, and compared to relevant competitors. Some of the factors are growth, profit margin and employment creation, as mentioned in the methodology. However, the case study will not look into enterprise value, selling price or similar methods of performance measurement, or the performance of the funds, as mentioned in the demarcation.

## 3.6: LENGTH OF OWNERSHIP

One of the core elements of the strategy of the private equity funds is the temporary ownership since it provides a pressure on the organization of the portfolio companies to perform within a limited time span, which is very different from public limited companies, where there is not any given time horizon besides the ones set up by the mission statement. This provides a great mean of motivation, also called “state of urgency” (DVCA, 2008, p. 14), for the employees, of whom a large part has shares in the company and thus has a financial incentive to develop the company and ensure that the company is ready to be sold, the thesis will go into depth with the different methods of selling on the company. For the investors the time of the exit also provides the main return of the capital invested, as it is the biggest flow of capital during the investment. A typical cash flow progress in a private equity fund is illustrated below (Bennedsen, et al., 2008, p. 39), whereas this thesis tends to emphasize on the investment phase (marked blue).

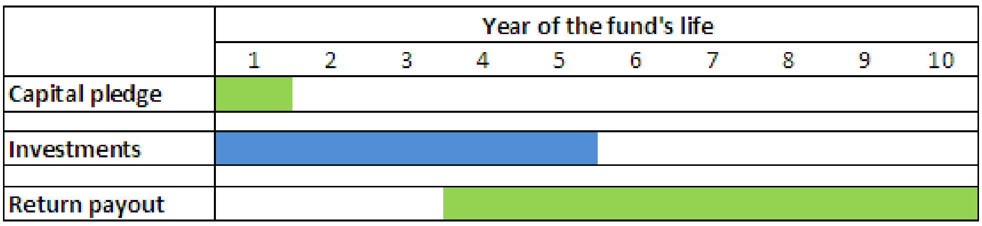

Figure 11: Cash-flow progress in a private equity fund.

The time span of the investment differs from fund to fund and again from investment object to investment object. However in general, the declared goal of the private equity funds is to have an exit between 3-5 years after the initial acquisition (DVCA, 2008). This is also the case on an overall basis, shown in the illustration below, which is based on all Danish LBO’s made by private equity funds. Nonetheless the period is much dispersed and the length of ownership differs from half a year to more than 11 years. Furthermore the current financial climate means that the ownership period is prolonged as it is more difficult to divest the portfolio companies, which will be further elaborated in chapter 6.1.4: Divesting troubles.

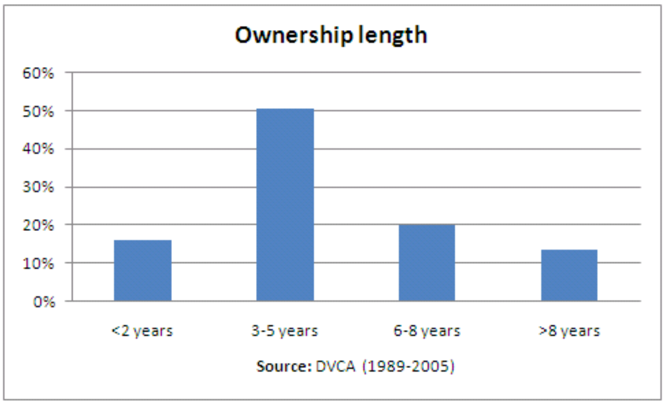


Figure 12: Ownership length of the funds' investments.

## 3.7: EXIT STRATEGIES

There are also many different methods of divesting, which again is determined by the market, the portfolio company and many other external factors. In short these means of exit can be limited to:

- IPO; the portfolio company is (re)introduced to the stock market
- Financial sale; the portfolio company is resold to another private equity fund
- Industrial sale; the portfolio company is sold to a competitor or other industrial partner
- Bankruptcy

The distribution between the above mentioned four options is shown in the figure below, and clearly shows that a majority of the portfolio companies are resold either to other industrial companies or to other private equity funds. Thus only two of all the companies that have experienced an exit have been made public again, while only one out the 75 companies have been subject to a bankruptcy, although this has been mentioned as one of the main dangers of private equity funds involvement in corporate Denmark, by its critics (Rasmussen, 2006). The picture is very similar for the entire Nordic and also on a European basis, where the majority of the exits are made to an industrial buyer (also illustrated in the figure below). The relatively small number of IPOs is also linked up with a general limit for IPOs on the stock markets. For instance on the UK-market in the period from 1995-2006, private equity-backed buyouts accounted for 8 % of the total number of IPOs, and almost 20 % of the amount raised on the IPO (Levis, et al., 2008). Thus the private equity exits are not insignificant on the markets for IPOs.

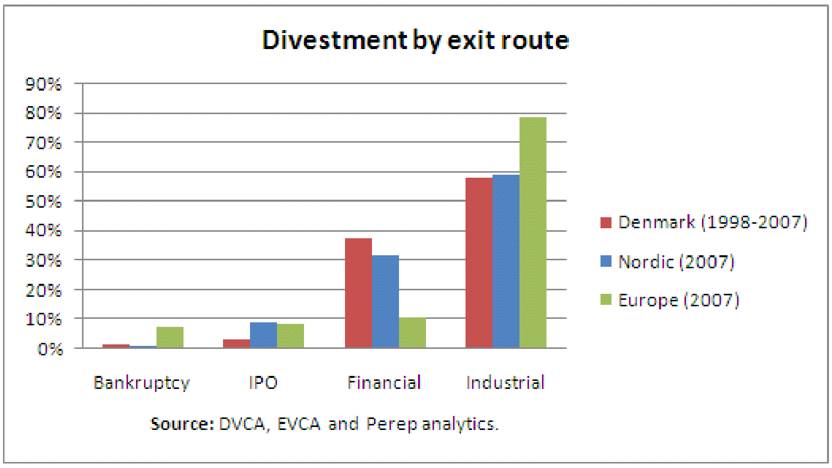


Figure 13: Divestment by exit route.

Looking back at the historical performance of IPOs by companies acquired through private equity buy-outs, some studies have proven that the flotations by private equity firms have outperformed other IPOs. In April 2008, when the financial crisis was still smoldering, a study investigating UK stock market listings from 1995 to 2006 was published. This study showed that IPOs launched by private equity funds, was issued at an average earnings multiple of 7.3, compared to the average 9.7 of other IPOs. Nonetheless, the study also showed, that the shares of the former buy-out companies, outstripped other IPOs by 9 % after one year, and the overall stock market index by 20 %. Industry protagonists have argued that the reasons for this outshine was attributable to the business model of the private equity firms that they build up better businesses with sustainable long term growth prospective (Arnold, 2009). Another interesting finding of this study was the fact that buy-out firms on average retained 26.2 % of the listed company.

# 4: VALUE DRIVERS OF PRIVATE EQUITY FUNDS

## 4.1: FINANCIAL ENGINEERING

One of the most important value drivers of private equity funds is financial engineering. Critics often link the phrase "financial engineering" solely with high gearing, and thereby tax avoidance up to a point, but below the surface the phrase goes wider. This sub chapter will go into the benefits and downsides of changes in the capital structure, as well as other mechanisms under financial engineering.

### 4.1.1: Background information

The definition of capital structure can be interpreted as the relationship between debt and equity, and this ratio; debt*/equity (*most often limited to long term debt) indicates the gearing of the company. As mentioned before, private equity funds often seek to acquire companies, in which there is an opportunity for high gearing, as private equity funds often debt finance an acquisition and the subsequent investments that follows. Studies (Zong, 2005; Rogers, 2002) show that approximately 60 % of private equity firms' assets are debt-financed, compared to 40 % for public companies, so it is clear that there is a significant difference in the capital structure of firms backed by private equity funds and public owned firms.

On the other hand, debt financing is not unique to firms backed by private equity funds, and acquisitions made by public firms, are often done with debt financing as well. Latest research (Rostgaard, 2008) implies the same that public firms to a greater extent imitate the approach of private equity funds, by changing the capital structure and take out more loans. For instance Carlsberg's acquisition of Scottish & Newcastle, in which Carlsberg borrowed nearly DKK 50 billion to finance the deal (Hansen, 2008).

Analysis made on 73 Danish private equity portfolio companies (DVCA, 2008), exhibited how the private equity funds changed the capital structure. In the 3 years up to the buy-out the asset base grew rapidly, whereas the companies' assets descend fall after the takeover, in consequence of disposals of subsidiaries, buildings etc. and reduction in working capital. The debt base is also growing ahead of the takeover, but more slowly, inducing that the debt-asset-ratio is declining. Immediately after the buyout, the debt rises dramatically, but starts to fall in the following years. Naturally, the debt-asset-ratio increase after the rise in the debt, and though the debt is quickly paid down, the debt-asset-ratio continues to go up (relatively seen), as the asset base is shrinking more rapidly than the debt. There is a sharp drop in the companies' equity within the first two years of the buyout, hence the debt-equity-ratio climb from 2.21 one year prior the buyout, peaking at 3.61 in the second year post-buyout.

The equity share in a private equity fund is composed of the funds raised by investors (e.g. the ones handled in the prior section), and typically the funds supplement these money with debt. Besides the capital already committed by investors, the management company has often got the option to call for additional capital, if it is deemed necessary (Bennedsen, et al., 2008). However the funds are not obligated to do so in a legal sense and it may occur that a fund estimates that a given portfolio company is better off by going bankrupt rather than investing more capital into an unprofitable investment. Hence it is seen that the private equity funds have refused to put in additional capital in the portfolio companies, especially in light of the current financial crisis – a matter that will be clarified in the outlook. That said it is often seen that the funds have made agreements with the banks, about supplying extra capital, to reduce the risk of the banks, and thereby increase borrowing and the credit terms.

The funds are often charged with certain covenants, such as increased monthly reporting, limitations for debt/EBITDA ratio, security in the company's assets and giving the banks a say in important decisions. This is a tool used to reduce and manage their risk.

Although the value creation from financial engineering is a very important value driver in the business model of the private equity funds, the importance has dropped during the last two centuries. A study from Goldman Sachs and Boston Consulting Group from 2008 (BCG2, 2008), estimated that in the first era of the private equity funds in 1980's, the leverage effects was by far the most important component, accounting for more than 50 % of the total value creation. During the 1990's and 2000's, the fraction has slowly but surely dropped, and in the current era, the value creation attributed to leveraging is assumed to be less than 20 %.

### 4.1.2: The theory behind capital structure

The gearing is often necessary for the funds to buy the target company (and sometimes to finance future investments), but seen from a theoretical and value creating point of view, there are pros and cons of debt. Simply speaking, there are two main benefits of gearing. First of all, since shareholders (the investors) are paid AFTER the banks, hence taking a greater risk, they require a risk premium to the interest rate, thereby making equity more expensive. Secondly, interest rates are tax deductible and can lessen the portfolio companies' corporate tax payment, although legislation is changing rapidly on this matter.

In that connection, the theory of Modigliani and Miller is essential, in order to identify how changing the capital structure can add economic value. The first proposition of Modigliani and Miller (in the following referred to as MM-I) (M&M, 1958), proposed that the market value of a given company is independent of its capital structure. The second proposition (in the following referred to as MM-II), states that a firm's weighted average cost of capital, is not affected by its leverage.

However, both MM-I and MM-II, relied on some impracticable assumptions such as:

- No taxes (neither corporate nor personal)
- No costs of bankruptcy.
- No operational effects of gearing (positive as well as negative)
- Perfect/efficient capital markets (firms and investors can borrow or lend at the same rate)

The point is that when a financial market is not distorted by any of the frictions outlined above, the investors can freely replicate a company's financial actions. The investors can so to say "undo" firm decisions, by holding positive or negative amounts of debt (short selling); hence the enterprise value of the firm (debt+equity) depends only on the cash flow generated by the assets. Still, in the real world there are taxes and the other factors mentioned above, and especially the tax issue, was also addressed by Modigliani and Miller (M&M, 1963). Given that interest payments on debt, are deductable in most tax regimes, substituting debt for equity can generate a surplus by reducing the corporate tax payments to the government. The effect of the tax shield can be illustrated by the revised Weighted Average Cost of Capital formula (WACC) shown below:

$$WACC = \frac{E}{V} \times R_e + \frac{D}{V} \times R_D \times (1 - T_C)$$

As shown in the formula, the WACC will decrease as the proportion of debt increases, due to the tax shield. Brealey, Meyer and Allen however holds that in most LBOs the debt level is decreased throughout the period of the ownership whereas the tax shield is not an objective in itself, but rather a positive side effect of aggressive gearing (Brealey, Myers & Allen, 2006).

Further than the effect of the tax shield, Miller & Modigliani argued in M&M-II as mentioned earlier that an increase in debt would affect only the required return on equity, which can be illustrated through a reformulation of the WACC formula:

$$R_E = R_\mathrm{A} + (R_\mathrm{A} - R_D) \times \frac{D}{E}$$

Here it is shown that the required return on equity will increase accordingly with the increase in debt. Furthermore the theory holds that the increase in debt will affect neither the WACC nor the required return on debt, which means that the companies in theory should employ a relatively high share of debt. Nevertheless this assumption is relaxed in the article, as the authors admit that the interest tends to increase with the debt-equity ratio, which is especially the case in examples with relatively high ratios (M&M, 1958). Furthermore Miller and Modigliani finds that equity is a more expensive mean of financing compared to debt, at least if the debt financing "is not carried too far".

A central element to the discussion on the use of gearing lies in the LBO model, which implies that the majority of debt raised in the portfolio company is raised for the acquisition process. The debt is facilitated and brought down by the cash flow generated by the company, while the return is generated by the exit (Holm et al., 2005). Furthermore any increase in enterprise value will only be attributable to the equity as the return on debt is constant, i.e. the interest. Therefore an increase in enterprise value for the portfolio company will provide a larger relative return on the equity invested by the private equity fund at the time of the exit.

As mentioned above the theory could insinuate, that under some circumstances, the optimal capital structure could be complete debt financing, due to the favored treatment of debt relative to equity in a tax code, but obviously this is not the case. It is indicative that the firm value is augmented, when employing a higher leverage, but increasing debt comes at costs. First of all, the banks often raise demands to the debt-equity-ratio, and require a minimum proportion of equity. Secondly, a higher debt ratio exposes the firm to a greater default risk; consequently the firm's credit rating may be downgraded, which in turn raises the costs of borrowing. The investors are also exposed to a higher risk, so their required return will possibly increase as well. This will result in a higher cost of capital, thus reduce the economic effect of the leverage.

Scientific work has not (yet) derived the optimal capital structure for corporations and Modigliani and Miller argues that regardless of the existence of a tax advantage for debt financing, the most favorable capital structure, vary from company to company. Basically, the optimal composition of debt and equity depends on the volatility of the company's earnings and on the likelihood of its owner quickly providing additional capital where necessary (DVCA, 2008). Compared to publicly held corporations, firms backed by private equity funds need less equity, given that it is more difficult and expensive to raise prompt capital on the stock market, than by the limited partners of the fund. Additionally other forms of financing may be cheaper when also personal income tax is taken into account (M&M, 1963), retained earnings for instance. Altogether, this means that gearing is not inevitably the best possible instrument for a portfolio company to finance its investments such as subsequent acquisitions.

### 4.1.3: New tax rules

As mentioned above the optimal debt-equity-ratio depends on the individual company, but when a private equity fund takes ownership of a target company, the determination of the debt-equity-ratio is also related to the local tax laws. As mentioned in the very start of this sub-chapter, private equity funds have been subject to extensive criticism, tax avoidance being one of the most discussed topics. The figure below illustrates the development in the effective tax rate[7] before and after takeover, in 108 Danish buyouts taking place from 1995-2004 (OEM, 2006). Evidently the corporate tax payment declines in the buyout investments after the takeover, also compared to a peer group.

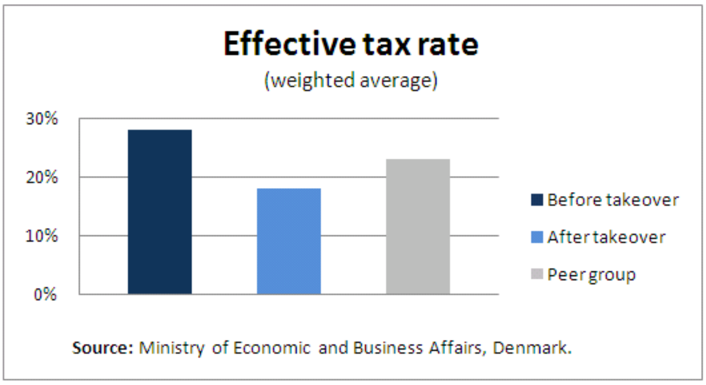


Figure 14: Effective tax rate in 108 Danish buyouts.

In the wake of this, new fiscal laws were introduced in Denmark in 2007 (DVCA, 2008), and later modified in 2008 (PWC, 2008) and 2009 (PWC, 2009), regarding thin capitalization and limitations in interest deductions. The new fiscal laws entailed that firms could lose the right to deduct all of its interest expenses from its taxable income, if the debt-equity-ratio exceeds a given level. The new tax legislations had a huge economic impact on the portfolio companies' and the underlying holding companies, for instance TDC (a Danish provider of communications solutions), estimated that the new tax intervention would cost them around DKK 1.2 billion on an annual basis (Schrøder, 2007). The tax issue is further analyzed in the case studies, as well as in the outlook.

### 4.1.4: Off-balance-sheet financing

While conventional leveraging is the most familiar financial tool employed by private equity funds, to obtain a more efficient capital structure, empirical studies (Rogers, 2002) have shown that the best private equity funds are pursuing alternative ways in optimizing the capital structure, and thereby increases the value of the portfolio companies. The use of Special Purpose Entities (also called Special Purpose Vehicles) and Asset-Backed Securities are examples of alternative ways of financing. The concept and transaction process is illustrated in the figure below (Subramanyam & Wild, 2009, p. 178):


Figure 15: SPE transaction process.

A Special Purpose Entity (SPE) is formed by the parent company, also referred to as "the sponsoring company", which is pursuing financial resources. The SPE is capitalized with eq-

[7] Total tax paid divided by Taxable income.

uity investment, some of which must be owned by independent third parties (hence not by the company, on whose behalf the SPE is being set up). The effective control should also remain with outside parties. Sometimes, to assure independence, the SPE is established as an orphan company, with its shares placed in charitable trust and with a professional board of directors inaugurated by an administration company. The equity investment is leveraged by issuing bonds to the credit markets collateralized with the receivables, and the borrowings are used to purchase earning assets (e.g. receivables, buildings etc.) from the sponsoring company. This process is called securitization. The following cash flow from the earning assets is used to repay the debt to the bond holders and to provide a return to the equity investors. The securities are typically set at a lower interest rate than borrowing from the credit markets directly, since the activities of the SPE is restricted and the investors purchase a well-secured cash flow (given the fact that statistically speaking only a minor part of receivables default). Furthermore, the SPE is accounted for as a separate entity, i.e. not consolidated with the sponsoring company, thus the company is able to remove assets, and liabilities from its balance sheet, hence improving the key ratios and still achieve the economic benefits of the underlying transactions. The new cash position can subsequently be utilized in acquisitions or other investments.

The use of asset securitization has seen a critical light in the last century, as corporate scandals, in which SPE's were used to hide balance items, as it was seen in the Enron case. The underlying objective for Enron was to please Wall Street, by improving key ratios and retaining its credit rating (Feldstein, 2002). In order to improve both the income statement and the balance sheet, Enron set up a number of SPEs. Among other things, the SPE were used to finance large investments and to sell costly assets, which were subsequently gaining income to Enron. Sometimes Enron even sold assets to the SPEs, that Enron was aware would have losses in the future. In all cases, it helped keep debt off Enron's balance. The issue regards the lack of independence of the SPEs (Bierman, 2008), since a major part of the SPEs was organized and controlled by the CFO of Enron of that time. Furthermore the CFO and other Enron employees had invested in the SPEs. In fact, Enron was both manager and an influential investor in the SPEs, meaning no independence, thus the SPEs should actually have been consolidated in Enron's accounts.

Despite certain reservations to off-balance financing, the idea underscores that conventional debt taking is not second to none.

#### 4.1.5: Other related mechanisms

Undeniably the economic gains, related to tax payment and valuation, are important, but there are other interrelated benefits of increasing the debt ratio in the portfolio companies. The private equity funds claim that the tax reduction is not the most important effect of changing the capital structure. The gearing of the acquired companies is only possible, because the funds exercise extremely tight control over the liquidity in the portfolio companies, and trigger the management to focus primarily on the earnings, in order to pay the interests. Large volatility in the cash-flows can put the financing into serious troubles, and in worst case cause bankruptcy. Scientific research (Jensen, 1986) put forward the same results that the threat of not being able to make debt service payments, serves as an effective motivating force to make the organization more efficient.

### 4.1.6: Pitfalls within financial engineering

As mentioned earlier on, there are also costs and issues linked with leveraging and other types of financial engineering. In the best possible situation, a high debt to equity ratio should prompt the managers to view cash as a scarce resource and allocate capital accordingly, and not invest in unprofitable and risky projects. However, the outcome of using too much debt may produce the reverse effect (Jensen, 1986). If it is an organization which creates large cash-flows, but with low growth prospects, there is a chance that the pressure, will stress the management to waste the free cash in uneconomic projects. Derived from this, embarking more debts is only topic of conversation, if there are potential value gains with large and highly profitable investment projects, and not take out debt merely for the sake of debt.

Finally financial engineering does not serve on its own, and should be combined with other value drivers, such as operational engineering and corporate governance, to be elaborated in the next sub chapters.

## 4.2: GOVERNANCE ENGINEERING

One of the most important elements for the private equity funds is corporate governance. This is due to the fact that some of the most significant changes funds implement when acquiring a new portfolio company are within the field of governance. These changes can relate to changes in the board size, management team, how the employees are incentivized etc. However the primary benefit of the private equity funds governance is regarding agency theory.

### 4.2.1: Principal-agent theory

A principal–agent relationship will occur whenever a person acts on behalf of another person, this can happen in a number of different situation; the state–the governed, employer–employee, doctor–patient etc. (Ross, 1973). A problem will arise whenever some of the following assumptions are fulfilled (Eisenhardt, 1989). First and foremost an agency problem will occur when there is a difference in the desires or goals between the two parties and these collide. This is to a large extent related to their attitude to risk, since a business owner will often be more risk averse than a manager who has got nothing else than his job at stake, on the other hand some agents will prove to be more risk averse than their principals. This will often be the case in limited public companies where the ownership base is normally highly dispersed. Here the agent will feel an incentive to undertake little risk as he is rewarded less on the upside than he is punished for the downside, i.e. getting a bonus compared to being fired. Secondly there has to be an asymmetry in the information so that the principal does not have the complete information on how the agent performs and thus is not capable of controlling whether or not the agent is doing his task properly.

When the above mentioned assumptions are present there are a number of problems that might occur, here are some of the problems that relate to the owner – manager relationship that has relevance for this thesis. The asymmetric information as well as the difference in objectives can lead to a number of very serious problems.

One of the most serious severe case is criminal behavior through embezzlement, which is mainly due to the fact that the principal is not capable of controlling how the agent behaves, there have been many example of this throughout corporate history e.g. Parmalat, IT Factory, Enron etc.

Another example is that the agent can act so self-optimizing that he violates the interests of the principal, this could entail excessive spending (Burrough & Helyar, 1990). Examples include purchases of private jets, expensive dinners, unnecessary company trips etc. This is however not necessarily criminal, but is still not in the interest of the principal.

According to several theorists the case of empire building (Shleifer & Vishny, 1997) is also a massive problem. The problem with this lies in the fact that managers in general are interested in leading a growing company, which can lead to overinvestment and acquisition of companies that are not creating value. This is especially viable for stable companies generating large cash flows, without the prospect of growing very much. Here the "free cash flow" problem (Jensen, 1986) was presented, related to the cash flow exceeding the cash flow needed to run the company. In theory this cash flow should be paid out to the shareholders or only invested in projects with positive NPV, if the company should be efficient. However as mentioned above this is against the interest of the agent, thus many companies experience empire building or an excessive level of free capital in the company.

Additionally entrenchment is also a very big problem, because when managers stay to long in the job there is a risk that they are no longer qualified for the job, which also destroys value for the owners (Finkelstein & D'Aveni, 1994). The list continues and the problems concerning the principal–agent issue are a significant threat to value creation.

To avoid this situation one of the main elements is to align the interest of the principal of the agent, so that the agent cost can be minimized. This can be done in many ways, for example:

- Give the agent ownership share
- Make incentive schemes for the agent

However another approach could be to install automatic means of control, which would keep the agent (manager) in place. Such installments could be (Shleifer & Vishny, 1997; Jensen, 1986):

- High level of debt – this is mainly for stable high cash flow generating companies.
- Large shareholder and/or investors
- Large creditors – banks will have an incentive to control the governance structure of the company.

In general the basic notion is that organizations should entail different natural control mechanism in order to minimize the risk of experiencing principal-agent problems, which is one of the areas where private equity funds have a distinct advantage as they incorporate all the mentioned tools in their business model, which we will go into depth with later in the thesis.

#### 4.2.2: Board role and size

In the question of good corporate governance the board plays a significant role in the execution of the strategy etc. and this is furthermore one of the areas where private equity ownership distinguish themselves from the conventional companies.

The role, size and composition of the board differ in many ways from company to company as well as from country to country, but some of the main and general characteristics of boards for conventional companies are that the boards in general consists of 9-12 members, have a meeting frequency of around 7 annual meetings (Monks & Minow, 2000) and the boards have an emphasis on controlling the management team. However the approach of private equity funds is typically to maintain some of the existing board members, while adding a number of partners from the funds in order for them to execute the plan that is made for the company (Rogers, Holland, et al., 2002). Furthermore the number of members of the board is decreased in order to limit the risk of free riding and ensure a more efficient board culture. The role of the boards is also changed as the boards in private equity owned companies focus more on advising the management rather than controlling them (Thomsen, 2009). The decreased need of controlling is due to two main factors; the ownership role of the management reduces agent cost and is thus not requiring the same level of control. Furthermore the boards have a much higher meeting frequency and are to a higher extent involved in the company. In some companies there have even been introduced weekly board meetings (Vinten & Thomsen, 2008). In general the boards play a significant role for the private equity funds as it is the main mean to implementing active ownership.

### 4.2.3: Management team

The management team of course plays a central role in the execution of the plan for the company made by the private equity fund; however the role of the management is sometimes more limited than the one of a management team in conventional public company, since the board is much more involved in the governance of the company (Keel & Kehoe, 2005). In most cases the fund will focus on maintaining the existing management team upon completion of the acquisition in order to keep relevant experience about the company within the management team (DVCA, 2008).

### 4.2.4: Incentive Mechanism

One of the major changes that the private equity funds implement relatively quickly upon the acquisition is a change in the payment structure of the leading employees (Bennedsen, et al., 2008, p. 9). This is to a large extent done in order to eliminate some of the previously mentioned principal–agent issues, through aligning the interests of the agents with the owners of the company. Furthermore as the management is also investing a part of their own net worth they are much more motivated to ensure that the company will become a success within the time span set up by the private equity fund (Colvin & Charan, 2006). Studies by Heel and Kehoe based on sixty buyout deals performed by a number of leading private equity companies found that the most successful deals involved the establishment of an incentive program (Heel & Kehoe, 2005). The point that performance-based incentive as a conventional way of better aligning interests of agent and principals are cited by a large number of researchers as well as practitioners (Gregory, 2002; Jensen, Kaplan, et al., 2006).

A survey conducted by this thesis based on partners from different private equity firms similarly showed that in all the cases concerned incentive schemes had been used and the fund managers considered it an essential tool (self-produced survey, 2009).

There are a number of different forms of incentives; however the most common are pay-for-performance incentives and share options (Heel & Kehoe, 2005). In the before mentioned study by Heel & Kehoe the successful deal partners was reported to have an incentive reward scheme equaling 15-20 % of the total equity, of course depending on the performance of the firm. With regards to share options, it gives the management the right, but not the obligation to buy an ownership share in the company at a given exercise price sometime in the future. Often with these incentives the cash payment is replaced with equity grant. Thereby the interest of the manager is more closely linked to that of the owners (Gregory, 2002). Furthermore private equity firms often additionally require managers to make significant investment in the business, which in addition to a significant upside if the case goes well, also provides a potential downside if the expected success of the portfolio company is not achieved (Jensen, Kaplan, et al., 2006). This is one of the basic principles behind private equity according to Kaplan, as it is essential that managers are not only rewarded in the case of a success, but is also equally punished financially if the case fails to succeed. Additionally the equity should be illiquid during the private equity ownership, due to the fact that the incentive in the payment scheme should lead managers to ensure the success of the company on a long term basis, i.e. until the exit of the company, in order to create a win-win situation (Jensen, Kaplan, et al., 2006).

In general the theory looks to create a situation where the interest of the managers and the owners are completely aligned over the whole ownership period, which should ensure that the best result possible is achieved.

#### 4.2.5: Reporting and performance indicators

A key instrument for the new boards to help exercise active ownership is the new reporting standards and key performance indicators (KPI) that is set up by the private equity firms. The reporting tools are essential for a board to maintain a high informational level on how the company is performing, even down to weekly numbers. Furthermore this is something that, at least not for the smaller companies, is the norm and is then able to provide a more in-depth picture on how the company is performing, and what elements are profitable and what are not.

#### 4.2.6: Delisting

One of the elements that are inextricably connected with private equity funds is their use of delisting the portfolio companies that they own. Delisting in theory can be caused by three different causes (Vinten & Thomsen, 2006):

- Acquisition by a private equity fund or similar institution
- Delisting due to bankruptcy
- Delisting due to failed compliance with listing standards

This thesis will focus on the first of these origins. Being listed on the stock exchange provides a way to raise capital and in general has a lot of advantages; however being publicly listed also comes with a lot of carried downsides. A high level of management efforts in a public company are spend on complying with the standards and requirements set forth by the stock market regulations as well as general services for the shareholders. These include investor relation activities, a high information level required in annual reports etc. Furthermore the intense focus by the media and the investors has a tendency to impede decision making that has short term draw backs, but long term benefits that far outweigh the short term disadvantages. This is an element that clearly limits the decision making process in the company under the new ownership, which then leads to the delisting. It is therefore an essential component in the value adding process that the private equity fund is trying to implement in the portfolio company.

In relation to the previous part about incentive payment of the management it also provides an important argument for delisting that the fact that there is little interest by the media and there is not a dispersed ownership base with little or no insight into the company, enables the private equity funds to offer salary packages that far exceeds the one of public company ensuring that the companies are attracting the best employees (Colvin & Charan, 2006).

In general the delisting of the portfolio companies allows the company to act much more freely and offers a mean to cost saving through a decreased level of informational obligations.

### 4.3: OPERATIONAL ENGINEERING

As the private equity funds get involved in the board of the acquired company, the company will experience some operational changes, depending on the state of the company, based on the assessment of the company made beforehand by the private equity firms. This is related to the fact that as the private equity funds has to deliver returns to their investors, there has to be an additional element to the changes in the company, besides the financial changes. This is closely related to the active ownership of the company, and the operational changes are relatively diverse from company to company, and are closely related to the initial purpose of the company, whether it is development or optimization of the company. The changes can involve different elements such as; Cost cutting, organizational changes, changes in working capital etc.

According to Kaplan the operational engineering delivered by the private equity fund is a relatively new element in their business model, and delivers additional value through the expertise that the funds are able to attract and who can help to develop the company operationally (Jensen, Kaplan, et al., 2006). The operational changes that are being implemented by the companies will generally be aligned with the overall strategic objectives and will look to streamline the company, which is facilitated by the introduction of a new, slimmer and more active board. Furthermore the company is affected by the fact that the temporary ownership incentivizes the management to take on beneficial, but unpleasant decisions relatively quicker in the process (Jensen, Kaplan, et al., 2006). Often the management will even introduce the operational changes within the first 100 days of the ownership to ensure that the changes are undertaken quickly so the company can return to more regular operations (McKinsey & Co, 2004). In theory the operational engineering is a result of the experience that private equity funds represent in themselves, and furthermore the experience that they can attract. According to a number of theorists (Jensen, Kaplan etc.) the operational engineering is one of the most important elements for the private equity and as such it represents an opportunity for the funds to expand the range of factors that they are able to affect within the portfolio companies that they invest in.

### 4.4: STRATEGIC ENGINEERING

A long with the change of ownership the acquired company will often experience that the existing strategy will be revised and maybe altered. When the private equity fund acquires the portfolio company, the company will as previously mentioned experience a lot of changes, among these there are changes of the Key Performance Indicators of the company and often changes in the board structure and composition. These changes will sometimes lead to a decision to change the strategy of the company. The reason for this is that the private equity funds will look to concentrate solely on value adding elements of the company (Jensen, Kaplan, et al., 2006). This was especially evident in the first boom for private equity during the 80's, where the wave of conglomerates from the 70's was restructured partly due to LBOs and private equity. The focus on value adding activities will often result in divestments of divisions and changes in product mix of the company. This is however also influenced by the required cash flow that is necessary due to the leverage that is introduced along with the funds.

On the other hand Private equity funds deliver an increased access to capital, consequently the portfolio company has the possibility to acquire other companies with strategic fit, and thus develop the areas that the board chooses to focus on (DVCA, 2008, p. 3). There are plenty of examples of this, among others Vest-Wood where the owners Axcel and Polaris from the start had identified a number of acquisition possibilities, in order for the company to achieve the growth that was necessary to survive on a market that was in a phase of consolidation. In this case the private equity funds facilitated acquisitions financially of companies with strategic fit with Vest-Wood, in order to enable them to develop their core areas (DVCA, 2008, p. 64).

In general the change in ownership provides the companies with a chance to rethink the strategy and look into the value adding elements and then focus on them.

# 5: CASE STUDIES

To describe and analyze the development in the case companies, the case study will firstly go through the engineering executed in the cases, followed by an analysis of the financial performance in the case companies, compared to a relevant benchmark.

## 5.1: DT GROUP

### 5.1.1: INTRODUCTION

DT Group was founded in 1896 in the Jutland region of Denmark, when two local firms established a timber merchant. In 1933 DT Group was listed on the Copenhagen Stock Exchange, whereupon the company started to develop quickly. In 1960's, a suburbanization started to develop, concurrently with the increasing prevalence of the car, making it possible to live in the rural areas and commute to work in the city. This resulted in a building boom and a new concept arose; Do-It-Yourself (DIY) – a concept that has grown ever since. In the late 1990's DT Group expanded across borders, by establishing subsidiaries in Sweden and Norway[8].

The Danish insurance company Codan had been the majority investor in DT Group since they purchased the main activities in Hafnia in 1993, who had owned the shares due to historical reasons (Bennedsen, et al., 2008). Prior to the private equity acquisition DT Group had performed very well over a long period, from 1998 till 2002, the year before the acquisition, the turnover had increased by more than 50 %, while the profit in the same period increased by 345 %. However DT Group was strongly affected by the fact that its major stockholder; Codan who owned 33 % of DT Groups share capital (DT Group, 2002, p. 28) was owned by Sun Alliance who had announced that they were not interested in owning a company such as DT Group. Sun Alliance was in financial problems which meant they did not have the possibility to support the company, and that they were additionally looking to raise capital, which led to Codan looking for somebody to purchase their ownership share in DT Group. Due to this fact, DT Group announced in February 2003 that the group was in sales negotiations with several interested parties (Byggeri.dk, 2003), which could result in a tender offer.

In the case study of DT Group, the development will to some extent be compared to the development of its competitor Bygma. For further comments on this choice, reference is made to the methodology chapter.

### 5.1.2: THE ACQUISITION PROCESS

On April 3, 2003 DT Group publicized that the company had received a tender offer from a new established firm, which was under the ownership of the private equity firm, CVC Capital

[8] DT-Group: http://www.dtgroup.dk, August 2009.

Partners. The acquisition was initiated by an advisor for Codan who contacted CVC about a potential takeover of Codan's shares (Balleby, 2009, personal interview). Furthermore, in the wake of the economic recession around the millennium, the general stock market was very vary towards cyclic companies such as DT Group. This combined with the fact that the then major shareholders were interesting in divesting their shares, and no other players on the stock exchange were interested in the company, enabled CVC to acquire the company at a reasonable price.

The offer was at DKK 171 per share corresponding to a premium of approximately 40 % (Infopaq, 2003), compared to the level of the share, before the takeover rumors started to spread. The tender offer valued the company at DKK 4.05 billion (ILO, 2003), and the total price of the acquisition amounted to DKK 6.4 billion including the company's debt (Larsen, 2007). By the end of the offer period on 13 May 2003 (DT Group, 2004, p. 8), shareholders holding more than 90 % of the shares had accepted the offer, and CVC was thereby able to proceed with a compulsory redemption of the remaining shares, and the company was subsequently delisted in July 2003 (DT Group, 2004, p. 5).

### 5.1.3: COMPANY STRUCTURE


Figure 16: DT Group - new group structure.

Immediately after the takeover, the new owners implemented significant changes in the group's structure. Prior to the takeover, Danske Trælast A/S was the ultimate parent company, and the company listed on the stock exchange. Hence it was the company, of which comprehensive annual reports were prepared and released for the investors. Just before the bid was announced in April 2003, a number of holding companies were formed (DT Holding 1, 2004, p. 5) with DT Holding 1 A/S, as the new ultimate parent company. As it is seen on the new Group structure illustrated in the diagram above, the acquiring company, DT Holding 3 (named DT Group until January 2006) continued to act as a holding company for DT Group (named Danske Trælast until January 2006). DT Group remained as operating company, thus investor information such as press releases and annual reports was still linked to this company. The name change from Danske Trælast to DT Group was a natural step (DT Group, 2006, p. 7), since “trælast” (timber merchant) was not reflecting the company’s many other areas within the building and construction industry, and furthermore the company had been expanding across borders for a number of years, thus it was essential with a name that could be pronounced international. To reflect the complete picture, the annual reports of DT Holding 1 will serve as the primary input for the forthcoming analysis, as accounts are ultimately consolidated in this corporation; still publications of its subsidiaries will be taken into account, whenever it is found relevant. Further comments on this matter are found in the case methodology.

### 5.1.4: FINANCIAL ENGINEERING

#### Capital structure alignment

As mentioned above, the takeover price amounted to approximately DKK 4 billion excluding debt, and the acquisition debt was initially guaranteed by the Dutch bank, ABN Amro. When the acquisition became reality, in the autumn of 2003, the funding of the share transfer and the repayment of the group’s existing loans was implemented. The new owners, CVC, contributed with subordinated loan capital of DKK 1.99 billion, corresponding 31 % of the total financing, and the remaining part; DKK 4.5 billion was financed through bank loans. The funding from the owners was provided with a fixed interest rate of 10 % p.a., but still the loan capital from the owners was assigned priority below the bank borrowing – limiting the Group’s financial latitude. Practically this meant that the Group was not allowed to pay down the loan from the owners, the related interest on the subordinated loan could not leave the company and lastly dividends could not be paid out – all this was denied until the bank loans were fulfilled (DT Holding 1, 2004, p. 4). Due to these restrictions, DT Holding 1 expected that the financing from the owners would represent an increasing share, as the bank loans were amortized (DT Holding 1, 2004, p. 4), but the opposite situation turned out in reality. In December 2004, DT Holding 1 decided to restructure their loan portfolio, by raising new loans with mortgage and credit institutions, equalizing the repayment of the existing loans – leaving the group at the same level of bank debt (DT Holding 1, 2006, p. 45). Subsequently the operating subsidiary DT Group, disbursed dividend to the parent company of DKK 1.5 billion and DKK 1.55 billion, in the financial year of 2004 and 2005 respectively (DT Group, 2006, p. 20). The refinancing process and the sizeable dividend payments, enabled DT Holding 1 to reduce the subordinated loan provided by CVC from about DKK 2 billion in the year of the takeover to DKK 29 million in 2006, ahead of the exit. The forthcoming sections will analyze how the capital structure adjustments affected the related key ratios.

#### Debt-equity-ratio

Clearly indicated in the preceding paragraphs, the acquisition of DT Group was carried out as a leverage buyout, and the takeover funding itself and the capital structure alignment that followed, was evidently reflected in the company’s debt-equity ratio, illustrated in the figure below. As reviewed in the theoretical framework, the debt share in DT Group demonstrated a declining trend before the acquisition, whereupon the D/E-ratio increased drastically, going from less than 1x in 2002 to almost 2x in the year of the takeover. Furthermore, as the equity was reduced considerably meanwhile the debt level was kept more or less constant, the debt in proportion to the equity increased in the entire period of the ownership – peaking at 3.36x before the exit. In real numbers, the company's long term debt increased by DKK 4.65 billion from 2002 to 2003, rising from DKK 1.5 billion to DKK 6.15 billion. In the following years, the debt in absolute terms started to decline, in connection with the repayment of the owner's capital injection. The financial engineering applied by the private equity fund, appears crystal-clear when the development is compared with the benchmark, Bygma. In the same period, Bygma's debt-equity-ratio was nearly reduced by half, attributed to a fairly constant debt level concurrent with increasing equity, in consequence of retained profit every year in the event window.

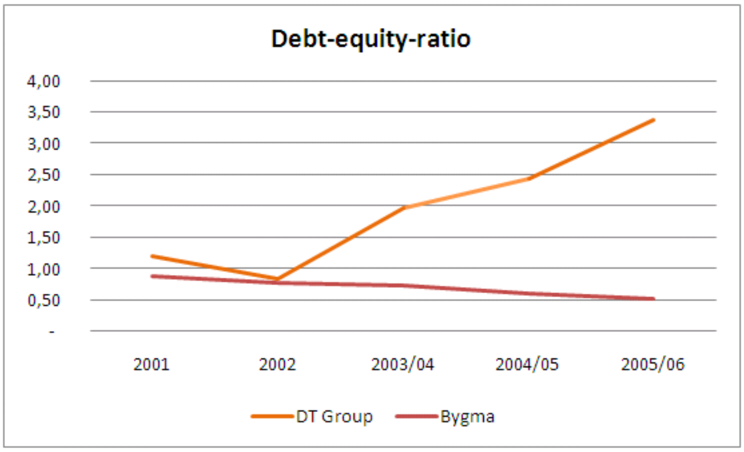


Figure 17: Debt-equity ratio of DT Group and benchmark.

### Solvency ratio

In relation with the major loan taking, the solvency ratio of DT Holding 1 suffered in the year of the takeover. The growth in revenues and operating profit was modest, and at the same time, the parent company and its underlying holding companies were subject to significant financial expenses, resulting in a negative net income. However, DT Group, the company executing the day-to-day operations registered a positive profit before tax, and since joint taxation was not possible in the establishment year (DT Holding 1, 2004, p. 6), it was not possible to capitalize the tax losses in the subsidiaries, DT Holding 1 was charged with income taxes. This induced that the tax on the operating income is exaggerated in the revised accounts (misleading large), and consequently made a dent into the profit from operations. Furthermore the company defrayed significant costs in relation to the change in ownership, e.g. fee to advisors and payment of stock options to executive board and senior managements, altogether amounting to DKK 125 million. The total profit from operations was slashed by some 50 %, which caused a drop in the solvency ratio of 17 percentage points. Ever since DT group has managed to improve its solvency, by delivering double-digit growth rates in profit, parallel with a reduction in the company's net financing activities. Bygma experienced a similar development, with substantial growth in the operating profit concurrent with paying off the debt.

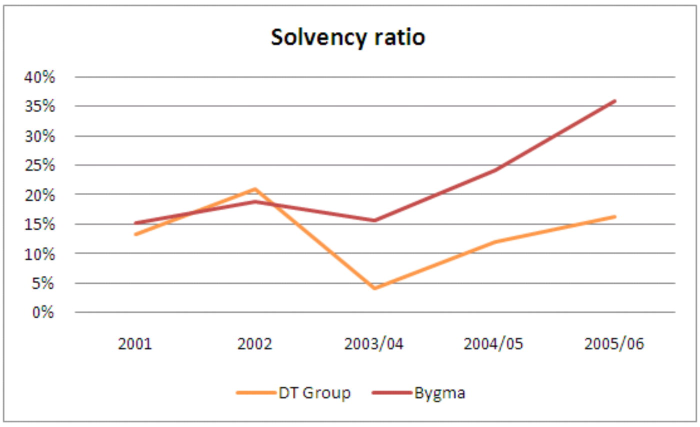

Figure 18: Solvency ratio of DT Group and benchmark.

Examining the development on a multiple basis, by analyzing the inverse ratio, show evidence of the same development. The company's net debt in proportion to operating profit declined towards the takeover, making up 4.77x in 2002. The ratio rose massively in the acquisition year, but in the following years the ratio decreased gradually, thus in 2006, it was almost back at the 2002-level.

### Debt-asset-ratio

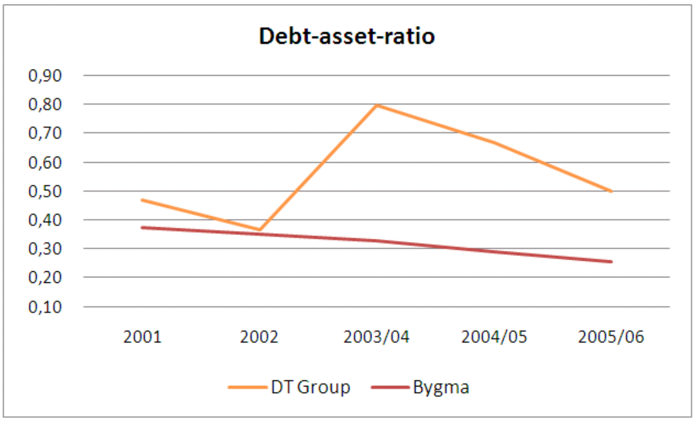

Figure 19: Debt-asset ratio of DT Group and benchmark.

Visibly the interest bearing liabilities experienced a jump, in order to finance the acquisition, but illustrated above, the asset base did not grow at the same speed. In 2003 the debt-asset ratio grew from 0.36x to 0.80x, meaning that the interest-bearing debt was nearly equaling the company's operating assets. Post the buy-out the debt-asset-ratio showed a decreasing trend, which was triggered by two reasons. First of all the improved ratio was directly linked with the ongoing reduction of the debt, but another substantial factor, was a considerable increase in the asset-base, generated by growth in intangible assets, due to several acquisitions, and generated by growth in inventories and trade receivables as volume grew. In the same period of time, Bygma's D/A-ratio was moderately decreasing, because Bygma's debt level was kept constant, while its operating assets increased fairly throughout the years.

### 5.1.5: GOVERNANCE ENGINEERING

One of the first significant changes led on by the change in ownership was that the investor relations department was closed down. This was obviously due to the delisting of DT Group making the investor relations department redundant as there was only one investor. However the effect was greater than just for the single department, the change was also evident for the management as they suddenly spend much less time on dealing with the media (DVCA, 2008, p. 47).

#### Changes in the Management Team

As mentioned in the case introduction the purchase of DT Group by CVC was primarily driven by the fact that the prior owners; Codan, were interested in selling their ownership share of DT Group due to financial problems, and not due to an underperformance by the company. On the contrary the company had had a very fine financial and organizational development prior to the takeover. This meant that the takeover was completed among other things due to a belief, by the private equity funds, in the management team and their existing strategy. Therefore the takeover was followed by very few changes in the management team, thus both CEO Steen Weirsøe and CFO Jørgen Clausen, who comprises the executive board of DT Group, were both in the leading positions of the company, before the takeover, during the private equity ownership and after the exit of the private equity funds. Former Supervisory Board member and Director of CVC Denmark Erik Balleby Jensen find that the fact that they were able to maintain that management team through buying in to **their** business plan rather than the private equity funds trying to implement their own business plan, was one of the most vital elements in the success of the DT Group case (Balleby, personal interview, 2009). This was additionally underscored by the fact that the new owner CVC had Steen Weirsøes "Golden Parachute" annulled so there was no incentive for Steen Weirsøe to leave the company (DVCA, 2008, p. 46).

Furthermore the rest of the group management also stayed relatively intact, in fact the only changes with the, before the takeover, six Vice Presidents was that head of the outlet Silvan Erik Schou was replaced by Michael Christiansen, while the number of Vice Presidents was expanded to seven by the former head of Investor Relations and Communication Ole Mikael Jensen who became Vice President and Head of Sourcing, a new area in the organization. This was both a sign that the company after the takeover emphasized on making the company more efficient, which the thesis will go into depth within the strategic and operational engineering chapters, while it at the same time was a reaction to the delisting of the company that followed the takeover making the investor relations department redundant.

For the Group Function Managers there was also very little change, however the main change in this area was within Treasury where the assignments expanded extraordinarily according to the significant increase in debt. This meant that where the Head of Treasury prior to the takeover had worked primarily with currency hedging and controlling the cash flow, then after the takeover the debt requirements and loan covenants sat extremely high requirements for the Head of Treasury. Therefore the company looked to bring in a more competent person, which was found in Anders T. Skole-Sørensen. In the period before he was brought in, Erik Balleby Jensen from CVC acted as treasurer (Balleby, personal interview, 2009), showing a more active profile from the private equity firms than you usually see.

Ensuring that the management team was retained ensured that the knowhow possessed by the leading persons stayed in the company, and while the company had performed very well up to the takeover the new owners did not feel that dramatic changes were necessary. However as mentioned above the new business climate for DT Group meant that some minor changes were necessary, this included an up scaling of the treasury area, while the investor relations department was closed down.

### Changes in board composition and structure

| | 2002 | | | 2004/05 | | |
|---|---|---|---|---|---|---|
| | Name | Industry specific experience | Owner's share | Name | Industry specific experience | Owner's share |
| Chairman | Hans Werdelin | | | Peter Georg Edward Tornquist | | X |
| Deputy chairman | Vagn Genter | | | Søren Vestergaard-Poulsen | | X |
| | Alfred Beckenkamp | | | Erik Balleby Jensen | | X |
| | Ib Jessen | X | | Louis Rudolph Jules van Rappard | | X |
| | Karoly L. Nemeth | | | David Gordon Milne | | X |
| | Hans Tomas Persson | X | | Steen Weirsøe | | X |
| Employee representive | Erik Lunden | | | Erik Lunden | | |
| Employee representive | Flemming Gammelgård | | | Flemming Gammelgaard | | |
| Employee representive | Peter Nørgaard Andersen | | | Peter Nørgaard Andersen | | |

Figure 20: DT Group – changes in board composition.

Though the management team was left relatively unchanged subsequent to the takeover the composition of the board was changed dramatically. Before the takeover the board was comprised primarily by Danish members, however at that time DT Group was only present in Scandinavia so any geographic diversification of the board was of little importance. The board consisted of some very experienced members with a lot of board experience, and the board additionally included industry specific experience through Ib Jessens position as board member for Foras, and Hans Tomas Perssons board position for Flugger. However the vast amount of experience represented in the Supervisory board had the drawback that some of the members were represented in a great number of boards, this was exemplified by

Karoly L. Nemeth who had 42 board positions, hereof 24 as chairman (DT Group, 2003). This does not collide with the Nørby Recommendations to Corporate Governance, as the recommendations only focus on people who are part of a management in another company should not have more than 3 Supervisory board positions (CSE, 2005). However it states that board members should assess what the time requirements are for a given board position and determine whether or not the board member will be able to deliver the required commitment to the board. The problem for the company is that board members might not have time to really fulfill the "duties" in the board.

Furthermore there was a relatively high degree of retention in the board, thus the chairman, Hans Werdelin, had been on the board for 22 years at the time of the takeover, and despite the fact that a new board member had been introduced the year before the takeover the average stay-on period in the board remained slightly above 11 years per member (DT Group, 2003, p. 22). This can be a positive sign for the board, as valuable experience and knowhow is retained in the board and an indication of a correct board composition, however as mentioned in the theory there is a great risk of entrenchment. This means that the very long seniority of the members can be a product of a low level of dynamic in the board and that the board composition is not decided necessarily after who is the best profile in the board, but is rather decided by who is already in the board.

The fact that the total number of shares held by the board members was equivalent to 0.07 % of the total share capital of the company further exemplifies that the board had very little in common with the actual owners, and while there as abovementioned does not seem to be very high demands placed on the performance of the board members. These two factors; high retention and low ownership share, indicate that the board at the time had very little incentive to act in the interest of the investors.

After the takeover the only board members that remained in the board were the employee elected, which can be seen in the table above. Instead five of the positions were filled with senior employees from the owner CVC Capital Partners. This change was obviously introduced to ensure that the new owners could help develop the company and control that the agreed strategy was executed satisfactory. Furthermore the new board members provided a great deal of experience concerning the new and more aggressive capital structure, exemplified by Erik Balleby Jensen's involvement in the daily operations within treasury, before the new Head of Treasury was introduced. Besides the five board members from CVC, CEO Steen Weirsøe was introduced in the Supervisory Board, which again is a violation of the recommendations to good corporate governance. This was however due to the fact that he played such an important role for the development of the company that it was thought that he should be included in the board. Furthermore the decision to include Steen Weirsøe in the board was influenced by CVC's wish to accelerate the acquisition strategy of DT Group as they felt that it was important to include Steen Weirsøe as he was the main initiator and executor for the strategy (DVCA, 2008).

The changes in the board helped ensure that the decision making process was accelerated as all major decisions could be taken straight away, due to the close co-operation between the board, which, instead of representing the owners, now was the owners, and the management. This was additionally shown by the increase in the board meeting frequency, thus Steen Weirsøe explains that he had daily contact with the board (DVCA, 2008), which obviously should align the vision of the management and board, and furthermore improve the decision making process.

Another important difference in the board composition from before the takeover to after is the fact that the board now clearly represents the owners, both the main shareholder CVC Capital Partner and the minority share holder; the senior employees represented by Steen Weirsøe. This stands in stark contrast to the previous board who as earlier mentioned only held 0.07 % of the total share capital. This proves quite a large difference as the interest of the owners is now aligned with the board.  Thus eventual principal–agency problems will be minimized due to the fact that the principal and the agent have the same interests.

**Payment Structure**

As earlier mentioned the payment structure is one of the areas where the private equity funds are much more liberal than companies that are publicly owned. This has been very evident in the DT Group case where new standards were set for wage compensation given to a management. The main difference however lay in the incentive schemes that were implemented in the company, which the thesis now will go into depth with.

Before the takeover DT Group had an incentive scheme for the senior management employees and consisted of a stock option program that was offered to the senior employees of the company if the company exceeded one particular goal that could vary from year to year. In 2000 and 2001 the objective was to reach a given increase in earnings per share, while the goal in 2002 was to deliver a return on capital employed by more than 7.5 % (DT Group, 2003). If the stock options attained by the employees had been exercised just before the takeover they would have represented an ownership share of approximately 2 % (DT Group, 2003).

Subsequent of the takeover the incentive scheme was altered so that the employees instead of a stock option program was offered to invest their own capital in unlisted shares that they would later be able to sell at the expected exit and thereby earn the potential upside delivered during the ownership of the private equity fund. This offer was given to the senior management as well as the local managers in stores around Scandinavia, which meant that a total of 25 executive managers and division managers, and 225 local managers participated in the employee ownership program (DVCA, 2008). Thus the incentive scheme was widespread in the organization, ensuring that the there was a broad motivation to pull the company in the direction set out by the management. According to the Deputy Chairman of the Board and Partner of CVC Capital Partners Søren Vestergaard-Poulsen this was imperative for the success of the case that the managing employees was engaged in the project and knew in what way the company should develop, while it at same time helped create a team spirit in the company (DVCA, 2008). At the time of the exit the employee ownership program comprised 8 % of the total shares (Bennedsen, et al., 2008, p. 95).

The main difference in the two types of incentives schemes is that before the takeover the management would not have to put any of their own money into the company, they would only do so if the options were "in the money", whereby they would be certain to get an upside on their investment. If the options were "out of the money" at the exercise time, the options would be worthless, but the management would not have lost any of their own capital, but rather a potential bonus. The system implemented after the takeover entails a significant risk for the employees who participate in the program, as they themselves invest a part of their own capital in unlisted shares and thereby they run the risk of the company going bust or at least that the company is sold for less than the value the company is estimated at when they purchase their shares. This means that there will be a greater motivational factor for the employees as the potential downside of losing their initial investment paired with a significant upside if the company is exited at good price.

The potential upside for the employees was exemplified by CEO Steen Weirsøe who reputedly earned DKK 170 million on the profit that the sale of DT Group generated (Kronenberg, 2007).

### Temporary ownership

One of the reasons why the incentive schemes have the desired effect, which Steen Weirsøe claims that it had, is that one of the basic assumptions behind private equity funds ownership of their portfolio companies is that it is temporary, normally 3-7 years. This means that there is a "sense of urgency" that provides the employees with an incentive to work harder as they know that there can be a significant upside if they and the company performs within the limited period. Erik Balleby explains that the motivational effect can be compared to that of an athlete that prepare for the Olympic Games. Since there is a limited period of time, you need to improve your performance gradually, so that you peak and perform your absolute best by the start of the games, which can be compared with the time of the exit (Balleby, personal interview, 2009). This is something that is quite different from regular public companies, where there is no time limit on the ownership. The fact that there is no ending time for the ownership or any time horizon other than that of the mission statement of the company might not provide the same motivational factor as is experienced in the case of private equity owned companies.

### 5.1.6: STRATEGIC ENGINEERING

After the takeover by the private equity funds little or no change in the strategic plan that was laid forward by the management of the company was implemented. In the case of DT Group the strategic plan; Strategic Plan 2002+, was introduced ultimo 2001 (DT Group, 2003), two years prior to the takeover, and after the completion of the takeover, the strategy plan was maintained without any changes all through to the time of exit of the funds in 2006. The strategy is based on three pillars; Value Creation, Efficiency Improvement and Controlled Growth.

#### Value creation

The first pillar is concentrated about Value Creation, which is normally an objective for all companies, whether it is stated or not. However DT Group looked to formalize in what areas the value should be created. As shown in the illustration below DT Group decided to look at the three areas; Purchase, Logistics and Advice & Sales, in order to create value.


Figure 21: DT Group - value creation strategy.

Thus the company focused on strengthening the areas that relate to the customers, i.e. price strategy, assortment, marketing efforts etc., this was obviously done to increase sales, which was achieved with turnover increasing by 17 % over the private equity ownership period. The emphasis on increased sales was followed by increased education and training of the employees to ensure that they were able to deliver satisfactory customer service, while best practice was transferred between the shops. Additionally an increased focus on business development was implemented to ensure that the growth of the company, which will be dealt with later in this chapter, was based on well founded analyses. The department was established before the takeover, but with an increased focus on growth, both organic and acquired, the area was strengthened.

Nevertheless the main area of value creation was recognized to be within the field of sourcing and procurement. This was a part of the company that had not before been regarded as a key area, which had led to the individual businesses handling the procurement. The strengthening of the sourcing area will be dealt with more thoroughly under the chapter on Operational Engineering.

### Efficiency Improvement

The method to achieve the required efficiency improvement was by introducing four measurable objectives for efficiency (DT Group, 2002):

- Plan 45 – *Staff Efficiency:* Staff should not exceed 45 % of gross profit.
- Plan 20a – *Cost Efficiency:* Adjusted operating profit should constitute not less than 20 % of gross profit.
- Plan 20b – *Capital Efficiency:* Adjusted operating profit should provide a return on adjusted capital employed of not less than 20 %.
- Plan 15 – *Investment efficiency:* The short term return on new investment should be not less than 15 % before tax. In the long term investments in fixed assets are expected to be at the level of around 2 % of turnover.

The four targets above are all very much in sync with the conventional objectives laid forward by private equity funds for their portfolio companies, with a strong emphasis on cash flow as well as efficiency and optimization in the organization. Furthermore the objectives were quite ambitious, which meant that they were not all achieved during the ownership of the funds, and thus presented enough challenge to act as part of a viable strategy plan.

### Controlled Growth

The third objective in the strategy plan was concentrated on controlled growth, meaning profitable growth. When the plan was initiated the goal was to equal GDP growth in the region, which over the past ten years was around 4-5 %. The growth was to be achieved through the following five ways (DT Group, 2002):

- Turnover generating initiatives
- Opening new stores
- Bolt on acquisitions
- Horizontal diversification
- New Markets

The growth was thereby expected to be generated from a number of different areas, the turnover generating activities are also mentioned above under the value creation. Furthermore the opening of new stores was primarily focused in Sweden and Finland, were especially the Cheapy chain was growing quite rapidly. The Bolt-on acquisitions was a part of the general consolidation tendency that was present in the Scandinavian competitive landscape. The horizontal diversification was aimed at being better at meeting the need of craftsman by delivering more specialized products.  The last element of focus was new markets, by which is meant the Baltic countries.

However after the takeover the scope of the growth objective was increased to a yearly growth of 10 % (DVCA, 2008). This was among other things due to the fact that the new ownership background was a lot more active and in contrast to the previous owners supported and facilitated the business plan of the management, as mentioned in the introduction. Furthermore the aspirations concerning a controlled growth was very much in synch with the management of CVC partners, who as mentioned previously was a key factor in the decision to maintain the current strategy plan of DT Group (Balleby, personal interview, 2009).

In general there has been no change in the strategy plan that DT Group operated with during the ownership of the private equity fund, however there has been a change in the foundation for the strategy plan, and the possibility of execution of the plan. This is evident in the acceleration of especially the growth objective, and the strengthening of the sourcing areas.

### 5.1.7: OPERATIONAL ENGINEERING

Upon the takeover of DT Group some minor structural changes were implemented in the management as described in the chapter on governance engineering. However in general very few changes were implemented as the company was projected to be in relatively good shape. Nevertheless the changes that were implemented were primarily driven by the extended need for financial control due to the increased debt requirements. This led to a general reformation and up scaling of the reporting system in the company, which was necessary in order for the company to comply with the loan covenants.

Another area that was strongly influenced by the takeover of the private equity fund was the area of Sourcing previously mentioned in the strategy chapter. This was an area that had previously been prioritized quite low, and there was a great potential for improvement. The main up scaling of the area was the establishment of a sourcing function in China to ensure that the procurement conditions were optimal, and that the economies of scale were sufficiently utilized. Furthermore the product range of the different shops was harmonized in order to improve purchase terms. Organizationally the emphasis on improvement of the sourcing was quite evident as a lead buyer organization was established to ensure that the there was a clear responsibility within the organization on who purchases the different product categories (DT Group, 2004).

These were two areas that had not been significant prior to the acquisition (Balleby, personal interview, 2009), but other operational changes were held to a minimum, and changes were more of an evolutionary character. Additionally it is difficult to establish a consensus on what changes would have been implemented under any circumstances and which are due to the change of ownership.

The main reason for the lack of changes might be that the current management was retained after the acquisition was completed, and therefore any changes that were needed with the current business plan would probably have been implemented prior to the takeover. Therefore only changes that were direct attributable to the change in ownership were implemented.

### 5.1.8: FINANCIAL DEVELOPMENT AND PERFORMANCE

In the wake of the analysis of the alterations in DT Group, reviewed in the previous chapters, this chapter will analyze the outcome of the efforts by the private equity fund.

#### Turnover

The total turnover in DT Group climbed by 21 % during the event window, from DKK 14.6 billion in 2001 to DKK 17.6 billion in 2005, an absolute increase of DKK 3 billion. Solely looking at the period, in which CVC was the owner, the turnover increased by 17 % during the two years they controlled the company up by 10 % in the second year. The two years prior to the takeover, the revenue growth was only in the region of 1 %. However, as mentioned in the case methodology, the choice of event window may omit some high-performing years (which is actually the case for DT Group, as the turnover actually increased by 11 % from 2000 to 2001). Despite a considerable number of acquisitions throughout the ownership, the majority of the growth in revenues could be attributed to organic growth; hence only 1 % was ascribed to acquisitions and new stores. Compared with the peer, it appears that there was a general growth in the industry's turnover, as Bygma recorded a 56 % increase in revenues from 2001-2005. In absolute terms, Bygma's turnover increased by DKK 1.3 billion, yet the peer is significantly smaller than DT Group.

| Turnover (in DKK millions) | 2001 | 2002 | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|---|---|
| DT Group | 14,639 | 14,878 | 15,090 | 15,973 | 17,642 |
| Bygma | 2,313 | 2,516 | 2,777 | 3,085 | 3,624 |

Figure 22: Turnover of DT Group and benchmark.

#### Margin

As illustrated below, the margin of DT Group has in general followed the margin of the benchmark company and has not deviated positive, neither negative, except from 2003, when the operating margin dropped. The drop in margin was due to the previous mentioned tax issue and special items linked with the change of ownership. If the special items are left out, the operating margin in 2003 would have been 2.4 %, which is only slightly below Bygma's margin (also illustrated in the figure below, by the green dotted line). Overall, the new owners managed to improve DT Group's operating margin with a 118 basis points compared to the level in 2002, before the takeover became reality. The improved margin may be ascribed to the increasing focus on procurement. In absolute numbers the operating profit increased by 224 million DKK

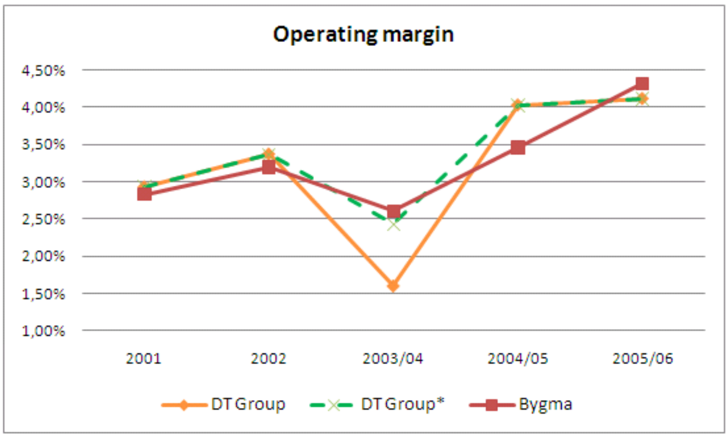

Figure 23: Operating margin of DT Group and benchmark.

### Development in employee base

Interrelated with opening of new stores and acquisition of smaller competitors, DT Group have seen a positive net increase in its number of employees, 5 % throughout the event window, including 10 % solely under the private equity ownership. In absolute figures, the staff increased by 602 from 2003-2005, reaching 6.482 employees.

### Interest coverage and financial costs

As it was examined earlier, the leveraged buyout of DT Group entailed that the company suddenly was subject to significant interest expenses, which made a dip into the company's profit in the years following the takeover. The considerable increase in the interest expenses alongside with a large amount of extraordinary acquisition expenditures, induced that the interest coverage dropped from 4 in 2002 to less than 1 in 2003, meaning that the operating profit actually did not cover the interest expenses. Upon the takeover, the interest coverage rose progressively, on account of increasing profits and decreasing financial expenses, hence the profit from operations covered the net financial items after tax 3.7 times in 2005. This may be a direct consequence of the new strategy plan that was greatly supported by the new owners and maintained throughout the period of the ownership.

Another consequence of the heavy leveraging of DT Group is observed in the net financial costs, defined as net financial costs over the net financial liabilities. Showed in the figure below, the financial costs in percentage of the related liabilities increased promptly from 2.5 % to 7.9 % in the acquisition year, but then returned to the point of origin, as the major part of the debt was paid off. This finding is consistent with Miller & Modigliani proposition II, that larger debt liabilities, leads to higher costs of debt, as the risk of default is expected to increase (the lender's WACC increase).

### Return on Capital Invested

The Return On Invested Capital (ROIC) calculated as "Total Profit from Operations" divided by the average invested capital is a very important key-ratio, when analyzing a company's ability to utilize the capital invested. Except from a sharp decline in the acquisition year, DT Group, have managed to improve this ratio significantly, and the company even beat its benchmark. In numbers, DT Group improved its ROIC from barely 9 %, in the year ahead of the takeover to 13.9 % in 2005, where Bygma in the same period improved the ratio from 8.3 % to 12.6 %. This improvement in ROIC was closely related to the far-reaching focus on procurement, as mentioned in an earlier chapter. In the past each subsidiary was in charge of their own procurement, but by the establishment of the new function, Group Sourcing (DT Group, 2004), who was responsible for the group's entire buying volume, DT Group could organize its buying among a narrow circle of suppliers, thus improving efficiency in the supply chain, obtain better prices and better terms of payment. Especially the last factor was essential to the improvement of ROIC, since the group's trade payable increased moderately through better payment terms (DT Group, 2006, p. 20). Hence the trade payables almost increased threefold from 2002-2005, while at the same time the trade receivables increased by only 30 %, in a period with a 20 % turnover growth. This means that the company was investing a falling proportion of its own capital into the operations, due to the large increase in the group's operating liabilities, which are non-interest-bearing. At the same time DT Group boosted its earnings with 40 %, altogether resulting in the enhancement of ROIC.

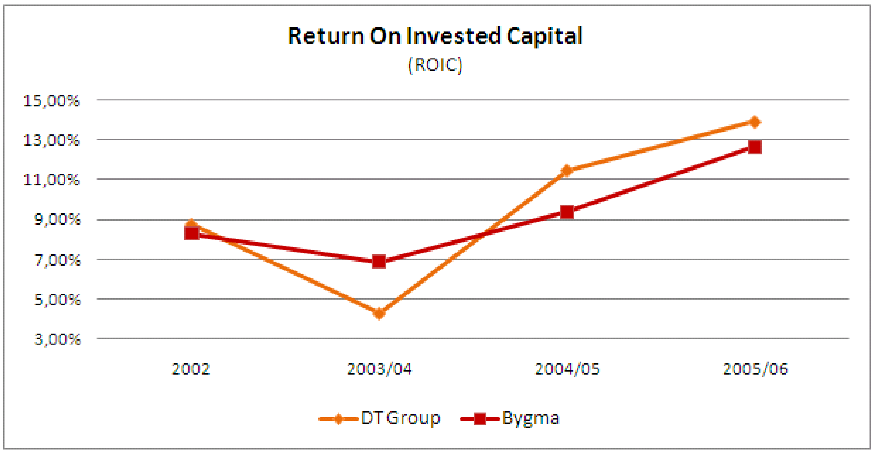


**Figure 24: ROIC of DT Group and benchmark.**

### The bottom line

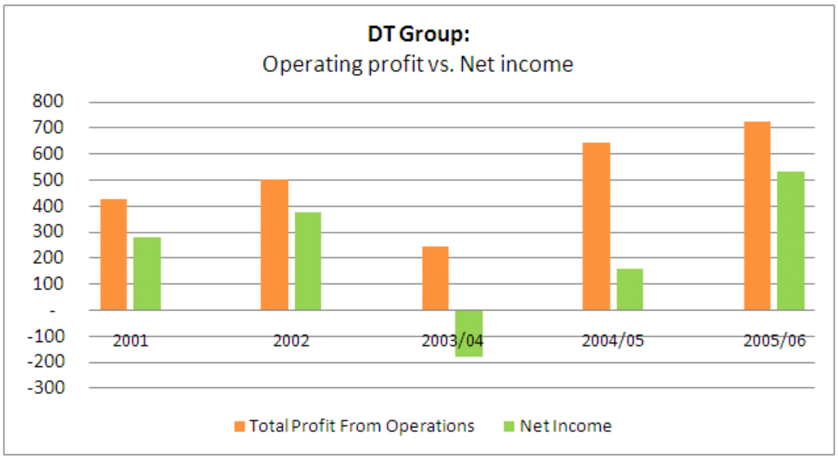


Figure 25: Operating profit and net income of DT Group.

As showed in the diagram above and mentioned a number of times throughout the case analysis, DT Group have generally seen improved its profit from operations in 4 out of the 5 years in the event window, but what might be even more important, the net income has showed a similar development. By comparing the year prior the takeover (-1) with the year of the exit, DT Groups net income displayed an increase of more than 40 %, surpassing DKK 530 million in 2005. Bygma, the benchmark company, showed a similar development, doubling both its profit from operations and its net income, thus the net income rose from DKK 73 million in 2002 to DKK 152 million 2005. Compared to the net sales, the profit margin (Net income/turnover) made up 3 % and 4 %, for DT Group and Bygma respectively.

### 5.1.9: EXIT COMMENTS

The preceding chapters have described and analyzed the changes that were implemented during the private equity ownership, as well as the resulting performance. Linked to business model of private equity funds, the time span of the investment was naturally intended to be relatively short-term. In December 2005 (Jessen, 2005), 2½ years after the takeover, the private equity firm had already started the preparation of a forthcoming sale with the former mentioned name change in January 2006 being part of these preparations (Jessen, 2006). Showing double-digit growth in revenues, operating profit and net income, the group was estimated to be worth approximately DKK 10 billion. From the beginning, the French builder's merchant, Saint Gobaint was mentioned as an obvious buyer, but as a sell-off came closer, other potential buyers entered the scene (Jessen, 2006). A number of industrial buyers, such as Home Depot, the world's largest DIY-retailer, the Finnish retailing conglomerate Kesko and the British building materials distributor Wolseley (Sand, 2006) were showing interest, but also other private equity firms (Jessen, 2006) were bidding for DT Group. On July 25, 2006, a little more than three years after CVC acquired DT Group, CVC announced that DT Group had been sold to the UK-based group Wolseley (DT Group, 2006). The price for DT Group amounted to DKK 14.8 billion, including debt of DKK 3.6 billion, meaning that the private equity fund increased the net value of DT Group from DKK 4 billion in 2003 to

DKK 11.2 billion in 2006; a surplus of DKK 7.2 billion. The sale of DT Group rewarded both the private equity investors and the private equity firm, and the management of DT Group was also rewarded handsomely, as described in a previously chapter. In the wake of CVC's success, a number of other private equity firms approached Bygma (Raastrup, 2006), hoping to do a similar trick, but Bygma rejected the offers.

## 5.2: ISS

### 5.2.1: INTRODUCTION

ISS is one of the world's largest facility service providers employing close to half a million employees. The company was founded in 1901 as a Danish security company based in Copenhagen. The company grew rapidly and in 1934 the operation of the company was expanded to include cleaning. Though experiencing some hard times during the war, and the post war recession, the company grew steadily and in 1962 the company felt the need to enter bigger markets and decided to initiate an internationalization process, seeing the company expand to the rest of Scandinavia, Switzerland and Germany. The company quickly faced fierce competition from companies based in the other European countries, and the company was forced to rationalize the business. Furthermore the 1970's and 80's saw the company beginning to adopt a full service business, a strategy that has been pursued and utilized ever since. This strategy was expanded to see ISS as a global player during the late 90's, and naturally meant that ISS accelerated its ambition to acquire other companies that had the strategic fit. However, in the spring of 2005 the company was acquired by a group of private equity funds advised by EQT and Goldman Sachs Capital Partners (from now on GSCP) and thereafter delisted from the Danish stock exchange. The takeover price amounted to app. DKK 22 billion (Hansen, 2005) and the acquisition was based solely on public information and was therefore not founded on a due diligence, which greatly decreased the cost of the takeover (EQT, 2005; ISS, 2005). Since the company operates in a global market, and to compare the development of ISS, we have decided to introduce three of its biggest global competitors being Sodexo, Rentokil Initial and G4S, a choice already explained in the case methodology.

### 5.2.2: THE ACQUISITION PROCESS

On March 29, 2005, PurusCo – a joint company owned indirectly by EQT and GSCP – made a public tender offer to acquire 100 % of the shares of ISS A/S. The offer was at 470 DKK per share, corresponding to a premium of 49 % compared to average price a year prior to the offer, and corresponding to a premium of 31 % compared to average share price five business days ahead of the offer (EQT & GSCP, 2005). The bid was subsequently reduced to 465 DKK, since a dividend payment (proposed before the tender offer) was approved on April 13, 2005. In the following period of time, the board of directors recommended the shareholders to accept the tender offer (Ritzau, 2005) and more importantly, the company's largest shareholder accepted the tender (Finansnyheder, 2005). Upon expiration on June 10, PurusCo held 98.30 % of the shares in ISS and was thereby able to acquire the remaining outstanding shares through a compulsory acquisitions procedure, and effective as of June 21, 2005, ISS A/S was delisted from Copenhagen Stock Exchange (ISS Holding, 2006, p. 106).

### 5.2.3: COMPANY STRUCTURE

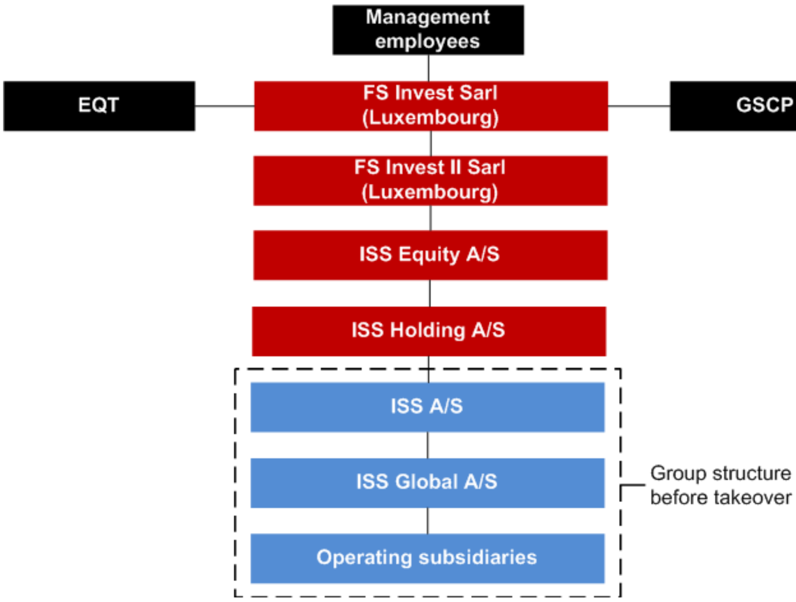


Figure 26: ISS – new group structure.

Similar to the case of DT Group, the group structure and legal setup was changed radically – in line with the structure reviewed in chapter 3.1: Structure. Before the takeover, the ultimate parent company was ISS A/S with a number of underlying subsidiaries. The new and current ISS construction is showed in the diagram above, set apart by the dotted box. ISS Holding A/S (earlier named PurusCo and FS Funding) was the company established in March 2005 with the sole purpose to acquire the shares in ISS A/S and subsequently to act as the holding company for ISS A/S. Since the takeover, the ultimate parent company in Denmark[9] has been ISS Equity A/S (earlier named FS Equity), whose sole purpose is to be the holding company for ISS Holding A/S. Hence ISS Equity does not have any operating activities and is absolutely reliant on the development in ISS Holding and their subsidiaries. ISS Holding A/S serves as the primary operating company, and its financial statements reflect the majority of ISS's activities (assets as well as liabilities). Furthermore it is the company, of which annual reports are made for the public. However, to provide the complete picture, the annual reports of ISS Equity A/S will be the primary basis for the forthcoming analysis (as already mentioned in the case methodology).

[9] The ultimate parent company is FS Invest S.à r.l. located in Luxembourg, of which EQT and GSCP own 54% and 44% of the share capital respectively. The remaining part of the shares is held by certain board members, executive group management and a number of senior officers.

### 5.2.4: FINANCIAL ENGINEERING

#### Capital structure alignment

The new owners of ISS initiated their financial engineering immediately after the takeover was announced, and as early as in May 2005, when the formal process was still in the making, the forthcoming financial arrangement was presented (Bentow & Jessen, 2005). ISS Holding had got the crucial loans approved in advance in order to acquire the shares in ISS. The record-high price of the acquisition was getting financed by taking out various loans (LBO), of which the major part was provided by Citibank and Goldman Sachs (parent company of GSCP). The primary funding was made by issuing subordinated bonds (ISS Holding, 2006), divided between a senior loan of DKK 6.2 billion (€850 million) and a high-yield loan of DKK 3.3 billion (€454 million) - both maturing in May 2016. Furthermore, to finance future acquisitions, two acquisition facilities with a total drawing right of DKK 5 billion were agreed (Bentow & Jessen, 2005)..

In addition to the new loans, the new owners decided to maintain the company's two existing bond loans attached to the company ISS Global A/S, who previously served as an intragroup bank (ISS, 2006). These corporate bonds were issued in September 2003 and December 2004, as part of a change in the company's debt composition, shifting from bank loans to bond loans. The two existing bond issues, both maturing in 2010, amounted to €850 million and €500 million respectively and paid an annual coupon to the bondholders of 4.75% and 4.50% respectively.

The total interest-bearing debt increased from DKK 11.1 billion to DKK 24.6 billion in the year of the acquisition and as a direct consequence of the massive loan taking, the credit rating of ISS by Standard & Poor was reduced from "BBB+" to "B+" - a 6-steps decline. The rating of the existing corporate bonds (mentioned above) was downgraded even more (ISS A/S, 2005, p. 9), from "BBB+" to "B-", given the fact that ISS Holding obtained new debt, without assigning the existing bondholders priority over the new-issued debt, which increased the risk of the existing bondholders (Thomsen, 2005). Consequently the price of the notes plummeted, e.g. the price of a 2010-note decreased from 105 to 83 instantly after the downgrading (see figure below) – which unleashed a strong reaction from the bondholders. Four of the largest lenders threatened to take legal action, and accused the private equity consortium for seeking to earn money, by diluting the value of the existing bonds (Mikkelsen & Risom, 2005). The problem regarding the price cut is that it indirectly forced the bondholders to retain the notes until maturity date, when the notes are repaid at the nominal value of the bond (i.e. 100). Spokesman from EQT, Ole Andersen, refused the charges, and ascertained that ISS had neither obligations nor reasons, to settle the notes before maturity since ISS was still satisfying the bondholders, with reference to the annual coupon payment. Moreover he pointed out how corporate bonds differ from government bonds – higher return, thus higher risk (such as the risk of takeover), but he admitted that the ISS bonds were no longer attractive as a trade object.

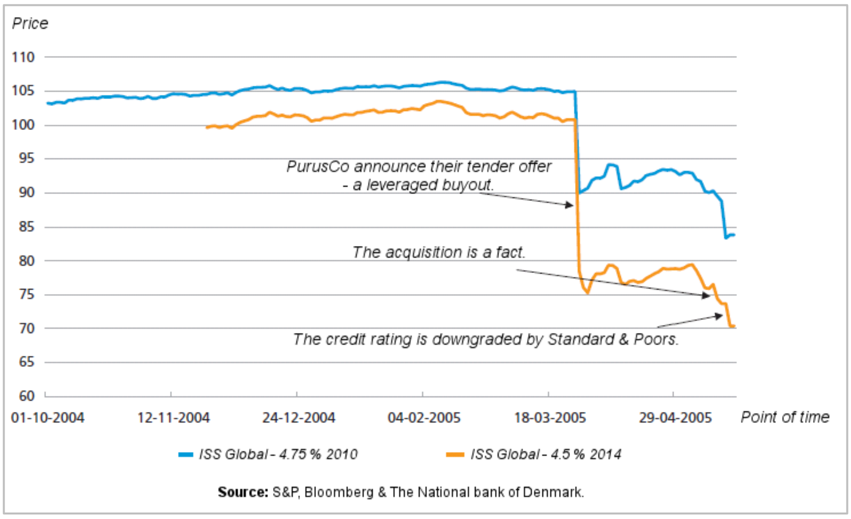


**Figure 27: Development in ISS's corporate bonds.**

Another outcome of the significant loan taking, the bank loans and the subordinated loans were subject to certain undertakings and financial covenants. The specific financial covenants are not public, but consist in debt coverage, cash flow coverage, interest coverage and limitation on Capital Expenditures (Capex Spending). The financial covenants are reported quarterly and in the event of a default under these covenants, the debt including the accrued interest can be immediately due and payable (ISS Holding, 2008, p. 101). During the last year, towards the maturity of the 2010 bond loans, some analysts (Jyske Markets, 2008) have proclaimed that ISS was in risk of violating the covenants, because of its current indebtedness. However, ISS repeatedly assured that there was some headroom to the covenants (Jyske Markets, 2008), but that they anticipated that the financial covenants would be more restrictive in the future. This position is in line with the statements of Head of Group Treasury Christian Kofoed Jakobsen (Jakobsen, personal interview, 2009), that the capital structure is always arranged with some headroom to the covenants, but the compliance of these, is of course reliant on whether the premises are realistic or not. Furthermore the fact that ISS is operating in a low-margin industry does not leave much space to slip up, but on the other hand, the importance of complying with these covenants is indirectly helping to keep a strict focus on the operational performance.

### Debt-equity-ratio

The private equity funds have been criticized for draining the acquired companies for values, for instance by paying out extraordinary dividends to the owners. Certainly the new owners initiated dividend payments from ISS A/S of DKK 7.2 billion in 2005, and as a consequence of this, equity attributable to the equity holders of ISS A/S declined from DKK 8.7 billion at December 31, 2004 to DKK 2.2 billion at December 31, 2005 (ISS, 2005, p. 86). However the dividend payments were not paid out to the owners, but merely transferred from ISS A/S to the new holding company; ISS Holding A/S as a part of the new group structure. In this way, the total equity of ISS Equity A/S increased from nothing to DKK 6.8 billion in the first operating year. This means that there has not been a particular development in the company's equity, but as it can easily be interpreted of the figure below, the financial leverage of ISS has been increasing rapidly since the takeover in 2005.

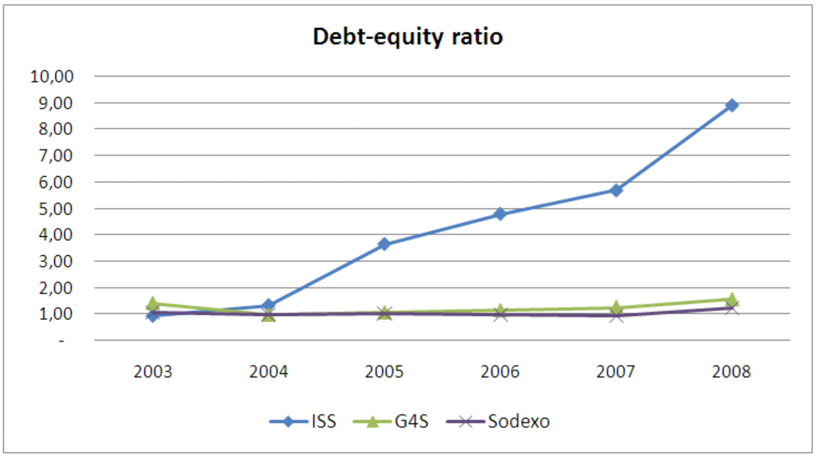


Figure 28: Debt-equity ratio of ISS and its peers.

Overall, from 2004 to 2008 the interest-bearing debt increased threefold, reaching DKK 32.4 billion in 2008, composed of DKK 31.2 billion and DKK 1.2 billion, long-term and short-term debt respectively. In consequence of the adjustment of the capital structure, the debt-equity-ratio increased from about 1x in 2003, reaching 9x in 2008, corresponding that the company's debt is 9 times its equity. The debt level clearly stand out from its competitors, as their ratio has been more or less around 1x through the entire period, as illustated in the figure below. Due to a capital reorganization transaction, Rentokil have been recording negative equity in five out the last six fiscal years, and in light of this, the debt-equity-ratio of Rentokil is not measured.

### Solvency ratio

The company's profit from operations could not cope with the heavy loan taking, thus the solvency ratio has dropped from barely 26 %, scraping the barrel in 2006 with a solvency ratio of 6.4 % (illustrated in figure 29). Compared to its peers, ISS is legible in the shallow end, together with Rentokil, who has undergone a similar development. Although Rentokil's solvency ratio has been 17 % on average, the ratio has plunged from 23 % in 2003 to below than 5 % in 2008. The reduction can be attributed to a fairly constant debt level, while profits from operations and interest-bearing assets have been shrinking. Both Sodexo and G4S have been demonstrating a significant higher solvency ratio in the event window.

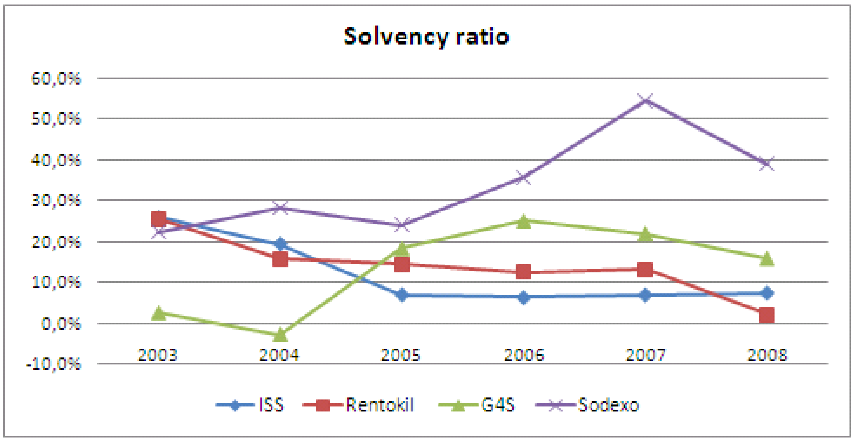

Figure 29: Solvency ratio of ISS and its peers.

However ISS is pursuing to reduce its financial leverage on a multiple basis (ISS, 2008, p. 15). By computing the inverse ratio of the solvency ratio, it corresponds that the net financing liabilities of ISS in 2006 were close to sixteen times its operating profit. In order to reduce this multiple, ISS are seeking to lessen the net financing activities (interest-bearing liabilities less interest-bearing assets) in proportion to the operating profit. This focus is processing in the right direction, as the company has managed to reduce its debt on a multiple basis for the past two years (figure below). It appears that the company's financial liabilities have not been reduced, but on the contrary they have turned their focus on cash conversion, meaning that its financial assets have increased. At the same time the company has boosted its profit from operations, and in this way the ratio decreased to 13x in 2008 (corresponding that the solvency ratio demonstrated a modest climb reaching 7.5 % in 2008).

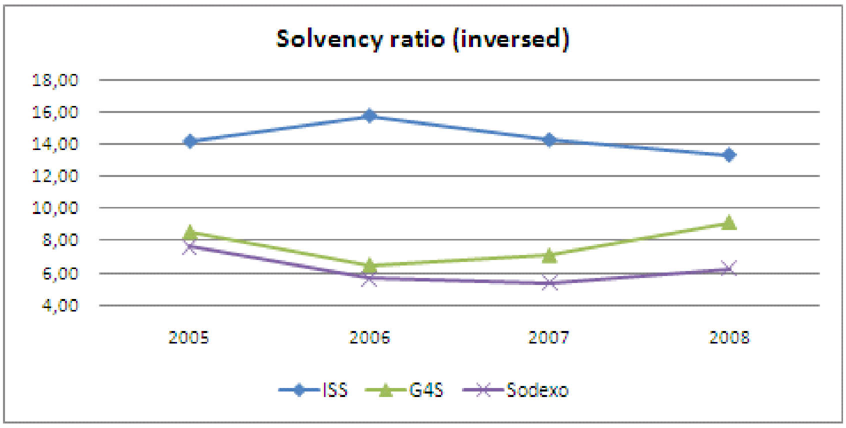

Figure 30: Inverse solvency ratio of ISS and its peers.

### Debt-asset-ratio

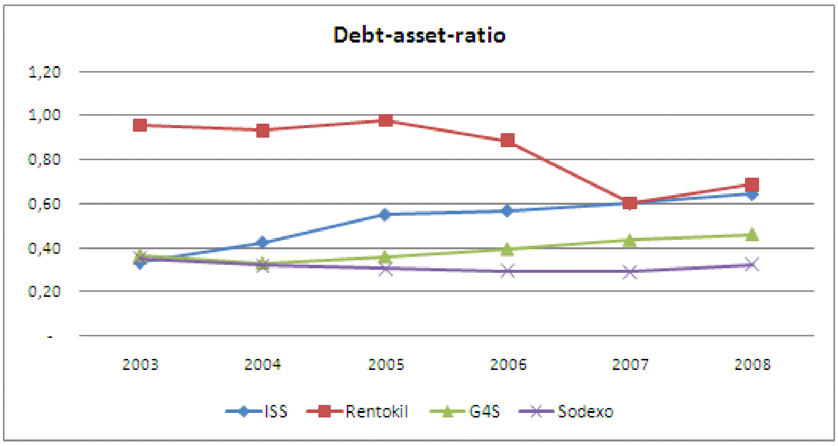


Figure 31: Debt-asset ratio of ISS and its peers.

As illustrated in the figure above, the debt-asset-ratio of ISS has been gradually increasing, as a result of the aforementioned jump in the interest-bearing liabilities. In the years prior to the takeover, the debt share increased, and following the acquisition the debt share has been increasing further. This development is perfectly in line with the scientific research reviewed in 3: About private equity. It is worth to notice that the increasing ratio is not due to asset-stripping, as the asset-base has been increasing with approximately 11 % after the takeover. However the debt rose more than twice by 23 % in the same period. Moreover it is a major factor that intangible assets in terms of goodwill account for more than two-third of the operating assets, which can be ascribed to the company's many acquisitions. From the figure, it is evident that ISS carries a higher debt-asset-ratio than its nearest competitors. Only Rentokil is showing a debt-asset-ratio by the level of ISS. The debt-asset-ratio of Rentokil has been declining in the period of analysis, as a result of a constant debt level, but increasing asset base. Parallel to ISS, the greater part of the increase in operating assets was in goodwill, particularly in 2006, when Rentokil acquired a large American pest control firm. Sodexo's debt-asset-ratio has been the lowest through the entire period, and has been decreasing every year from 2003 to 2007, since its debt has been relatively constant, while its asset base has been increasing with 18 %, carried by intangible assets and trade receivables. In 2008 the debt-asset-ratio increased by 3 basis points, due to three large acquisitions (Sodexo, 2008, p. 58), hence the debt rose twice the operating assets. G4S's ratio has showed a slowly rising development, reaching 0.46 in 2008, in which year a significant rise in assets, was offset by a higher rise in debt, as G4S issued two large bond loans, which were used to reduce its drawings against the revolving credit facilities (overdraft facilities).

In connection with the assets, it is worth noticing the considerable share of intangible assets in proportion to the total amount of operating assets (see figure below). In ISS, G4S and Sodexo, the fraction was more than half of the operating asset base, and this is obviously linked with the high number of acquisitions within the facility service industry, pointed out earlier.

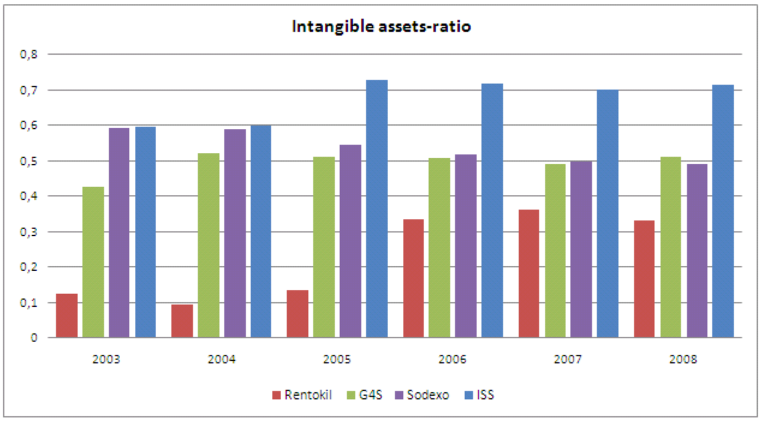


**Figure 32: Intangible assets in % of total assets, for ISS and its peers.**

### Income tax effect

Private equity funds have a watchful eye on the tax expenditures, as it is part of the financial engineering, as the high financial costs decrease the tax payment. As mentioned in chapter 2, the Danish Corporate Tax System, has undergone some significant changes during the last couple of years. Nevertheless, the amended tax act has not affected ISS fully yet. The tax expense has been positively affected by the capitalization of deferred tax assets, arising due to the recognition of previously unrecognized tax losses. However, Jakob Stausholm (CFO of ISS) assures that the new corporate tax act will have a major impact on ISS from now on, as the deferred tax deficit is now exhausted. ISS argues that the new fiscal rules obstruct the competitiveness of ISS and have already impacted its future investment calculations. In the 2008 annual report, ISS guesstimated that the new tax act increased the group tax expense with roughly DKK 100 million, because ISS was subject to limitations in deduction of its financial expenses of DKK 826 million (ISS, 2009) (out of a total interest expense of DKK 2.311 million). In connection with the income taxes, it is important to observe that ISS do pay income taxes through its several subsidiaries and foreign entities, but not in Denmark (Thomsen, personal interview, 2009).

### Off-balance-financing

During 2008 and 2009, analysts expressed concern about the refinancing of the aforementioned subordinated bond loan of €850 million, maturing in September 2010, given the current climate of the financial markets. In connection with the presentation of the quarter statements in December 2008 (Jyske Markets, 2008) and February 2009 (Jyske Markets, 2009), ISS articulated that the company was working towards a solution. In accordance with the company's Intercreditor agreement, the company was obliged to announce its refinancing negotiations at least 6 months prior to maturity date. In March 2009, CEO of ISS Jørgen Lindegaard said that he was confident that the refinancing would prove successful; considering the company's stable cash flows, but he conceded that it might be a little bit more expensive than the current funding. Head of Group treasurer, CKJ was also fairly unworried that the refinancing would get sorted out, and argued that ISS was among the high-yield investors “darlings”, because of the steadiness of the company (Jakobsen, personal interview, 2009). Stable margin and stable cash conversion is highly valued under turbulent market conditions with large volatility in companies performance. The self-assurance of ISS was recognized by analysts, who expected that ISS would be able to refinance its 2010 issue somehow (Jyske Markets, 2009), and in this connection a number of options were mentioned, such as an exchange offer to the existing 2010-bond holders, amendment of the existing covenants (in order to allow more debt), securitization of receivables or additional capital contribution from the owners. In the annual report of 2008 (published in April 2009), the company declared that it intended to repay the major part of the notes, using funds obtained from other financing resources, rather than cash. In addition to this, Christian Kofoed Jakobsen affirmed that the owners of ISS saw no reason to invest more money in to the company on which they would demand 35 % return, as long as it was still possible to raise the necessary financing in the market. Furthermore a related positive element of the new owner structure has to do with the governance structure, as the current refinancing situation has been less complicated than it would have been if they were still a public listed company. The reason for this is that previously they would have been forced to get an approval from the dispersed ownership base, whereas the new ownership structure means that they only have to contact its two owners to get permission to continue with the efforts to get the refinancing. This is in line with the theoretical findings, that the owners avoid pushing more money into the investment, to avoid hollow out the investment. However, this is contrary to the findings in the DT Group case, in which Erik Balleby from CVC, expressed a significant willingness to invest more capital into the company if necessary, and he did actually mentioned this factor as a key difference between CVC and the former owners (Balleby, personal interview, 2009).

In June 2009, 14 months before the maturity, ISS unveiled its plan concerning the refinancing (ISS, 2009) on a meeting for investor relations. To facilitate the repay of the 2010 notes, ISS applied to its existing senior lenders, for permission to issue new unsecured debt (at the ISS Global level) amounting to € 500 million, with maturity in 2014 or later. In addition, ISS requested a number of technical changes to its existing financial covenants, so that the new debt issuance does not conflict with the covenants definitions. Also ISS requested to adapt a new method for the recognition of intra-group exchange-rate losses and gains, so that fluctuating exchange rates do not affect the consolidated EBITDA and the related key-ratio.

Furthermore, to raise the remaining EUR 350 million, ISS proposed to carry out asset securitization of its trade receivables. As reviewed in the theoretical framework, Asset-Backed Securities (ABS) is a financing alternative winning ground, especially among private equity funds. In the case of ISS, some of its operating companies (in the UK, Spain, France and part of the Nordics) will sell their receivables to an SPV, and subsequently the SPV will issue discounted notes to the market (ISS, 2009, p. 8). The trade receivables of ISS, are not expected to be exposed to significant risks, since the losses on bad debt have historically been relatively low, e.g. amounts written off as uncollectible represented 0.4 % in 2008 (ISS, 2009, p. 8). The securitization program will be implemented in phases and should be fully completed by the end of 2009, expecting to generate proceeds of EUR 350 million (ISS, 2009).

| Indicative sources and uses | | | |
|---|---|---|---|
| **Sources** | **€m** | **Uses** | **€m** |
| Unsecured debt | 500 | 4.75 % 2010 EMTNs | 850 |
| Trade receivables securitization | 350 | | |
| **Total sources** | **850** | **Total uses** | **850** |

**Source:** ISS investor presentation, June 25, 2009.

Figure 33: Refinancing process of ISS - sources and uses.

Less than two weeks after the transaction proposal, ISS announced (ISS, 2009) that 88 % of its Senior Priority Lenders had approved the request to amend the covenant definitions, thereby permitting ISS to incur new unsecured debt. On 13 July 2009, ISS announced (ISS, 2009) its intensions to raise EUR 525 million in the international bond market, by issuing senior unsecured notes (yield: 11 %) due to 2014, through the new entity called ISS Financing plc (Danske Markets, 2009). The proceeds from these notes would be loaned to ISS Global and then used to settle the tender offer for €500 million of ISS Global's notes due September 2010. With relief, ISS announced four days later, that the new bonds were successfully priced and moreover the new-issued bonds were covered more than four times, hence the first stage of its two-part innovative refinancing plan was accomplished.

### 5.2.5: GOVERNANCE ENGINEERING

#### Board composition

One of the most radical changes applied after the acquisition of ISS by EQT and Goldman Sachs Capital Partners was the change in the board and management structure and composition. The change in the board composition has perhaps been the most markedly as the entire board was changed. The board plays an essential role in the execution of the active ownership that private equity funds places emphasis in. Therefore it is absolutely imperative that the board contains the relevant experience and background.

| | 2005 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Name | Industry specific experience | Owner's share | International | Name | Industry specific experience | Owner's share | International |
| Chairman | Erik Sørensen | | | | Sir Francis MacKay | X | | X |
| Deputy chairman | Sven Riskær | | | | Leif Östling | X | | X |
| | Claus Høeg Madsen | | | | Richard Sharp | | X | X |
| | Peter Lorange | | | X | Ole Andersen | | X | |
| | Tom Knutzen | | | | Sanjay Patel | | X | X |
| | Karin Verland | X | | | Christoph Sander | X | | X |
| | | | | | Peter Korsholm | | X | |
| | | | | | Steven Sher | | X | X |
| Employee representive | Tina Hilligsø | | | | Carsten Højlund | | | |
| Employee representive | Flemming Quist | | | | Flemming Quist | | | |
| Employee representive | Karina Deacon | | | | Nicolai Søegaard | | | |

Figure 34: ISS - changes in board composition.

As you can see in the illustration above the changes from one year before the acquisition compared to one year after are remarkable.

Prior to the acquisition the board was almost exclusively comprised with Danish members, whereof none had industry specific experience or ownership share. It is evidently not very advantageous for a company with a near global presence, and where a vast majority of the employees has an international background not to reflect this in the board composition. Furthermore the fact that there are neither members with industry specific backgrounds nor with ownership share entails the risk that the members do not have the competencies required to move the company in the right direction, or are not properly incentivized to lead or develop the company.

Subsequent to the acquisition the new owners replaced the old board with a new board. The reason for this is, as mentioned above, to provide a more competent body to move the company forward. Thus the board now incorporates the international scope of the underlying business as all the board members, except for Ole Andersen and Peter Korsholm who are representatives for EQT, are foreigners. Furthermore several of the board members now possess industry knowledge, for example represented by the chairman Sir Francis Mackay who came with previous experience as first CEO and later Chairman of the board from ISS competitor Compass. However, Sir Francis Mackay resigned in December 2008, and was replaced by Ole Andersen. Additionally both primary owners are represented in the board, and the remaining members all have minor ownership shares (ISS, 2007).

### Board Committees

To further improve the work of the board and the cooperation with the management of ISS it was decided in 2007 to introduce four committees that are aiming at creating a more efficient decision making process. The four committees are the following (ISS, 2007; ISS, 2008):

- The Acquisition Committee – consists of at least three board members and the Group COO, Group CFO, Head of group Strategy and Business Development and Head of Group M&A. This committee had 8 meetings in 2008.
- The Remuneration Committee – consists of at least three board members, while the Group CEO participates in the meetings. This committee had 2 meetings in 2008.
- The Audit Committee - consists of at least three board members, while the Group CFO participates in the meetings. This committee had 3 meetings in 2008.
- The Financing Committee – Consists of at least two board members, while the Group CEO and CFO participates. This committee had four meetings in 2008.

These committees are working as a mean to binding the board and the management closer together in order for the company to utilize the knowhow employed in the board of directors. Additionally the number of meetings is subject to change as they are naturally influenced by changes in the business environment etc. For example the deterioration in the financial climate has led to increased difficulties in refinancing the loan facilities that expire in 2010, which means that contact between the board and the management, especially the CFO and Head of Treasury has been intensified so there is currently contact on a weekly basis (Thomsen, personal interview, 2009). This increased corporation between board and management is very much in line with the theory applied in this area, as this ensures that board participates in a higher degree in the development of the company.

### Management structure

The management naturally plays an important role in the execution of the strategy, and as mentioned in the theory private equity funds will often try to maintain a management team in order to retain the knowhow of the management.

From the beginning of the new ownership the existing management was maintained with one exception. The position of CFO was divided into two positions as a stronger emphasis on debt management was required, which meant that Jeff Gravenhorst was introduced as CFO with responsibility of operational finance, reporting and IT, while the previous CFO Karsten Poulsen was announced as Chief Treasury Officer (ISS, 2005, p. 9). However in general the company continued to operate with the same management as before, this was especially personified by Eric Rylberg, the characteristic CEO, who had been in charge since 2000 and had previously been CFO. This was done in order for the company to maintain a management that was assessed to be competent, while at the same time ensuring that the company would not be negatively influenced by the takeover, which often creates a vacuum where the decision making process is impaired by the uncertainty. There was also paid a relatively high stay-on-bonus for the management, for Eric Rylberg this was estimated to amount to approximately 80M DKK (Risom, 2006). Furthermore Eric Rylberg had acted as special advisor for EQT on some other cases prior to the takeover, and as such had tight relations to the top management of EQT.

The decision to maintain the existing management did not last however as Eric Rylberg and the owners did not agree on the changes that the different ownership brought along with it, so Eric Rylberg and Chief Treasury Officer Karsten Poulsen decided to resign. The decision was to a large extent based on the fact that where Eric Rylberg earlier had had relatively vast control over the company and decided the strategy etc. the new ownership meant that the owners through the board delivered active ownership, which to some extent gave Eric Rylberg the role of "executor" rather than the role of "strategist" that he had had before (Andersen, 2008). This is very characteristic for the ownership by private equity that it requires a certain type of leader and that the active ownership does not work with all leaders, the same has for example been seen with TDC where there has also been management changes after the takeover. As Eric Rylberg resigned he was replaced by former SAS CEO Jørgen Lindegaard who had great knowledge of both the company and the owners, as he was introduced to the board shortly after the acquisition was completed. This also meant that the management was concentrated in the Executive Group Management, which consisted of CEO Jørgen Lindegaard, CFO Jeff Gravenhorst and COO Flemming Schansdorff. Furthermore an Operational Board below, consisting of four COO's and the ISS Management Team consisting of the two before mentioned groups as well as the remainder of the management group (ISS, 2007).

### Incentive programmes

Incentives schemes is one of the areas where private equity fund owned companies usually distinguish themselves from public companies, as they are traditionally more liberal with flexible payment structures (Colvin & Charan, 2006). However ISS has traditionally been equally favorable towards incentive schemes, which means that there has been very little change in this area for ISS after the takeover (Jakobsen, personal interview, 2009).

Nonetheless ISS has additionally offered a stock purchase program that supersedes the program that ISS had prior to the takeover. Before the takeover from 1999-2002 ISS had an Employee Share Program where employees at all levels of the company where offered to purchase shares at favorable prices, however the amount of shares that was possible to purchase over the period was very small compared to the number of employees (ISS, 2003). In 1999 a Warrant and Stock option program was introduced for the executive management and this was maintained to 2003, as there were offered no options in 2004. This was as previously mentioned superseded by a new Management Participation Program, after the takeover was completed, that involves the management situated in Copenhagen as well as the local top managements. The main difference between the previous program and the current is that the employees to a greater extent are encouraged to participate, while they at the same time invest more of their own capital in the company. This ensures that the local management teams around the world are aligned with the objectives set out from the top management in Denmark. This is essential in the current financial situation, as the where the focus on cash conversion is even more critical, in order for the company to live up to the loan covenants. The Head of Treasury (Jakobsen, personal interview, 2009) for example finds that it is easier to get the local managements to abide to the requirements in the loan covenants, as the employees know that it can influence their own economy if the company does not perform or in worst case defaults.

### Reporting system

Similarly to the case of incentive schemes the reporting systems that ISS had prior to the takeover was also of a very high standard and close to the standards required by the funds, this was underlined by the fact that ISS won the Annual Accounting Award the year before the takeover was initiated. This means that there has not been implemented any major changes in the reporting standards after the takeover, but kept the existing standards. However the reporting has been shaped according to the requirements in the loan covenants, which means that there is now an increased focus on the cash flow for instance.

## 5.2.6: STRATEGIC ENGINEERING

### Acquisitions

Before the private equity funds' acquisition of ISS, the company was already known to have a very aggressive acquisition strategy towards minor competitors as the industry had been in a consolidation phase for many years, illustrated in the figure below:

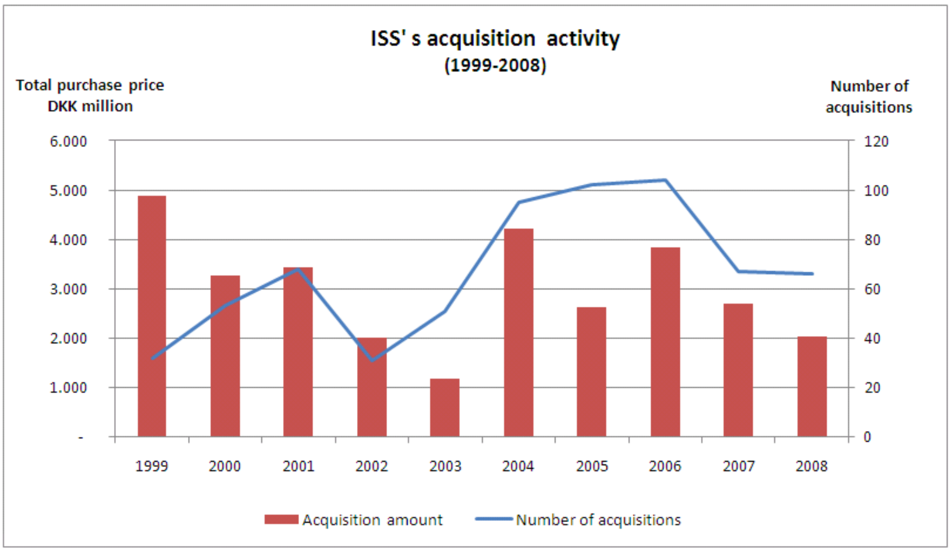


Figure 35: ISS's acquisition activity from 1999-2008.

However the acquisition speed was decelerated during 2002 and 2003, which was mainly due to the acquisitions of two large companies around 2000 that had much lower margins than the average margin of ISS (Jakobsen, personal interview, 2009). Hence these acquisitions had a diluting effect on ISS's overall margin, which meant that ISS had to work on improving profitability by trimming the contracts instead (ISS, 2003, p. 6). Furthermore the stock market simply did not believe in this strategy (DVCA, 2008, p. 50). Thus the share price of ISS decreased from 624 DKK in 2000 to a more general level around 300 DKK from the period of 2002 and until to the period where the takeover was initiated. The development is illustrated in the figure below:

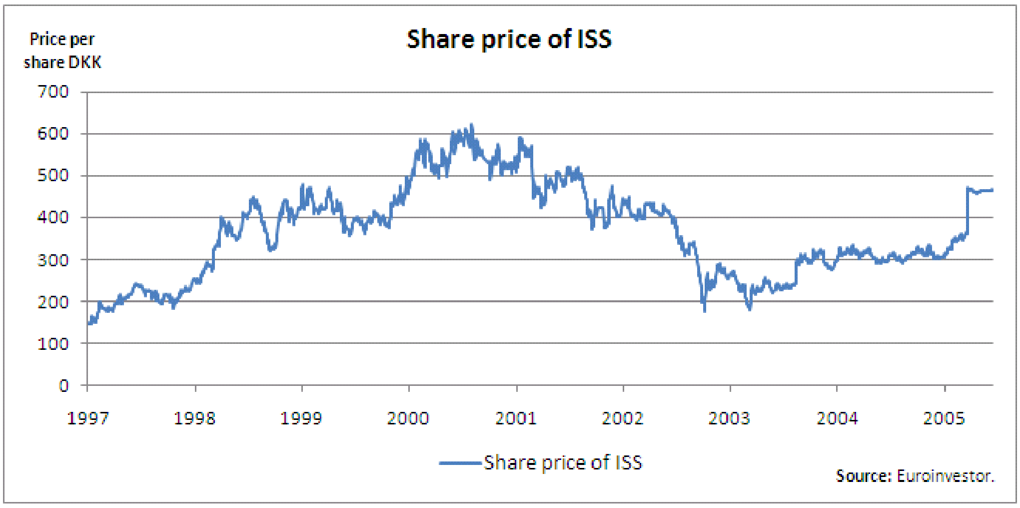


Figure 36: Development in ISS's share price from 1997-2005.

Nonetheless ISS continued the aggressive acquisition strategy in 2004 and this strategy was sustained by the new owners during 2005 and 2006 and they even increased the number of acquisitions to 102 and 104 in 2005 and 2006 respectively. Actually, the acquisition strategy was one of the main reasons why ISS became interesting for the private equity funds.

In general the new owners concurred with the initial strategy and simply wanted to sustain and accelerate it, without answering to and being dependent on a stock market that did not understand or agreed with the strategy. The main problem for ISS was that the acquisition strategy was primarily financed with equity, and a decrease in the stock price therefore made the acquisition relatively more expensive as ISS should use more equity to raise the same amount of capital as earlier (Vinten & Thomsen, 2008).

In the past two years ISS has been affected by the deterioration in the financial system and has thus decreased both the number and volume of acquisitions, though they have still kept a relatively high number of acquisitions. However the company has in its first quarter report of 2009 announced that they will stand back from any further acquisitions in the next period (Risom, 2009).

### New strategy – the ISS way

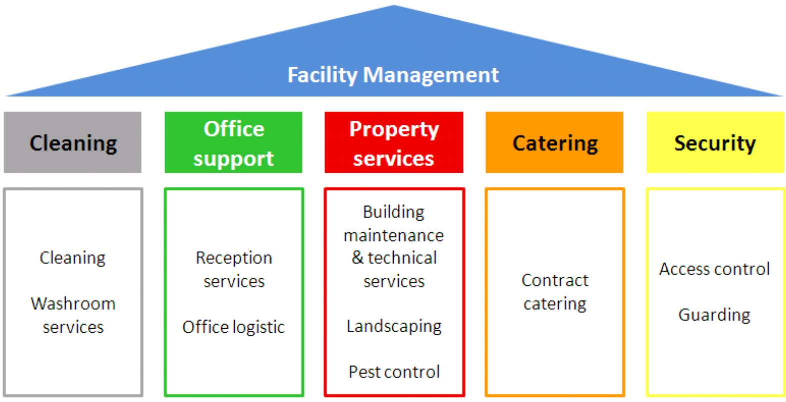


Figure 37: The ISS House.

Along with the new strategy that was introduced during 2008 (Zigler, 2008), the first strategy plan delivered by Jørgen Lindegaard since he took over in 2006, came an increased emphasis on providing full service management targeted towards large global clients. This strategy entails a general step towards an integrated full service facility management and a step away from the conventional single service segment that has dominated the cleaning industry, this development was started in the middle of the 80's, continued by Eric Rylberg and has now been formalized under the current private equity ownership. The strategy is to a great extent the result of the many years with the aggressive acquisition strategy that has provided the company the foundation to deliver the wide range of services that is needed. Thus the business plan was altered so that the four main segments per 2005 in the Route 101 strategy plan; Cleaning, Office support, Property service and Catering were aligned, and combined delivered the Facility Service product (ISS, 2006). This was extended in 2006 with the ISS Strategy plan 2007-2009, where security was added as the fifth pillar in the strategy. The Integrated Facility Service (IFS) house, shown in the illustration, has thus remained more or less unchanged since the Route 101 strategy plan that reputedly was created before the takeover of the funds. This shows that the change in ownership does not always bring with it great changes or even a redirection.

However the strategy has been extended with a "Corporate Clients" element that focuses on targeting global customers this is to be done by a newly established Corporate Clients department, which is situated centrally in the head quarter in Copenhagen, contrary to the regular strategy of ISS with very autonomous offices. This development of the strategy has so far been successful with global contracts with customers such as Hewlett Packard, and is a natural evolution of the IFS service. The strategy is amongst other things aiming to ensure that ISS can expand from the low margin area of cleaning to some of the more profitable areas such as catering and security and at the same time deliver cost cutting service for their customers through gathering the outsourcing activities and thereby getting an overall better price. However the scope of the strategy can also be to achieve a competitive advantage by making the customer relationship as complex as possible in order to complicate any intrusion by the competitors (Jakobsen, 2009, personal interview), then improved economic conditions can be introduced gradually at a later stage.

Another difference in the two strategies is that there is a shift in the overall objective. In Route 101 there was a great emphasis on almost unconditional growth, and this has been moderated in order to make sure that the acquisitions has a strategic fit with the underlying business in the geographic area (Zigler, 2008). This was also indicated in the interview with ISS where Head of Accounting in ISS Peter Harder Thomsen explained that the current expansion was decided by what there was a demand for in the specific geographic area and not necessarily what was needed to deliver the complete IFS house to a certain geographic area (Thomsen, 2009, personal interview). This means that ISS will look to refrain from acquiring firms based solely on a notion that they need a specific company to deliver the IFS product, instead you should look into whether there is a demand for the specific service and if there is a critical mass.

One of the very specific objectives in the ISS ways is that the operating margin should be improved from the current margin of around 5 % to a margin of 7 %. The thesis will deal with this in chapter 5.2.7: Operational Engineering.

#### Change in turnover-allocation

As mentioned above ISS has in many years focused on diversifying the turnover from primarily being driven by the cleaning segment. In 2003 more than 2/3 of the turnover was generated from the cleaning division, while in 2008 the cleaning activities accounted for around 50 % of the total turnover. An important element in this change in turnover allocation is that the change is not derived from a decrease in cleaning but rather a relatively higher growth in the other areas.

From a margin point of view, the diversification is positive, since the margin levels vary a lot across the different segments. Furthermore the diversification should give a decrease in the risk that ISS is exposed to. The financial impact of the turnover allocation will be further elaborated in chapter 5.2.8: Financial development and performance.

### 5.2.7: OPERATIONAL ENGINEERING

As mentioned in the strategic engineering chapter the two private equity funds that acquired ISS both agreed with the strategy and operational initiatives that the current management had initiated. Thus the takeover by the funds did not bring about a world of change, on the contrary the main objective of the funds was to maintain the current operations and make sure that the current shell chock that had hit the employees was not going to damage the business of the company (Jakobsen, personal interview, 2009). According to the theory and most practitioners any changes should be implemented during the first 100 days, however in this case there have not been any major changes. The first 100 days were primarily spent on ensuring, as previously mentioned, that operations were maintained, and furthermore there was a strong focus on replacing the temporary loan package with the permanent loan facilities. At the same time the loan syndication had to be established, so the actions taken during the first 100 days were primarily linked to making sure that the financial issues connected with a takeover of the magnitude as ISS's were resolved.

After the first hundred days and the worst "shell shock" after the takeover had subsided there was a general emphasis to continue the previous efforts to increase profitability through margin-improvements. The operational engineering has primarily been focused on ensuring that the company could be able to lower the operational costs, and so far the initiatives in the organization have led to a decrease in overhead costs of revenue of 0.5 % in 2007 to 0.4 % in 2008.

In the wake of the takeover the emphasis on the EBIT-margin became even more visible and the ratio became one of the KPIs that form the evaluation of the divisions. As a result of this, ISS has been experiencing a minor increase in the operating margin throughout the event window, except from the last year where the impact of the financial crisis meant that the company's margin decreased by 10 basis point, from 6.0 % to 5.9 %. The way ISS tries to achieve this objective is among other things as mentioned above to deliver Integrated Facility Service, however in a more internal perspective ISS tries to achieve this through a more lean organization.

The way the increased efficiency and profitability, leading to the improved margins, has been achieved is highly diverse. This is due to the fact that the overall goal of improving margins is communicated from the headquarter as one of the main KPI's. However the actual execution and manner of this is decided from the local offices due to the highly autonomous structure of ISS, and it is therefore up to the local managements how they achieve the objectives set out centrally. In addition to this, ISS has increased its focus on expanding the "best practice" program, in order to standardize the services of ISS (Zigler, 2008). Sharing knowledge and processes across the organization is important to service the global clients, and furthermore it will help to improve the margin of the business.

In general the changes in the operational engineering have been very small, but the measures implemented can simply be described as a concentration of the efforts to heighten the efficiency of the company that was used prior to the takeover. Therefore the company has experienced increasing margins and a relatively lower level of operational expenses.

### 5.2.8: FINANCIAL DEVELOPMENT AND PERFORMANCE

Having the "company changes" revised in the last couple of sub chapters, changes which to some degree were triggered by the new ownership, it is essential to analyze the financial performance during and after the changes, to study the results of active ownership. During the past six years, ISS has doubled its Total Profit from Operations, reaching DKK 2.2 billion in 2008, with the Profit from its primary operations increasing some 30 % since the buyout of ISS was a reality.

#### Growth in turnover

| Turnover (in DKK millions) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| ISS | 36,165 | 40,355 | 46,440 | 55,772 | 63,922 | 68,829 |
| Rentokil | 26,081 | 23,923 | 25,084 | 23,251 | 24,013 | 22,646 |
| G4S | 27,622 | 33,927 | 45,017 | 44,175 | 48,937 | 55,847 |
| Sodexo | 86,842 | 85,513 | 87,135 | 95,462 | 99,726 | 101,483 |

Figure 38: Turnover of ISS and its peers.

ISS has been experiencing a remarkable increase in turnover through the past six years; up by 90 %, reaching DKK 68.8 billion in 2008. By comparing the development to the competitors, Sodexo recorded a modest growth in turnover of 16 % from 2003-2008, while G4S demonstrated an exceptional development, more than doubling its turnover in 6 six years, reaching GBP 5.9 billion (app. DKK 55.9 billion) in 2008. Rentokil, on the other hand, has been at a standstill, and its turnover has actually declined over the past six years, reaching overall low ebb in 2008. Yet this was primarily attributed to a weak British pound against the Danish krone, as the turnover in local currency actually rose by app. 10 % in the last fiscal year. Nevertheless, it is evident that ISS has magnified its size in terms of turnover, realizing a turnover close to three times the size of Rentokil's, and only exceeded by Sodexo, whose turnover surpassed DKK 100 billion in 2008. The private equity funds increased emphasis on growth from acquisitions have definitely had an effect on ISS's turnover development, as it increased by nearly 50 % since 2005.

#### Steady operating margin

On the facility service market volume has proven to be one of the key factors, since many of the business areas are high competitive, due to a vast numbers of players, consequently low margin. To obtain volume synergies, there has been a great level of acquisitions from both ISS and its competitors, but the competitive setting is also reflected in the operating margin, a figure that has been constant in the level around 3-4 %.

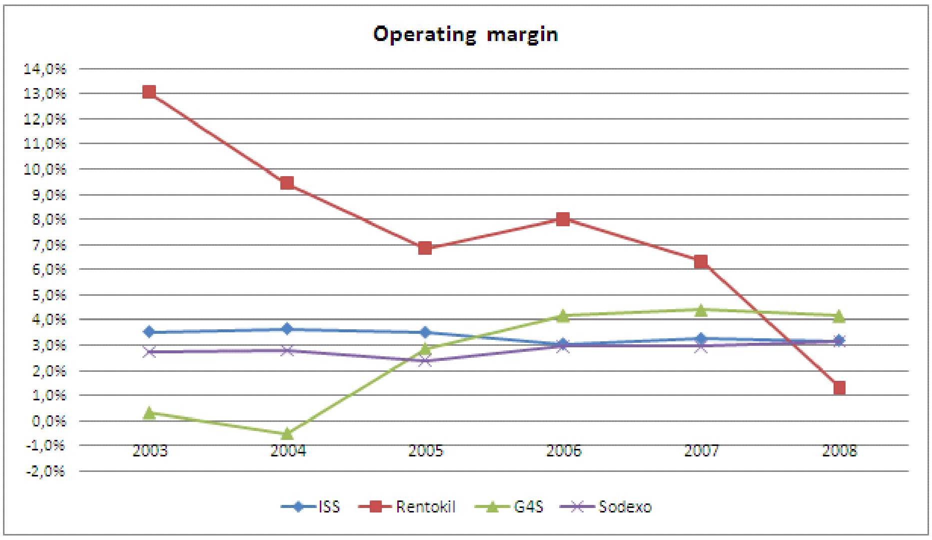

**Figure 39: Operating margin of ISS and its peers.**

Closely linked to the takeover, ISS's operating margin dropped vaguely in 2005 and 2006, which was due to both the tension surrounding the takeover and direct costs attributed to this, for example one-off costs to the management to ensure that they stay after the takeover (ISS, 2007). In 2007 ISS managed to improve its operating margin insignificantly, thus the operating margin increased with 0.11 percentage points reaching 3.25 % in 2007, but as a great disappointment the operating margin decreased by 7 basis points in 2008. The minor decline was caused by two things; increased tax payment[10] and lower earnings in the Netherlands – the company's 7th largest market. The corporate tax payment increased from DKK 180 million in 2007 to DKK 532 million, of which the income tax in 2007 was positively affected by the utilization of a deferred tax deficit, as mentioned before, whereas in 2008 the tax payment was harmfully affected by the commencement of the new fiscal rules (ISS Equity, 2009, p. 12). In addition the margin in the Netherlands was cut in half (ISS Holding, 2009, p. 17), as a result of a major restructuring project comprising, inter alia, changes in management team and new organizational setups, and this was also reflected in the group margin. Still the total profit from operations in absolute terms, increased by 5 % making up DKK 2.2 billion in 2008, which is an increase of 34 % since the takeover in 2005.

By looking at the EBIT-margin based on the official income statements, the same picture emerges as for the operating margin. Obviously, this figure is a bit higher, due to the fact that the operating income is not taxed directly, as it is the case in the revised income statements. As mentioned in connection with the operational and strategic engineering, ISS is courting to increase its EBIT-margin to the level of 7 % towards the doubling of the firm by 2013. The EBIT-margin of ISS, has displayed a vague upward trend since 1995, and reached 6.0 % in 2007 – the highest in the time of the event window, but then dropped slightly in 2008.

[10] The increase in tax payment impacted the profit from operations, due to use of the revised accounts.

The benchmark companies are demonstrating a similar performance, since both Sodexo and G4S are having an operating margin on par with ISS. Sodexo's operating margin has increased by gradually from 2.73 % in 2003 to 3.15 % in 2008, only showing a negative deviation in 2005, in which year Sodexo's operating profit was negatively affected by an out-of-court-settlement with some former employees from the US who filed Sodexo in 2001, for discrimination regarding internal promotion (Sodexo, 2006, p. 112). Rentokil's operating margin has showed a much more turbulent development, declining from 14 % in 2003 to 3.14 % in 2008. The main reason why Rentokil recorded a large decline in its operating margin in 2008 was mainly to be found in one of its 5 business areas – the parcel delivery service, City Link. City Link accounts for 17 % of group revenue, and recorded significant loss in 2008, and needless to say – a negative operating margin.

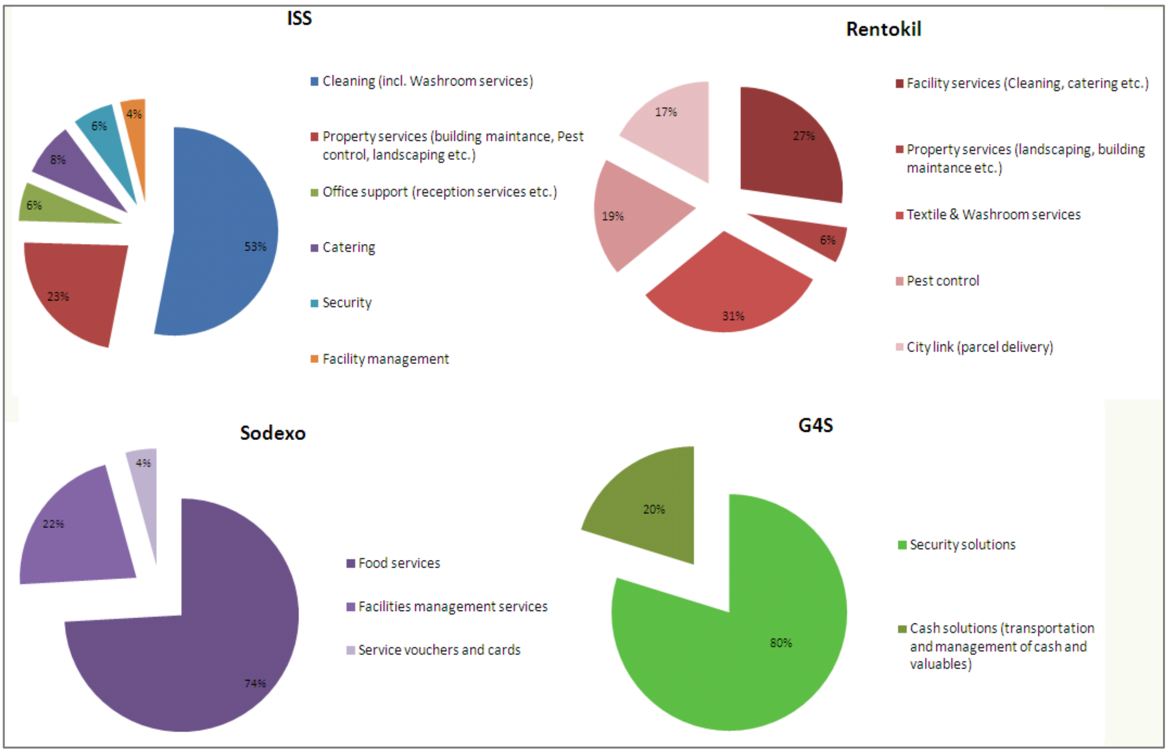


**Figure 40: Turnover allocation of ISS and its peers.**

On average the facility service market is associated with low margins, but this cover great margin differences across different business units. The cleaning industry for instance, is linked with low margins due to fierce competition, little opportunity for differentiation, relatively low costs etc., while security and pest control generate higher margins. Therefore, the gap in operating margin between ISS and its competitors can to a great extend be attributed to different segmentation and size of business areas.

As it appears from the diagrams above, showing the revenue distribution of ISS and the 3 peers, the allocation is very different for the companies. Though the share is shrinking, cleaning is still ISS's largest business area, representing 53 % of total group revenue, followed by property services as its second largest business area. On the other hand, Rentokil's facility services[11] are only representing 27 % of total group revenue, while the high margin business areas, pest control and washroom services, represents 42 % of total group revenue. To illustrate the point, the reported operating margin for pest control and washroom services, was 17.8% and 14% respectively, whilst for cleaning it made up 6.7%. Likewise is seen in G4S, where Security solutions account for 80 % of the Group's revenue compared to 6 % of ISS's. The greater part of Sodexo's revenue (74 %) stem from Food services/catering to educational sites, hospitals, defenses etc., while this business segment is relatively small for ISS (8 %). However, Sodexo is pursuing to accelerate its growth within Facility Management and the business area is increasing rapidly, forming 21.6 % of the turnover in 2008 (Sodexo, 2009, p. 56).

### Two-digit annual growth rate in staff

The above mentioned emphasis on volume is also very clear when the number of employees is taken into consideration. Though the ownership of private equity funds is often linked with a very strict strategy to rationalize the operation with rounds of layoffs, the development in ISS has been completely opposite. With an annual increase of the number of employees of around 20 %, with an increasing tendency after the takeover, the new owners are proving to have an ambition to develop the company instead of just cutting to the bone of the company, which has been the main point of criticism of the private equity funds. Having said that, it is self-evident that the service industry cannot operate without its ground staff, thus a remarkable rise in turnover will naturally also leads to an increasing workforce - the core competence of the company is its labor force. Even the number of employees in head quarter has increased after the takeover from approximately 90 to around 120 employees (Jakobsen, personal interview, 2009).

Overall, ISS's number of employees has increased with 86 %, reaching more than 450,000 employees in 2008 and similar development was seen among its benchmark. Like it was present for the revenues, G4S more than doubled its staff base, becoming the largest employer in the peer group with 560,000 employees. Sodexo demonstrated a light development, by increasing its number of employees with 15 % during the time of the event window and yet again, Rentokil is out of the line and experienced a decrease in its number of employees of 17 % from 2003-2008. Overall, it can be concluded that ISS's development was not unique, but ascribed to a general industry growth since outsourcing of facility service is winning ground together with clients moving towards global solutions.

### Interest coverage and financial costs

It appear from the financial engineering chapter, that the financial liabilities of ISS have been growing, thus the interest expenses have obviously followed, and so the net financial items

[11] Of which cleaning represents 2/3 of the revenue, that primarily stem from the UK.

after tax effect, have grown from DKK 139 million in 2003 to DKK 1,696 million in 2008. This has naturally led to a deterioration of the interest coverage ratio, which has declined from 9.18 to 1.29 in the period from 2003-2008, during which it went as low as 1.17 in 2006. This means that the profit from operations just barely covers the interest expenses, and if the earnings start to show large deviations, the company's ability to make debt service payments may be questionable. In that connection the history and consistency of the earnings is important to observe, since ISS has been recording stable and progressive increasing profits through the entire period (see table below).

| Total profit from operations (in DKK millions) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| ISS | 1,278 | 1,476 | 1,629 | 1,694 | 2,080 | 2,187 |

Figure 41: Development in ISS's profit from operations, 2003-2008.

Thus, although ISS is heavily indebted, the results are consistent with the theoretical findings reviewed previously; that the financial leverage forces the firm to keep a strict focus on its earnings and cash flow. The focus on the ongoing cash flows is also supported by the statements of Group treasury, Christian Kofoed Jakobsen, saying that the importance of maintaining a steady operating margin and cash conversion is communicated meticulous out in all links. On country level, this means that courses are arranged to give the local leaders and employees an understanding of the key ratios, and furthermore the local leaders are monitored closely and they are obligated to report the ratio-development constantly (Jakobsen, personal interview, 2009).

ISS is undoubtedly the company in the peer group with the lowest interest ratio coverage, a result of the financial engineering introduced by the new owners. As the benchmark analysis showed in the financial engineering chapter, Sodexo is the polar opposite regarding the choice of capital structure, which is also evident in the company's interest coverage ratio. From 2003 to 2008, the ratio increased from 3.55 to 10.08, as a result from decreasing net financial expenses contemporary with increasing profits.

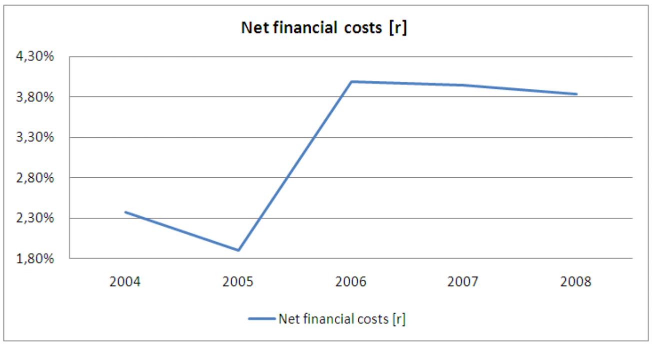


Figure 42: ISS - financial costs in percentage of interest-bearing liabilities.

As illustrated in the figure above, the net financial costs in proportion to the net interest-bearing liabilities have seen a sharp increase since the takeover in 2005, increasing from

1.9% in 2005 to 3.99% in the following year. This is mainly caused by the fact that ISS have increased its proportion of bank debt, e.g. increased withdrawal on revolving credits, which has impacted the average level of financial costs. It may also be linked to the aforementioned downgrading from Standard & Poors, which naturally has led to an increase in the cost of borrowing money.

### Development in ROIC

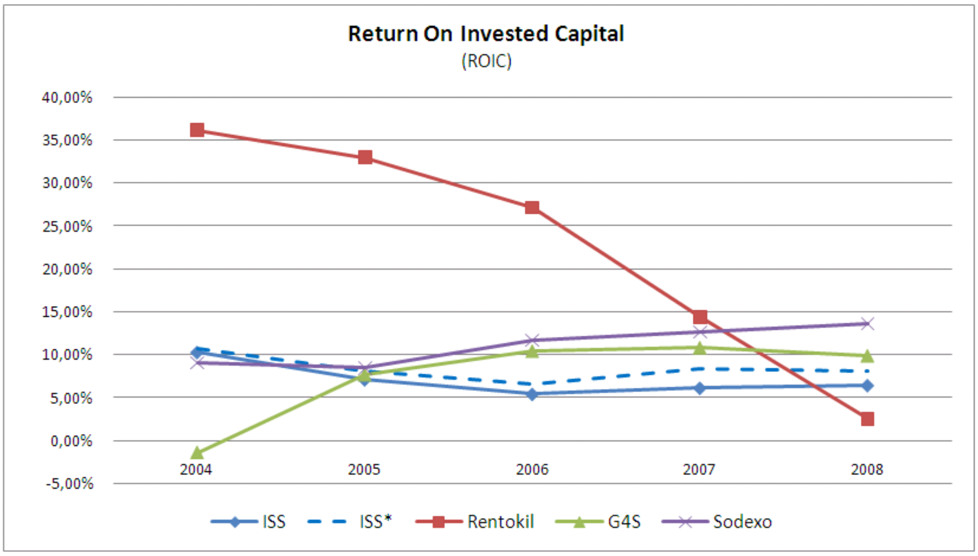


Figure 43: ROIC of ISS and its peers.

The Return On Invested Capital (ROIC) displayed a drop in the year after the takeover, almost being reduced by half, declining from 10.29 % in 2004 to 5.42 % in 2006. As mentioned in preceding paragraph, ISS improved its profit from operations significant; hence the decline in the ratio should be explained by a greater increase in the company's invested capital – operating activities as well as financing activities.

However, if ROIC is based only on the profit from ISS's primary operations, the key figure is notably better (ISS*). In other words, ISS's none-operating activities have a negative influence on its Total profit from Operations, which is mainly triggered by large financial expenses - other than interest expense. These are directly linked to the financial engineering initiated by the new owners, and involve charges and losses related the issue of new bond loans and partial redemption of some the group's existing bond loans (ISS Equity, 2007, p. 57). Moreover the company's other expenses have risen significantly following the takeover, in 2006 caused by large costs related to the change in ownership, in the form of financial advisory, lawyers, stay-on-bonuses etc. and subsequently in 2007 and 2008 caused by large costs to a Group Restructuring Project (ISS, 2007, p.111) across countries. Nonetheless, the ROIC of ISS is well below its competitors (Rentokil ignored in this context), because its profits have not (yet) managed to keep up with the invested capital.

### The bottom line

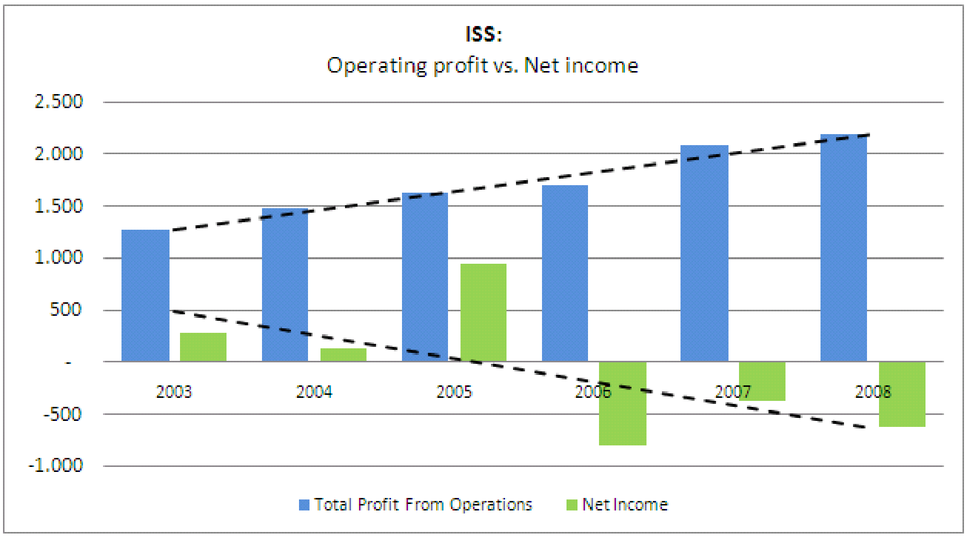


Figure 44: Operating profit and net income of ISS.

The large change in the financial costs has naturally let to an observable effect in the net income of ISS, this is especially evident when compared to the total operating profit as seen in the figure above. As mentioned before ISS experienced growth in the operational profit, but the drastic increase in the financial items is evident in ISS's net income, as it has experienced the complete opposite development as the operating profit since 2005, when the debt costs began to increase. The dotted tendency lines in the figure point out this development. In sharp contrast to this, Sodexo as well as G4S have experienced an increase in both operating profit as well as in the net result the past 3 years. Unsurprisingly, Rentokil have experienced a significant decline in both Operating profit and Net income, underscoring that this company are struggling with some fundamental problems. The critical performance of Rentokil has several times led to speculations about a potential buy-out, like the story of ISS, although the cases are very different, as ISS was acquired while the firm was growing and successful, whereas it is quite the opposite for Rentokil. As early as in 2005, analysts were indicating that the company was a hot issue for the private equity funds, in part because of a very low share price. But also because Rentokil is profitable in some of its divisions, while other are recording huge losses, why "business clean-up" and company streamlining could be necessary. More specific, the company was subject of buyout talking, when a British investment company (Raphoe Management) attempted to acquire 5 % of the shares, in exchange for taking over the chairman post, but the assault was rejected by the sitting board. During 2008 the buyout talk rekindled, as the company is still facing major challenges and profitability issues.

However, the benchmarking is underlining that the development in ISS is a clear consequence of the business model of the private equity funds and their subsequent increase in gearing.

### 5.2.9: RISK-RETURN ANALYSIS

As illustrated in the preceding analysis of the financial performance, the gearing of ISS has been substantial and seems to have made a great influence on the results delivered by the company. However it is also important to see if the added risk that follows the gearing is then compensated by an improved return. In that relation, CAPM is introduced to demonstrate the relationship between systematic risk (β), expected return and the actual return delivered by the case companies, but prior to that, the crucial risk factors will be analyzed.

#### Risk factors

Undoubtedly the most significant risk of ISS is related to its high indebtedness, as it put high demands on the running cash flows, in order to pay the sizeable amount of interests. As analyzed in the chapter concerning financial engineering, the company's loan portfolio consists of bank loans and listed bonds, hence the development in the company's interest rates is an important factor, for example in 2008 it was estimated that a general increase in the relevant interest rates of 1%-point would increase the annual interest expenses by about DKK 60 million (ISS Holding, 2008, p. 101). To manage the interest rate risk, ISS is preferential to using fixed-rate bonds and apply interest rate swaps on loans with floating rates, allowing ISS to swap from floating to fixed rates in times with increasing interest rates.

Directly linked with the interest-bearing liabilities and focus on cash flow is the liquidity risk, defined as the risk of ISS not being able to meet its contractual obligation, due to insufficient liquidity. Therefore it is extremely important that the company maintains a steady margin, as a drop of 0.5 %-point could cost ISS DKK 344 million in profit from its operations, based on calculations for the year 2008. ISS seeks to conserve an appropriate level of liquid reserves, in case of unexpected events and operational issues, but also because the company is subject to certain covenants and restrictions regarding its bank and bond loans. With regards to its liquid reserves, which are composed of liquid funds and unused credit facilities, the reserves consisted of liquid cash of DKK 2,964 million plus two unused revolving credit facilities of DKK 2,850 million, in sum DKK 5,814 million as of 31 December 2008. However, in 2009 the liquidity reserves decreased, mostly caused by the expiration in May 2009, of the undrawn part of an acquisition overdraft facility (ISS Holding, 2009, p. 7).

Add to the importance of a stable operating margin, and the risk of increasing interest rates, ISS is exposed to risk relating to currency translation. The risk of changing currency rates is of minor consequence, because the service industry is characterized by services being produced and delivered in the same local currency, with minimal exposure from imported items. However, the company is exposed to some currency risk when translating its revenues into to Danish Kroner, regarding the making of the income statements of the parent company, which is registered in Denmark. This result from the fact that the majority of the Company's turnover stem from foreign countries and only about 5 % originates from Denmark thus fluctuating exchange rates may affect the results. Moreover ISS is exposed to currency risk, because interest payments related to its loans are not denominated in the same currencies as the revenues and profit.

Altogether, the large changes executed within the field of financial engineering necessitate that the company exercise tight financial control, as even small deviations can result in the company failing to honor its financial obligations and covenants. Also variable exchange rates impact the financial results of ISS, but this is mostly out of the Company's control, still ISS attempts to enter currency swaps like it was present for the interest rates (ISS Holding, 2009, p. 101).

### Slowly deleveraging process

As described in the theoretical framework, private equity funds usually seeks to reduce the debt in the target company, towards a desired exit, and as mentioned above ISS is pursuing to reduce its debt. However analysts see increased risk to the deleveraging process, as a result of lower organic growth, slight margin pressure and higher funding costs after the 2010-notes are getting refinanced with a coupon rate of 11 % (compared to 4.75 %). The difference in the interest-rate is expected (Zigler, 2009) to cost ISS additional DKK 232 million in annual interest costs. Nonetheless, in the present refinancing process, ISS managed to negotiate the interest rates of its existing senior debt and refinance them at lower interest rates; hence the total interest expenses will be lower than previously.

Furthermore ISS expects to slow down the acquisition speed in the coming years, and only selective acquisitions subject to tight strategic and financial criteria will be realized. Partly because the growth has stagnated, due to the global economic conditions (Risom, 2009), putting further pressure on the cash flow generation, and partly because the availability period for the undrawn part of the aforementioned acquisition facility, expired in May 2009 (Danske Markets, 2009). The limited acquisition activity implies that ISS will draw its attention to organic growth, a focus that analysts find positive (Danske Markets, 2009) and crucial after years with intense/massive expansion.

### CAPM methodology

As it is not possible to find a real return on the stocks of ISS; because the company was delisted, the paper will compare the expected return with the actual return on the invested capital (ROIC). The CAPM-formula is used to find the expected return on a risky asset and consists of three components, thus it can be written as follow (Ross, Westerfield & Jordan, 2006, p. 419):

$$E(R_i) = R_f[E(R_m) - R_f] \times \beta_i.$$

The risk free rate of return $R_f$ is found by taking the coupon rate of a Danish government bond maturing in 2019, equal to 4.0 %[12]. The expected market return $R_m$ is found by taking the 5-year-return of the S&P Global 1200 index in the period 2004-2008, equal to 5.43 %[13]. A 5-year-return is used, in order to minimize the effect of market fluctuations, especially the impact of the current financial crisis. The Standard & Poor's Global 1200 index represents seven regional indices, weighted by its individual market capitalization rate, thus the S&P Global 1200 is assumed to be large and accurate enough to represent this factor.

As mentioned in the methodology chapter the beta value of ISS is found by de-levering the beta values of a peer group and thereafter leverage the average un-levered beta to the level of gearing of the ISS. We consider the peer group to face similar business risks, and are therefore symbols of the market conditions that ISS are operating under, thus ISS should have similar asset beta.

| ISS - peer group | | |
|---|---|---|
| **Company:** | **Turnover (DKK millions)*:** | **Beta-value:** |
| Compass Group (London) | 107,505 | 0.59 |
| Sodexo (France) | 101,483 | 0.77 |
| G4S (London) | 55,847 | 0.85 |
| Derichebourg (Paris) | 32,370 | 1.24 |
| Ecolab (New York) | 31,293 | 0.67 |
| Rentokil (London) | 22,646 | 1.44 |
| Davis Service Group (London) | 8,964 | 0.91 |
| | | |
| *Turnover is derived from the 2008 annual reports of the companies, and converted to DKK, by using the average exchange-rate of the year. | | |

Figure 45: Peer group of ISS used for beta-estimation.

The peer group of ISS is expanded to include 7 of its largest competitors on the Global market, amounting to an average beta of 0.92 and 0.37, levered and unlevered respectively. Having found the un-levered beta-values, and knowing the gearing of ÍSS, we are able to compute the leveraged beta value, applying the formula below[14] – the same formula used to de-lever the beta-values for the companies in the peer group:

$$\beta_L = \beta_U(1 + (1 - t) \times (\frac{D}{E})$$

Using the above-mentioned procedure give us the beta value of ISS, equal to 3.27, which is by far the highest beta value among the peers. Now that we are equipped with all of the necessary determinants, we are able to calculate the expected return. Applying the factors to the CAPM formula results in the following expected return:

**ISS:** $\text{E}(\text{R}_{\text{ISS}}) = 4\ \% + [5.43\ \% - 4\ \%] \times 3.27 = \underline{8.67\ \%}$

[12] OMX Nordic Exchange - Bond information: ISIN-code: DK0009922403. August 1, 2009.
[13] Standard & Poors: S&P Global 1200 Index Table. May 30, 2008.
[14] Additional information about the calculations is to be found in the enclosures.

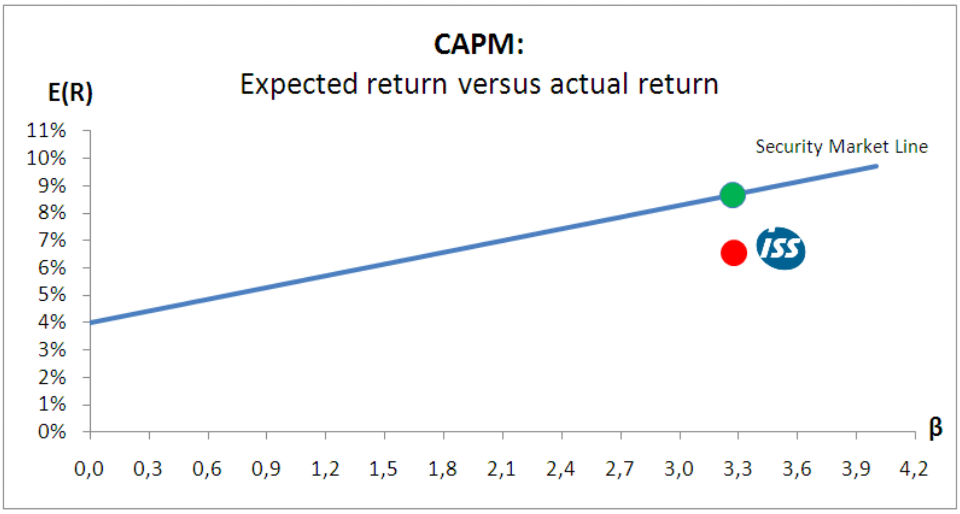


**Figure 46: Expected return vs. actual return of ISS, derived from the CAPM.**

Showed on the figure above, ISS is slightly underperforming. Based on its estimated beta value ISS should deliver an actual return of 8.67 %, illustrated by the green dot. Instead the company is delivering a return of 6.44 %[15], illustrated by the red dot, which is just below the Security Market Line. This actually means that the investors (i.e. the private equity funds) are not sufficiently compensated in regards to the significant credit risk that follows the company due to the company's high level of gearing. However, it is very important to note that private equity investors are different from the traditional investor, as they may be unconcerned about the periodic return during the ownership, since they focus more on increasing the value in company, towards a forthcoming exit.

### 5.2.10: EXIT COMMENTS

On June 14, 2007, a little more than two years after the acquisition, and equivalent to the exit time point of the first case study, the owners of ISS announced (ISS, 2007) that they had starting the preparations of an upcoming exit. The group announced that its owners were reviewing the feasibility of an IPO, most likely within following year. Analysts found the timing appropriate (Gullev, 2007), because the atmosphere on the stock markets was positive and optimistic, and several other IPOs were in the pipeline (e.g. Dong Energy, a Danish energy company). At that time industry experts estimated ISS to be worth as much as DKK 45-50 billion (Joensen & Kastberg, 2007), based on the market values of the time, of comparable companies. A sale to another private equity fund (secondary buyout) was also mentioned as a possible way of exit and several funds showed interest in acquiring ISS. However, shortly after the exit review was initiated, the financial crisis started to stir. The banks started to foresee substantial losses on the housing market, hence the interest rates increased, which implied that the private equity funds were able to borrow less, and consequently many of the funds resigned from the takeover race (Raastrup, 2007). Subsequently share prices started to drop, and by the end of November 2007, ISS conceded that an IPO was shelved

[15] ISS's return on invested capital in 2008, analyzed in chapter 5.2.8.

until a later time (Joensen, 2007). Ever since, on different occasions the owners and the management of ISS have declared that an IPO is still indefinitely postponed (Bjerrum, 2008; Kronenberg, 2009). An IPO carried out under the recent market conditions would not reflect the actual value of ISS, yet the IPO plan is ready to roll out whenever the timing is right and the financial markets have been stable over a period of time. The topic of exit troubles is further discussed and analyzed in the outlook.

## 5.3: SUB CONCLUSION

While there remain distinct differences between the two cases, there are also a number of important similarities. First and foremost the most visible changes for both of the two cases were the changes relating to the financial engineering. Both companies were subject to significant increases in the debt level subsequent to the takeover, including both traditional debt and off-balancing loan taking. The increase in debt delivers a number of added effects as revised in the analysis of the two cases. The increase in debt requires a strong emphasis on cash conversation. This was already a KPI for both companies prior to the takeover but the change in the capital structure meant that the focus became a necessity for the companies.

Beside the expected change of the capital structure after the takeover, several other changes were introduced. The board composition and activity/service was changed, and widespread ownership stakes for employees in management positions were introduced. These engineering initiatives made the governance structures much more dynamic and tailored to the respective businesses, and the co-ownership helped to align the interests of the involved parties. Apparently this was a key element in the success of the two cases and is furthermore something that is quite different from what is seen in conventional companies – at least the scale of the roll-out.

While a significant number of changes were executed in the two areas mentioned above, very few initiatives were introduced from the two remaining pillars of the business model. Instead the focus was sharpened on the efficiency in operations and strategic plans were accelerated, but few visual changes were implemented, due to the fact that both companies were healthy and visionary companies prior to the takeover. Thus the companies were not acquired because they were stagnated or in trouble, on the contrary the takeovers were possible because the previous owners did not understand or valued the companies' performance and strategy.

Both case companies delivered increased growth and operational profits during the period of the ownership; however on the bottom line the heavy financial engineering was reflected. Despite the fact that the company managed to improve many of their performance indicators during the ownership period, none of the two case companies have been outstanding compared to the benchmark.

| | DT Group | ISS |
|---|---|---|
| **Financial engineering** | - Increase in debt (LBO 69 % debt financing).<br>- Debt-equity-ratio increased from 1 to 3.5. | - Increase in debt (LBO 50 %+ debt financing)<br>- Debt-equity-ratio increased from 1 to 9.<br>- Off-balancing financing.<br>- Credit rating down. |
| **Governance engineering** | - Replaced all members of the board of directors.<br>- Maintained executive management.<br>- Introduced MPM.<br>- Delisting.<br>- Increased frequency of board meetings.<br>- | - Replaced almost all board members (more international and industry knowing).<br>- Tried to maintain executive management.<br>- Introduced MPM.<br>- Delisting.<br>- Increased frequency of board meetings. |
| **Operational engineering** | - Improvement of procurement/Sourcing.<br>- Better payment terms. | - Establishment of committees.<br>- Increased focus on communicating KPI's. |
| **Strategic engineering** | - Continuation of previous strategic initiatives.<br>- Acceleration in acquisitions. | - Continuation of previous strategic initiatives.<br>- Acceleration in acquisitions. |
| **Likely ownership impacts** | - Increase in turnover.<br>- Operating margin has increased, assumable due to increased emphasis on cash flow.<br>- Increased ROIC due to Operating profit up, efficiency in supply chain up.<br>- Net income up.<br>- Timing aspect: on level with competitors overall. | - Remarkable increase in turnover (50 % up).<br>- Steady margins, no increase.<br>- On par with benchmark<br>- ROIC constant, still below competitors.<br>- Enormous interest expenses.<br>- Negative net income.<br>- Recent loss of limitation in interest deductions. |

**Figure 47: Sub conclusion – similarities and differences.**

# 6: OUTLOOK

As mentioned in the introduction to this thesis, the discussion on the viability of the business model is to some extent based on the fact that private equity is facing some very tough challenges in the future. The thesis will now go into an analysis of the challenges and furthermore look into some of the possibilities and likely events that also lie ahead of private equity.

## 6.1: LIKELY EVENTS

### 6.1.1: POLITICAL UNREST

In recent years some of the hardest critics on private equity have come from a broad array of the political climate. One of the most prominent critics has been the former Danish Prime Minister Poul Nyrup Rasmussen who through his position as President of PES, the organization for socialists and social democrats, has launched a fierce battle against Hedge funds and private equity firms. He was furthermore, based on his fight against hedge funds and private equity funds named the fifth most influential person in the financial world (Dow Jones, 2009). The reluctance against private equity is linked with an assumption that the funds are only interested in short term capital gains and are thus limiting R&D investments, are initiating wide spread firing rounds and in general are damaging the society as a whole.

Other points of criticism are the lack of openness that surrounds the private equity funds, public opinions have called for more information on the development of the portfolio companies, and if the business model has a more general societal impact, than merely creating a large return to its investors. The private equity should be better at communicating their plans and methods to demystify these, in order to create a better ground for discussion about the subject and to provide an understanding of any potential benefits of private equity. However this is an area where private equity firms are spending quite a lot of effort. All around the world branch organizations have been created to influence the political environment and seek to establish the right conditions for the industry.

The political debate on the matter of taxation of private equity have taken two forms, i.e. the question of taxation of capital gains of the partners of the funds and the use of tax deduction due to high gearing, which is implemented in the portfolio companies, and is therefore based on how the funds conduct and finance their acquisitions. The discussion on capital gains has to a wide extent focused on whether or not this should be regarded as personal income and thereby should be subject to a higher taxation. In UK where this have been a key issue in the debate about private equity a law was passed that increased the rate from 10 % to 18 %. Furthermore a tax bill was proposed in the House of Representatives in April 2009 suggesting that capital gains paid by a partnership in compensation of provided services should be taxed as personal income whereby the rates on capital gains for private eEquity partners would be increased from 15 % to 35 %.

Similar discussions on the implication of the high gearing that private equity funds typically implement in their portfolio companies have been fierce. Therefore a lot of countries primarily in Europe have made limitations in the rules that allow companies to deduct interest payments, and have thereby removed some of the advantages given by high gearing as illustrated in the theoretical chapter with regards to the tax shield. Of course the implications of the change in the fiscal laws are severe for the funds as the gearing plays a significant role in the business model of private equity.

However the main issue for both types of tax changes is the unpredictability. The change in tax rules was not taken into consideration when for example ISS that have been analyzed in this thesis was acquired; however the change in the laws have had a major impact on the deal. Thus a continued political opposition could obviously have a negative effect on private equity.

Nonetheless the tax area is not the only area where private equity firms are experiencing political regulation and increased control. Thus the American Treasury Secretary Timothy Geitner has put forward a number of new initiatives that should limit the risk that private equity creates. These initiatives includes; a registration of all advisers for Hedge Funds, Private Equity funds etc., disclosure requirements, meaning that all advisers should report to the Stock and Exchange Commision (SEC) on the investors and counterparties in order to enable SEC assess whether a fund or a family of funds is to highly leveraged and a Systemic Risk Regulator that should increase financial control of the funds (Holter, Nelson & Irons, 2009).

The above mentioned restrictions on the private equity funds is introduced due to the financial crisis and a governmental objective to limit the gearing that have been experienced in the last years. However the Danish government has already in 2007 looked into limiting other areas of private equity firms, i.e. the government spurred on by the discussions caused by the bonus paid out to former CEO of TDC Henning Dyremose, looked to introduce limitations on the fund's use of "Stay-on bonuses" (Deloitte, 2007). This is a further limitation on the methods applied by private equity funds and can be a sign of a continued hostility towards private equity.

#### 6.1.2: ECONOMIC CRISIS

Spurred on by the financial crisis a global economic crisis has emerged. This is in short due to the fact that companies have experienced a sudden lack of credit facilities, while it at the same time has limited the demand in the markets. This has been and will continue to be hard on companies around the world; however companies owned by private equity funds will in general feel the economical crisis harder than their peers. This is mainly due to the high gearing that is often attached to portfolio companies. The economic crisis has led to a sharp decrease in the earnings of most companies, which means that portfolio companies will experience greater difficulties with complying with the covenants that is linked to the loans of the companies. Thus studies show that in a worst case scenario around 20-40 % of private equity owned companies could default on their debt within the next two to three years (Meerkatt & Liechenstein, 2008).

In addition to the overall effects of the economic crisis some private equity funds with strong exposure to cyclical companies will be even further influenced by the crisis. Examples of cyclical portfolio companies include DT Group, which however was exited before the current crisis started. Nonetheless an analysis delivered by Børsen show that the Danish private equity firms are heavily exposed to cyclical companies, which can become a significant liability for the companies (Friis, Risom, & Leisner, 2009).

Nevertheless the danger for the private equity firms is limited since the leverage is connected to the funds, while the actual firms do not have any significant debt. However the success of the funds to a large extent depends on its reputation, which means that a high number of defaults can lead to a situation where investors will be reluctant to invest in that specific fund, and will rather turn to a fund with a better track record. Additionally as the private equity sector has entered a phase of maturity the cost of running a private equity firm has increased dramatically, so if a fund experiences a situation where a number of portfolio companies cannot be exited or even defaults it could lead to a default on some private equity firms.

### 6.1.3: FINANCING ISSUES

The impact from tax initiatives against the private equity industry, have a substantial impact on the business model, as it affect both engineering executed in the portfolio companies, as well as the underlying private equity firms and their partners. However, political opposition is more importunate, although the discussion may be heating up in times when the financial turbulence dominates and financial institutions and players are accused for greediness. Besides the subject of taxes, another matter related to the financial engineering is the financing itself.

Times with financial crisis entail several issues for the private equity industry. Some framework conditions have already been changed, but other factors are expected to change as well, in light of the current crisis and the loss of the banks. First of all the private equity firms are facing trouble regarding their loan taking, as the banks have become more reluctant to lend out money. Industry people are expecting, that the banks are likely to require a higher equity investment from the private equity funds (Lindeløv, 2009), than what they have been used to until now. As it was seen in the case studies, both companies increased their gearing notably and the equity in proportion to the debt declined a lot. Especially in the ISS case, where the company's debt exceeded the equity by almost 9 times in the last financial year. In the future banks may require private equity funds to put in 50 % of equity, because the banks' willingness to take risks has obviously declined over the last couple of years (Danilyuk, Daly, et al., 2009). The possibility to do financial engineering will not disappear, since the bank's business model consist in lending out money, but the scope of gearing will probably decline towards a more cautious and controlled gearing position.

As mentioned earlier, the financial crisis has resulted in an economic crisis, which has put the profit performance in the portfolio companies under strong pressure as the sales have dropped in almost every industry. Consequently, several companies backed by private equity funds, have not been able to cope of with the covenants agreed with the banks. When a company violates the covenants, the banks have the right to redeem the loans, or require the funds to put in additional equity. In addition to increased equity requirements, the interest rates of the loans have also gone up. Like it was seen in the ISS case, the 2009-refinancing of the large bond loan, was issued at 11 % versus 4.75 % before the refinancing. Related to this, the relationship between the banks and the private equity funds have changed recently, implying more expensive credit facilities. In the beginning of 2009, when the financial crisis was at its worst and many banks were suffering and delivering enormous losses, many banks took the opportunity to increase the fees on short-term facilities. The golden days with cheap loans and lucrative loan terms seems to be over – at least for a while. One UK-based private equity firm experienced that the annual renewal-fee on their £40 million overdraft facilities increased tenfold, from £50,000 to £500,000, while another fund experienced that its interest rate doubled.

In the case of ISS, the outcome of the refinancing process was successful, but ISS is certainly not the only private equity owned company, that had maturing debt drawing near. As seen in the figure below, a substantial amount of debt will be maturing over the next five years. This is a result of the high level of activity and the many buy-outs carried out in the middle of the current decade from 2003 to 2006, as it was described in the first part of this thesis. In total the world's largest private equity firms are having a debt of approximately DKK 2 trillion (US $400 billion) that needs to be repaid or refinanced over the next five years (Saigol & Arnold, 2009).

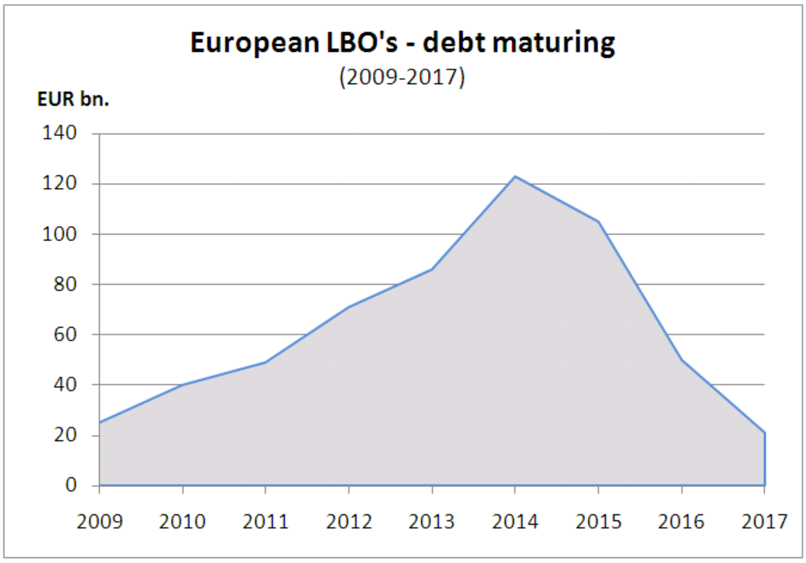


**Figure 48: European LBO's - debt maturing from 2009-2017.**

In connection with the rise in the financial costs, and the forthcoming refinancing, it is relevant to look at the development in the financial markets. The iTraxx Crossover Index is a way to determine the risk of default, by measuring the costs of insuring a "basket" 45 European low-rated bonds (below "BBB-") against default. The development in this index is crucial to the upcoming debt maturity, as the level of this insurance premium is indirectly influencing the price of refinancing. The credit crunch has entailed that the price for insuring the default risk has increased dramatically concurrently with the magnitude of the financial crisis, from a level around 200 basis points in May 2007, jumping to 350 when the first shocks started to show July 2007 (BCG1, 2008). In March 2009 (Johnson, 2009), when the financial crisis was at its worst, the index reached a record wide level of 1100 basis points, meaning that investors had to pay an insurance premium of 11 % annually to insure for five years against default of the bond. The high level of the index has pushed the refinancing costs for leveraged buy outs to record heights, but during the summer of 2009, when large scale bailout packages by governments started to show their effects, the default risk has declined gradually, and reached a level around 600 basis points in September 2009[16].

The recent changes in the general financial climate with diminishing recession and increasing stock prices, together with the movements in the iTraxx index could indicate that the financial and economic conditions have started to make progress. In June 2009 the European high-yield bond market showed positive headway with a successful launch (Hughes, 2009) of the first private equity backed bond since the crisis begun in 2007. In July 2009, the Eurozone reported little growth in the lending to private consumers (Reuters, 2009), and forecasted a turning point in the lending to businesses, as well as the strict loan conditions (Atkins, 2009), that have emerged from the financial crisis. Also, when looking at the Danish bank's lending to corporations, the curve started to levels off in May 2009 and stayed at a

[16] MarkIt iTraxx Indices: Crossover 5Y. 1 September 2009.

constant level through the summer of 2009 (Nationalbanken, 2009) after six months with decline.

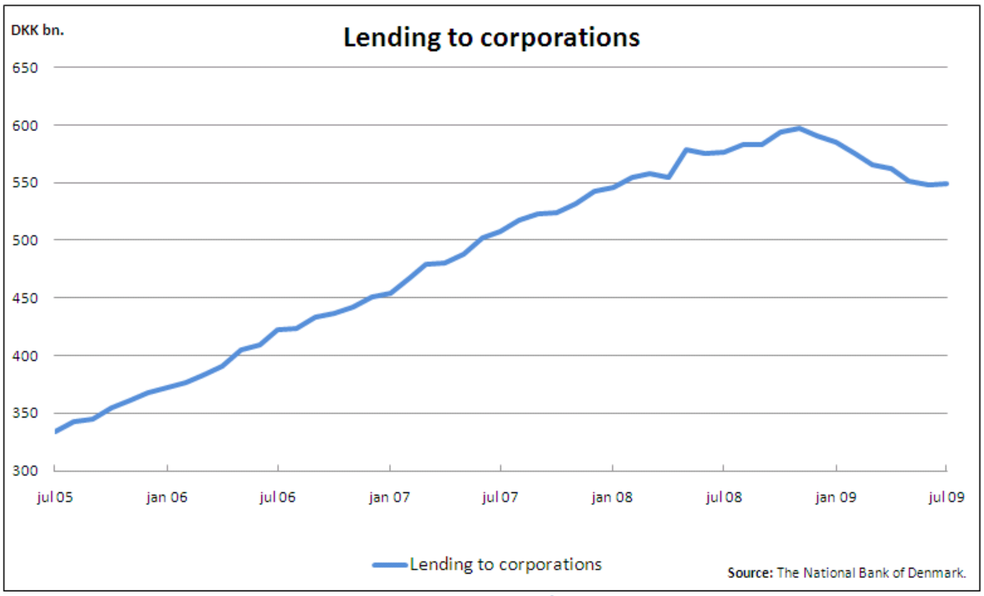


Figure 49: Lending to corporations from July 2005-July 2009.

These statistics could support the statements that the banks' loan readiness is increasing. However, several participants from the private equity market estimated that leveraged loan market still had a long way to go to recovery (Haywood, 2009), as many financial institutions have adopted new loan regulations in the wake of the credit crunch.

Depending on how the financial markets will evolve over the next couple of months and years, and in particular towards the private equity firms. Both private equity representatives, industry analysts (Friis, 2009) and banks, do not expect that golden years with exaggerated loan taking to incredible low prices will not return. Some analysts (Haywood, 2009) predict that the leveraged loan capacity will utmost return to a third of what it was when the LBO-market boomed. Still, the majority of the private equity industry is convinced that the refinancing will succeed, but it may be likely that some private equity firms will have to look for alternative ways of financing, like it was also seen in the ISS case, and there is a chance that the funds will have put new or additional equity into the portfolio companies; which will cannibalize part of the return. The private equity firms are of course aware of the changed loan markets, hence many of them have started they refinancing process (Saigol & Arnold, 2009) early like ISS did.

### 6.1.4: DIVESTING TROUBLES

Another important impact of the financial crisis is the lack of exit opportunities. Recap from the theoretical framework in chapter 3, private equity funds can exit their portfolio investment by the use of four different exit methods: IPO, industrial sale, financial sale or bankruptcy. Of these four divestments methods, sale to an industrial player was the most prevalent when looking at number of investments. Industrial sale was also the case of DT Group, in which the UK-based building material distributor Wolseley acquired the company. However, initial public offering is also an essential exit opportunity, and do account for a significant proportion of the total exits, measured in amount of money. For some private equity investments, IPO is more likely than industrial, for instance in the ISS case, where sale to an industrial player is unlikely to happen because of the dominant size of ISS. As mentioned earlier, ISS was planning on an IPO in the summer of 2007, but due to the financial turbulence the re-listing was temporary abandon.

In the beginning of 2007, partners from large private equity firms admired the IPO way of exit and expected that the share of buyouts being divested by an IPO would increase during 2007 (Friis, 2007), due to a more attractive share market and higher pricing. However, the credit crunch reversed the situation completely. On the whole, the market for IPOs has been static since the financial crisis broke out, just as it was the case for the high-yield loan market. The global stock prices declined dramatically during 2007, 2008 and the first quarter of 2009, consequently the market valuations of corporations have dropped, also decreasing the potential pricing of an IPO. Because of this, most private equity firms have postponed an IPO of their investments.

As analyzed in a chapter 3.7: Exit strategies, latest studies have proven that IPOs of portfolio companies have outperformed other IPOs, so with the past performance in mind, investors have historically speaking rewarded the work of the private equity funds. Recently there have been indications that the IPO gates, concurrently with the stabilization of the loan markets, have started to open after two years of silence. Hence KKR, one of the largest private equity firms, announced that it intend to take up to six of its investments public before the end of 2010 (Arnold, 2009). This could be a sign of upcoming exit possibilities for the private equity funds, still it is very dependent on how the investors welcomes and values the IPOs from the private equity firms.

### 6.1.5: DEFAULT OF PRIVATE EQUITY INVESTMENTS

Throughout the past year, many firms backed by private equity funds, have been hovering between survival and extinction. A 2008-study from Boston Consulting Group (Meerkatt & Liechenstein, 2008), based on the research of 328 portfolio companies, anticipated that up to 50 % of these were in danger of defaulting during the next three years, since its debt was trading at distressed levels. This development is caused by a general rise in the risk of default, and in addition to this the economic crisis has also hit the private equity investments, as mentioned previously in this outlook. Especially the firms operating in the retail industry have experienced large drops in revenues and earnings, as the demand from consumers have dropped sharply.

In many cases (Risom, 2008) this has provoked the private equity companies to violate the financial covenants, which have subsequently triggered the banks to tighten their lending standards and possibly increase the interest rates on the loans. Such actions may worsen the situation in the portfolio companies, and in worst case the private equity funds might decide to leave the investment to sink. As stated earlier in the theoretical framework, the funds are not obligated to supply additional capital, as the legal setup limits the liability, and the current financial situation has giving rise to several examples of this.

In December 2008, the Danish discount furniture chain Biva filed for bankruptcy, since the company was not able to pay its interest expenses because of decreasing earnings. The two private equity firms, which owned the company, Odin Equity Partners and Dania Capital, could not agree with the banks about a financial restructuring, and was not interested in supplying additional equity to the company. As a result of this (Odin EP & Dania Capital, 2009), Biva was ceded to the bank Straumur, who financed 70 % of the buyout in 2006, amounting to DKK 500 million. The two private equity funds committed a loss of DKK 158 million. A similar example was seen with the bankrupt of the Danish manufacturer of sportswear, Buksesnedkeren. In February 2009, the British private equity fund, Change Capital Partners refused to supply additional equity, and noted a loss of DKK 110 million. Danske Bank, who financed the remaining DKK 170 (60 %) of the leverage buyout, subsequently sold off the company in pieces, but with a considerable loss. Bodilsen, a Danish furniture manufacturer suffered a similar fate, when the Nordic private equity fund EQT, let the company go bankrupt with an investment loss of DKK 135 million. Once again, Danske Bank had to write off another big loan, amounting to DKK 220 million (Hansen, 2009).

The three examples above are clearly showing the trouble of the high leveraged private equity investments, in particular the cyclical ones and the banks are ending up with loses or ownership. Similar consequences are seen in the United Kingdom; hence almost 70 % of the buy-out exits carried out in the first half of 2009, ended in receivership – very different from the exit allocation explained in the theoretical framework. Out of 108 divestments in total, nine were sold to financial buyers and twenty-five to industrial buyers, but seventy-four went bankrupt.

### 6.1.6: FUTURE MARKET OPPORTUNITIES

In spite of the current financial and economic crisis it is not all bad for the private equity funds. While the crisis has put pressure on the portfolio companies, it has also imposed significant decreases on the prices of companies in the market. Furthermore the last year's uncertainty has led to a halt in private equity investments, thus 2008 represented a 72 % decrease in investments compared to 2007 (Davies, 2008).

However while the volume of capital raised during 2008 was obviously affected by the crisis, the funds were still able to raise more than $200 billion during 2008, and the capital raised in total was, primarily due to a good first half of 2008, the second highest ever (Preqin, 2009). This means that a lot of liquid capital remains in the private equity funds, Boston Consulting Group reports that a total of USD 300 bn. remains with the private equity funds (BCG1, 2008). This provides the private equity funds that have this liquid capital, also known as dry powder with an exceptional possibility to use the crisis aggressively.

Nevertheless the private equity funds face significant difficulties with raising any debt due to the financial crisis, which therefore eliminates or at least decreases the possibility of entering into any form of LBO's. However the current situation opens up for an array of other possibilities for corporations with liquid capital. Thus the debt that the funds raised in the bull markets of 2006 and 2007 are now in many cases highly distressed (Meerkatt & Liechenstein, 2008), and the banks that were involved in facilitating the debt used in the LBO are now in need of liquid capital (Economist, 2008). This leads many private equity funds to take debt of the hands of the banks at a relatively large discount on the face value; estimates go for sales prices around 70-80 % of the face value.

In a more long term perspective it is expected that the funds will take advantage of the combination of high levels of liquid capital and cheap companies to win back some of the lost terrain that the crisis has caused. The future investments can be directed towards both public companies, and especially portfolio companies of other private equity funds that have been geared to aggressively and can now be taken over at a premium (Danilyuk, Daly, et al., 2009). This will most likely act as a contributing factor to the consolidation of the sector, which the thesis will go into debt with later in this chapter.

## 6.2: HYPETHETICAL EVENTS

### 6.2.1: CONSOLIDATION OF THE SECTOR

As mentioned above the current situation could lead to a situation where the private equity sector enters a consolidation phase. Throughout the last couple of years the number of private equity firms has risen steadily due to the beneficial market conditions in recent years. However the current financial crisis has forced the executives of private equity firms to reconsider the future of their companies, thus 79 % of the managers in a survey consisting of 700 private equity firms expected a consolidation of the industry in 2009 (Arnold, 2009). There are different reasons why the companies would want to consolidate; for the poorest performing funds a consolidation will offer them an opportunity to start out with a fresh back ground. However the poor performance of some funds can also lead to the better performing funds simply purchases the portfolio companies of the poor performing funds at a significant premium, and thereby making them redundant as they are not able reinvest the capital. Additionally funds with excessive liquid capital can buy into listed private equity firms such as Blackstone and 3i as the share price for these firms has been taken down along with the rest of the market.

In general there will be a phase where the number of private equity funds, as well as firms will be limited, not due to actual consolidation but rather because the market conditions simply cannot sustain the current number of players on the private equity market, which has risen dramatically during the last couple of years with favorable market conditions.

### 6.2.2: STOCK MARKET LISTING OF PRIVATE EQUITY FIRMS

In the beginning of this millennium a number of the largest private equity firms began, inspired by the successful listing of Goldman Sachs in 1999, considering being listed on the stock market. The consideration was raised as some of the firms had been on the market for around 50-60 years and had reached a state of maturity, which meant that the owners were looking to monetize on their investment. 3I Group was listed in 1987, but was a special case due to the previous ownership by the Bank of England. Therefore Blackstone was regarded as one of the first major private equity firm to be listed in 2007 (Anderson, 2007). The listing opened for speculations that others large players on the private equity market would follow suit with an IPO. The matter of an IPO is however a complicated matter, which entails a lot of dilemmas for the fund managers, first of all the short term objective of return that many shareholders has. This could lead to the same problems that other public companies face where investments that have a long term perspective might now be taken, due to the fear of short term losses. This view was for example put forward by one of the founders of Carlyle Group David Rubenstein who said: “You might be tempted to sell a company prematurely to show some earnings for the benefit of the shareholder. If you held on to that two or three more years, you might have been able to earn more for your private equity investors. That has been the dilemma” (Heath, 2007).

However the concept of a listed private equity firm would be an answer to some of the criticism about the lack of openness by the private equity firms, as they would suddenly be forced to comply with the standards of the stock markets. In 2007 Deltaq, a Danish private equity firm became the first listed private equity firm in Denmark (Lindeløv, 2009). Deltaq has proclaimed that it will be open-minded towards the public, and that it will not maximize returns through aggressive gearing. Instead it will seek to create value through the active ownership, and by capitalizing the company’s industrial and management skills. Overall the trend towards listing of private equity firms will in our view continue, but it has probably faced a setback for many years, due to the nervous market conditions recently.

### 6.2.3: IMITATION OF PRIVATE EQUITY FIRMS

Through the last decades private equity ownership has proved able to deliver consistent good returns, often through acquisitions of inefficient public companies. Therefore a relevant question is why public companies do not apply the tools that have proven successful for the private equity firms?

However the answer is that not that simple, since much of the engineering is not possible for public companies or will not be accepted by the owners. The financial leverage is often held as the most prominent tool of engineering for the private equity funds, but this will most likely be rejected by the owners i.e. the stockholders of a normal public company, due to risk aversion. Furthermore the sense of urgency that the temporary ownership delivers to the company is also difficult to recreate in a company that does not seem to have an apparent time horizon attached to it. This is also another reason why aggressive leveraging is not widespread for public companies, as they do not have the incentive to implement changes in the same pace as private equity owned companies have, which means that debt can be taken in smaller portions and digested before entering into new affairs. The stock market in itself is also a very good reason why the sense of urgency is not desirable for a listed company, due to the fact that the market forces awards companies with long term stable growth and punish companies that are more volatile.

Active ownership is another key element in the business model of private equity; however the dispersed ownership of public companies more or less eliminates the possibility of this. To some extent a form of active ownership can be created by the board of directors having large equity stakes, but this will still be active ownership without the majority of the owners. However a revision of the boards could also play a role in improving the co-operation between the board and the management, as the long retention period in some boards threatens to remove the dynamic of the board.

In general the public companies have moved towards adopting some of the engineering from private equity funds, though at a more subtle scale. This can in the future put pressure on the funds as the competition for good deals will be intensified, and the initial benefits that can be created subsequent to a takeover by a private equity fund may be more difficult to create as the operations of conventional public companies are made more efficient.

# 7: CONCLUSION

Based on the analysis provided in this thesis we are convinced that the business model of the private equity funds is viable in the future in spite of the many challenges that it is facing. However the business model which has stayed relatively unchanged for the last decades will need to be altered in order to correspond to the ever changing conditions of the business environment.

We decided to analyze the following four elements of the business model: Financial, Governance, Operational and Strategic engineering, and we found that some of the value drivers of the business model are getting less important, while other value drivers are gaining ground. Namely the area of governance engineering is getting increasingly more important, while at the same time this is an area that is not easily replicated by public companies, due to the dispersed ownership.

The analysis of the two case companies, DT Group and ISS, proved some of the strengths in the business model, but it also pointed out changing market conditions, triggering a shift in the importance of each of the four main tools. The majority of the findings in the case studies were clearly in line with the theoretical framework of the thesis; hence the engineering carried out by the private equity firms had the expected impact on the development and performance of the case companies.

In both case studies, the area of governance engineering appeared as a field where private equity ownership has one of its main advantages, thus major changes and performance effects were seen in both cases. The strengths of the governance engineering entail a quicker decision making process, as the board is no longer just representing the owners, but are in fact the owners. This takes away a great part of the inefficiencies linked to principal-agent problems. Furthermore the alignment of the interests of owners and the employees is also adding to the strength in this pillar of private equity funds business model, as the employees to a greater extent is incentivized to achieve the objectives set up by the board, as they know that they too will gain from it. From the analysis it emerged that the financial performance was to some extent correlated to the changes in governance structures.

The temporary ownership of the private equity funds also deliver a sense of urgency that means that the owners facilitate an acceleration of value adding initiatives, compared to most public companies where there investors value stabile growth. This was seen in both case companies, who experienced significant growth subsequent to the takeover, which was attributed to an acceleration of acquisitions, efficiency improvements and entry on new business areas, in order for the funds to quickly achieve the growth objectives. Yet the growth was not unique to the case companies, as the development and financial performance were in both case companies on par with the benchmark. Especially in the case of DT Group, it was seen that the company's benchmark experienced a very similar development, indicating that a greater part of the value creation could be attributed to favorable market conditions, and not necessarily the change in ownership.

Moreover the business model of the private equity funds is put under pressure by a number of external factors. In the current financial situation with volatile stock markets and frozen credit markets the temporary ownership becomes a liability for the business model of private equity funds. The limitation in divestment possibilities means that the return is weakened, the longer the ownership period exceeds the preferable ownership period of 3-5 years. This was seen in the case of ISS where an imminent IPO during 2007 had to be delayed as it was assessed that an IPO could not be carried through successfully. This exemplifies clearly the importance of timing.

As it was analyzed in the theoretical framework and the two case studies, the former most important tool, financial engineering is subject to unfavorable legislation, resulting in limitations on interest deductions, thus also higher taxes. In times of financial crisis, with increasing interest rates and reluctant banks this "classic" private equity tool is losing even more value. Moreover, the financial engineering is not a unique tool compared to public held companies. Empirical research showed that value creation attributed to the financial component was less than 20 % of the total value creation. In line with this, the Capital Asset Pricing Model (CAPM) showed that ISS was underperforming with regards to its gearing and systematic risk.

The high leverage necessitates a certain cash flow level, which makes the portfolio companies relatively more vulnerable than their peers in the current economic situation. This is due to the fact that a decrease in sales volume can put the interest coverage under pressure, as lower volumes will tend to reduce the operating profit (if operations are not made even more effective). The interest expenses will on the other hand not decrease proportionally with the revenues, thus head room between interest coverage and the covenants is crucial. The level of the financial costs may even increase, as the interest rates of the loans may increase during a refinancing process, since the firms backed by private equity firms are exposed to a higher risk, due to high leverage. This may lead to an increased number of defaults for the portfolio companies or at least force the funds to invest more capital in to the companies, both things that will decrease the return delivered by the funds to their investors. This will therefore most likely lead to increased capital requirements by the bank, speculations go that banks will not deliver more than 50 % leverage, thus limiting the importance of leverage in the business model of private equity.

Still, the analyses clarified that there are some important indirect attributes linked with leverage, because the high gearing demands a constant focus on the cash flow in order to pay the ongoing interest expenses.

The financial crisis puts the business model of private equity funds further under pressure through diminishing or at least limiting the possibility of exiting the portfolio companies as mentioned above. This is a great problem for the funds as they will not be able to deliver the promised return to their investors if they cannot sell their companies. The current situation is however unlikely to continue for long, but nevertheless for the foreseeable future prices demanded by private equity funds will be at a considerable lower level than seen before.

The current development have illuminated the weak sides of private equity, and the funds will in the future look to strengthen their positive aspects such as active ownership in order to continuously be a part of the investment possibilities. Nonetheless the financial crisis also brings with it possibilities for private equity, as weak markets and lower valuations also apply to other companies, that are looking to divest some of their business divisions. This opens for a lot of business possibilities for funds with “dry powder” as they can acquire new portfolio companies at lower multiples. More alternate areas could be that funds facilitate governments as a financial partner on infrastructural projects, or buy debt from under pressure banks at a significant discount.

The possibilities are vast, but continued success and justification for private equity lies in the private equity firms’ ability to adapt their business model to the changing market conditions. Moreover the private equity firms need to evolve and capitalize on the positive elements in the business model, especially the area of governance engineering.

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## APPENDIX 1: KEY RATIOS

$$EBIT - margin = \frac{EBIT}{Turnover}$$

$$Operating\ Margin = \frac{Total\ Profit\ from\ Operations}{Turnover}$$

$$Solvency\ ratio = \frac{Total\ Profit\ from\ Operations}{Net\ financing\ activities}$$

$$Debt - equity - ratio = \frac{Interest - bearing\ liabilitiess}{Equity}$$

$$Debt - asset - ratio = \frac{Interest - bearing\ liabilitiess}{Operating\ assets}$$

$$Interest\ coverage = \frac{Total\ profit\ from\ operations}{Net\ financial\ items\ after\ tax}$$

$$ROIC = \frac{Total\ Profit\ from\ Operations\ (after\ taxes)}{Average\ invested\ capital}$$

$$ROIC^{*}(without\ other\ profit) = \frac{Operating\ Profit\ after\ taxes}{Average\ invested\ capital}$$

$$Net\ finance\ costs = \frac{Net\ Financial\ Items\ after\ Tax}{Average\ Net\ Financial\ Liabilities}$$

$$Profit - margin = \frac{Net\ income}{Turnover}$$

# APPENDIX 2: GUIDING THEMES FOR PERSONAL INTERVIEWS

### GENERAL QUESTIONS:

- What have been the major changes after the acquisition?
- How frequent and close is the contact and dialog with the PE partners?
- What unique tools have the new owners introduced and implemented?
- What is the most visible difference, regarding the new ownership?
- Hypothetical question: In what way have the owners acted differently, than if ISS have still been publicly held?
- What are the major victories, which can be directly attributed to the difference in ownership?
- In what way have the delisting from the stock exchange changed the work?
- How is ISS affected by the current financial situation?

### FINANCIAL ENGINEERING:

- In what way have the choice of and focus on capital structure been more important after being acquired by ISS Holding? (the net debt has increased steeply)
- Have the financial focus point's changed after the acquisition?
- Analysts indicate that your loan covenants are very restrictive? Furthermore some analysts claims/worry that you may not be able to maintain the covenants? Has it been more difficult than expected to pay off the debt?
- Concerning your primary loan facility (the Euro-loan with maturity in September 2010), what are your expectations of the new loan-agreement?
- What consequences have the changes in the fiscal laws entailed? (Thin capitalization, limitations in interest deductions etc.)? [TDC estimated that the new regulations would cost them 1.2 billion annually]?

### GOVERNANCE ENGINEERING:

- How close are the board of directors and the management board working together? On a daily basis or monthly, or only through board meetings?
- Have you experienced a change in the incentive scheme offered in the company, and in what ways?
- To what extent have external industry experts been involved at board level?
- Performance indicators (KPI's)
- Ownership share

### OPERATIONAL ENGINEERING:

- According to your business values, "Cash conversion" is your 1st priority? How is this executed in the day-to-day operations? Optimization of terms of payment (debtors and creditors)??
- The operating margin is your 2nd priority, how is this visible and executed? (in the latest quarterly financial statement, the operating margin decreased slightly).
- Have there been introduced any new KPI's? To help controlling and developing the business?
- Has there been increased emphasis on more detailed and frequent reporting to the board?
- Focusing on the first 100 days after the acquisition? Were there made any quick and major changes of processes, routines etc.?
- To what extent have external industry experts been involved in the day-to-day operations?
- How do ISS attempt to improve its operations? (the "best-practice" concept).
- Focus on capital employed? New working capital?

- Have there been staff reductions on top- and mid-level, due to restructuring and new organizational structure?

**STRATEGIC ENGINEERING:**

- With a view to the new ownership method, have the work with strategy changed?
- Has the change in ownership influenced the decision to change/expand the product mix (re-establishment of the security division)?
- Has the change in ownership influenced the decision to develop the international expansion (especially regarding the decision to enter the US again)?
- Has ISS outsourced any support activities after the takeover (invoicing, etc.)?

# APPENDIX 3: INTERVIEW WITH ERIK BALLEBY (EB), FORMER BOARD MEMBER OF DT GROUP

**June 15, 2009.**

*Interviewer: Så kører den…*

*Interviewer: Øhhm, hvad siger vi så. 33 68 68 01.*

EB: Erik Balleby

*Interviewer: Hej Erik, du taler med Jacob Pedersen*

EB: Ja, hej Jacob.

*Interviewer: Hej Erik, har du tid nu?*

EB: Ja det kan du tro – øjeblik, jeg skal lige lukke et par døre.

*Interviewer: Ok, helt i orden.* [Jeg har nogle studerende….]

EB: Ja, så er jeg her.

*Interviewer: Du er på højtaler, så vi er begge to med.*

*Interviewer: Men det var mht. til DT group, som vi nu er gået inde og kigge på og analysere i dybden, sammen med ISS for at få det timing ind, som vi bl.a. diskuterede med dig. Og vi havde et rigtig godt møde med ISS i sidste uge, og har et [møde] senere i denne her uge også. Så der har vi fået noget spændende information i hvert fald. Og det vi talte om sidst, har vi så brugt mere generelt i vores teoretiske framework, for at se hvilke værkstøjer i typisk anvender. Og så henvist til EET casen som eksemepel. For vi kører med en masse eksempler, men så har vi 2 hovedcases, og der er DT group så den ene…. Og der var du så med i bestyrelsen i en årrække?*

EB: Ja.

*Interviewer: Kan du sådan lige kort fortalt ridse op, da I købte den. Var du med inde over købet med CVC dengang?*

EB: Ja

*Interviewer: Og I gik ind og overtog den?*

EB: Det var et bud. Det var jo en børsnoteret virksomhed. Som hvor der lå et offentlig bud, jeg ved ikke om I kan finde det på internettet stadigvæk. Men der lå et offentlig bud på den. Som var betinget på flere måde, og det var noget med at aktiekursen lå omkring 130-135 da vi kom ind, øhhm, og vi endte op i at give 170 per aktie. Så der var den der overpris, og lidt afhængig af hvad tidsperiode du tager, så var den større eller mindre, men en rimelig god overpris. Og den var så betinget af en masse ting, herunder at vi opnåede 90 % af tilsagnene.

*Interviewer: Så I Kunne afnotere den?*

EB: Så vi kunne afnotere den ja, og så vi kunne få sambeskatning. For på det tidspunkt skulle man eje 100 % for at få sambeskatning, de regler er så lavet om siden.

*Interviewer: Ja, de er så ændret. Og det lykkedes så. Og så var du med inde over det daglige arbejde?*

EB: Ja, i starten var jeg – altså set fra fonden var jeg da. Men jeg var rent faktisk også derude til at assistere dem omkring nogle ting i de første par måneder.

*Interviewer: Okay. Og hvad skete der, hvis man ser på det, hvad var de største ændringer der blev lavet, umiddelbart efter overtagelsen?*

EB: Hmm, det var nok, at kva du havde fået akvisitionsfinansiering i, så skulle der noget mere rapportering til bankerne, plus du har hele denne der bankpakke omkring sikkerhed osv., der skal implementeres. For det er jo den meget modsatte ting af hvad der sker når du normalvis køber en virksomhed. Du kan jo ikke gøre noget som helst, før du ligesom har overtaget virksomheden. Fordi det er en børsnoteret virksomhed, og du ved ikke om du får de 90 %. Så efter budet var i markedet, var det 8 eller 10 uger, hvor folk [aktionærerne] har til at beslutte sig for om de vil sælge, ja eller ej. Og der kan du selvfølgelig udefra begynde at forberede dig, men du kan ikke ligesom, hvis du køber en unoteret virksomhed, hvor du sammen med ledelsen kan begynde at forberede, og hvis du allerede har underskrevet kontrakten, så går der selvfølgelig 4-5 uger inden du overtager den, men der kan du forberede en del. Det kan du ikke når det er en børsnoteret virksomhed. Og i det hele taget er der en stor ulempe, at du indtil du har gjort stemmerne op, den aften hvor buf/accept-fristen udløber, der kan du reelt ikke gøre noget som helst, for du ved ikke om du har overtaget den. Så derfor, lige derefefter var der en masse ting der skulle på plads, omkring hele finansieringen og bankfinansiering osv.

*Interviewer: Så skal I selvfølgelig hele tiden løbende rapportere ind til bankerne, med de forskellige kvoter (covenants) som I skal overholde?*

EB: Ja, det er jo de coventants som vi skal indrapportere hvert kvartal.

*Interviewer: Men hvilke ændringer, var de store? Selvfølgelig blev den afnoteret. Men hvad med operationelle ændringer?*

EB: Det var måske mere rapporteringsiden. Operationelt kan du sige – der var reelt ikke så mange ting. Ledelsen var godt i gang med at gennemføre de ting de skulle gennemføre, men hvor vidt vi sat turbo på nogle ting, og der var større forståelse fra en kapitalfond omkring hvad der skal foretages – det er nok en anden side [af sagen]. Og der kan du sige, de ting som man bl.a. gennemførte, hvor vidt de var blevet gennemført, om vi havde været der eller ej.

*Interviewer: Men det ligner at det er blevet accelereret lidt, både med opkøb og forskellige andre ting?*

EB: Ja, du kan sige. Det man ret hurtig igangsatte. Man købte nogle byggemarkeder og dem har man altid ligget og købt. Men som aktionærer var vi absolut meget Pro at vi skulle foretage de her opkøb. Det havde trælasten måske nok gjort alligevel. Men så hele indkøbssiden, der kom nok lidt mere turbo på – det var nok én af de ting, hvor udviklingen skete hurtigere ved at det var en kapitalfond der var inde over.

*Interviewer: Men fokus på udvikling af indkøbsiden var allerede gået i gang?*

EB: Ja, men nok ikke i samme tempo. Men igen hvis du spørger Steen weirsøe, så ville han sige, "det havde vi sgu gennemført alligevel". Der blev sat fokus på indkøbsbetingelser, færre leverandører, større volumen til de enkelte leverandører. Altså noget som man også ser andre steder, men det var nok det man sat turbo på. Der var i hvert fald meget fokus på det fra CVCs side.

*Interviewer: Det var der man mente at der kunne skabes noget mere værdi?*

EB: Ja.

*Interviewer: Okay, men Steen virker også rimelig begejstret i de case-studies der er, over at blive af overtaget [af en kapitalfond] og over at blive afnoteret. Han udtaler at arbejdet var blevet bedre bagefter, og nemmere?*

EB: Der kan være fordele, nu ved jeg ikke hvad ISS siger, men der kan være fordel ved ikke at være noteret. Steen var jo vant til at hver eneste gang han foretog sig noget som helst, så skulle der en pressemedd. Ud, og hvis han også ville lave store opkøb, så skulle han tænke finansieringsbaner. Kunne han enten klare den ved fremmedkapital, eller skulle han have egenkapital, så var det en ny emission på børsen. Hvorimod, under CVC-regi, hvis vi ville købe noget til, så kunne CVC komme med pengene. Så der er nogle ting som gøres lettere for en direktør, så det kan jeg godt forstå hvis han siger det. Og det var da en ændring for selskabet, de vidste at hvis de havde behov for penge, så var der en rig aktionær der var klar til at komme med flere penge. For i skal også tænke på hele baggrunden for, at de store aktionærer ville afhænde deres aktier. Dybest set var Codan jo storaktionær i dansk trælast

*Interviewer: Ja, de ejede størstedelen af aktierne.*

EB: Ja, men de klarede den så fint, men de var presset, fordi deres moderselskab, Sun alliance i england, manglede penge. Og det var klart, at hvis steen sad og kiggede derude, og sagde, nu vil jeg gerne købe en stor norsk kæde op´, tror I min storaktinoær vil komme med penge. Så måtte han sige, Codan ville nok ikke, uden at jeg ved det, for sun alliance var faktisk i markedet for at sælge aktierne. Så det er klart, der sker noget, og det er en voldsom fordel for sådan et selskab.

*Interviewer: Så da I gik ind og overtog, var det mere med henblik på at udvikle og hæve [udvide] forretningen?*

EB: Ja ja, der blev lagt en meget ambitiøs plan om at man skulle nå, var det 25 mia. kr. i omsætning,, i løbet af x antal år. Så¨der blev lagt en meget ambitiøs plan på omsætningssiden, som skulle komme via organisk vækst, men også komme via store og små opkøb. Og de små opkøb kunne være i Danmark, eller andre steder hvor man på landkortet manglede nogle butikker, i nykøbing eller et eller andet – lidt mere selektivt. Og så kunne det være nogle store kæder, herunder i norge, hvor DT traditionelt har været dårligt representeret .

*Interviewer: Men steen, nej undskyld erik. Den strategiske plan, som DT opererede efter, den var jo præsenteret allerede et år før I kom ind, og den forbliver egentlig mere eller mindre uændret hele vejen igennem jeres ejerskab af DT group. Hvad var overvejelser bag det?*

EB: Det Steen gerne ville derude. Han ville gerne vokse på omsætningssiden. Hak ved det – det vil vi også gerne. Han ville gerne… En af de gode ting steen havde gjort, han havde 4 nøgletal: han målte koncernen, divisionerne, og alle butikkerne. Nahh, det var så måske kun tre, den fjerde var der måske ikke. Lad os bare sige tre nøgletal så. Som var gennemboret ned gennem hele organisationen. Herunder var ét af nøgletallene cash flow coveret, og det var vi voldsomt interesseret i også. Så derfor kan du sige, han havde en strategi der sagde: ”VOKS – men gør det rentabelt!” eller gør det cashflow fornuftigt.  Og det lyder jo godt i ørerne på sådan en kapitalfond.

*Interviewer: Ja.*

EB: Så vi så en meget stor koncern, der kunne videreudvikles. Havde et rigtig godt ledelsesteam, som havde helt styr på hvad de gerne ville. Så derfor - det var ikke sådan at CVC kom ind og der skulle laves en masse ting om. Der blev sat turbo på nogle af de ting, samtidig vidste Steen og Jørgen derude, at manglede de skillinger til foretage de store opkøb, så havde hovedaktionæren pludsleig en masse ´penge, hvorimod før havde de haft en hovedaktionær eller et aktiemarked, som måske ikke kunne skaffe skillinger til det.

Så derfor blev der yderligere sat turbo på den vækst. Og så kan du sige, i alle strategiplaner, ligger der vel en eller anden holdning om at vi skal vokse, og vi skal gerne gøre det cashflow mæssigt. Men det var de ting. Og så kan du sige: hvad er det vi sætter fokus på derude: Det ene er at síge til steen og jørgen. Vi skal lave nogle opkøb, først nogle små opkøb,. Og derefter nogle store kæder, heriblandt i norge, hvis der er mulighed for det,. Så skal der være fokus på cashflow, og der især mente vi at der var en del at skaffe på indkøb. Det mente de også, men vi satte yderligere turbo på. Vi dannede en indkøbsafdeling, hvor en business developer der hedder Ole derude, knalddygtig fyr, kom ind og var ansvarlig for det. Man fik strømlinet hele indkøb mere på tværs af koncernen, så det er ikke silvan der køber ind, det er ikke DT, det er ikke stark, men det er på tværs af koncernen. Og herigennem fik man nogle bedre betingelser, også fordi man sagde til nogle af leverandører, indenfor det her område har vi x antal leverandører, nu skal vi kun have halvt så mange. Og det giver så nogle bedre betingelser. Og så satte vi selvfølgelig på, i og med at vi havde en del akvistionsgæld, så satte vi fokus på rapportering, så vi ligesom kunne imødekomme de krav man stiller fra bankernes side. Så det var vel sådan set det der var fokus på fra CVCs side. Og så var der selvfølgelig på fokus, som der altid er, hvordan udvikler de enkelte kæder sig. Silvan har noget i sverige, hvordan udvikler det sig i forhold til at man også havde en anden lille kæde, hvad var det nu den hed [Cheapy] – hvordan udvikler den sig osv. men det er i og for sig ikke mere end en bestyrelse generelt set fokuserer på.

*Interviewer: Introducerede I nye rapporteringsredskaber, eller var det bare en intensivering af de eksisterende?*

EB: Øhh, både nye, og forberede de gamle. Aj, jeg vil sige – på den side kom der en voldsom forbedring. Men det var dem selv der gjorde det efter krav fra os og bankerne, så var det dem selv der udviklede det, og jeg var med til at udvikle nogle andre ting. Og det var vel mere i kraft af, når du har covenants-målinger over for en bank og du har en stor gæld du skal servicere, så er det endnu mere vigtigt at du har styr på dit cashflow.

*Interviewer: Så man kan sige – virksomheden var rimelig sund, og godt struktureret da I kom ind, I speedede bare processen op, og kom ind som kapital apparat, og havde nogle ekstra måle-nøgletal.*

EB: Altså ikke måle-nøgletal som sådan, for dem havde steen på driften i forvejen. Men det er klart, at sådan noget som covenants osv. over for bankerne, det var noget nyt der kom ind.

*Okay, men mht. det du også snakkede om før, med de forskellige butikker og på divisionsniveau. Mht. til governance og incitimentsaflønning – var det ikke noget som også blev sat fokus på?*

EB: Jo, fordi der var jo et aktieprogram for masse mennesker derude.

*Interviewer: Eksisterede det da I overtog den?*

EB: Nej, det var noget vi indførte.

*Interviewer: Og det var helt ned på butiksleder- niveau, så vidt vi har forstået, det var vel også en væsentlig ændring?*

EB: Det kan du sige, førhen har hver især jo kunne købe aktier på børsen hvis de ville det. Det her var mere med, vil i putte nogle penge ind her, og så få nogle unoterede aktier, og de kan så sælges når vi sælger danske trælast. Så jo, det var også en markant ændring.

*Interviewer: Men så sagde du i starten, at du var med ude i virksomheden i begyndelsen. Hvad var din rolle der?*

EB: Det var at være med til at implementere hele bankpakken , og rapportering til bankerne, og hvad der ellers var behov for på finansiden. For der gjorde man jo det, man havde jo jørgen clausen som CFO. Og så havde man en finansmand der sad og dækket valutaforretninger af, og holdte lidt øje med cashflowet osv. og der manglede man altså noget ekstra kræft, mellem jørgen clausen og den finansmand der sad der. Og der var jeg inde og reelt set have det job. Men så kom anders skole sørensen, han blev ansat derude, på det job. Og der mandede man så op, fordi nu havde man behov for noget mere på treasury-styringen. Og der kan du sige, og der havde jeg sådan et interim job med at etablere fokus på hele bankpakken, cash flow forecasts, overholdelse af covenants osv. Og det er ikke et udtryk for at sådan en som jørgen clausen ikke selv kunne finde ud af det, men det er mere et udtryk for at han var fuldstændig bonnet op med arbejde. Så indtil man fik anders skole på banen, så var jeg så ude og hjælpe dem lidt. Og der kan du sige, det er lidt ualmindeligt, men på den anden side set, var trælasten så stor en akvisition for CVC Danmark, og i ved, CVC de køber ny virksomhed, hvert 3. År, ik. Så derfor var der tid til det på det tidspunkt. Så det er ikke utryk for en generel kapitalfond-måde at gøre tingene på. Ofte, en kapitalfond, lidt afhængig af hvem det er, så kan du hjælpe lidt med at du kommer med et par ekstra hænder, så er det ikke utryk for at de er dumme eller dovne, men mere udtryk for, ifb. med afnotering, ind i kapitalfond, bankpakke osv… der er altså tonsvis af ting som en CFO skal tage sig af, og Jørgen havde bare ikke timer nok i døgnet. Og derfor tilbød jeg så at jeg ku komme ud og hjælpe dem. Og så fik de så anders skole på plads i løbet af et par måneder, og overtog det jeg havde siddet med, og så var jeg tilbage på kontoret.

*Interviewer: Men mht. gældsiden, [i koncernregnskabet] – den er ikke vokset voldsomt, selvfølgelig voksede den med 1 mia. fra 2003-2005, men blev selve opkøbet finansiere ved optagelse af gæld i virksomheden.*

EB: Nu ved jeg ikke med de tal, men du skal jo ind og kigge på Holding-selskabet bagved. Og se hvad, lå der i driftsselskabet inden vi overtog, for der var ingen holdingselskaber, og hvad ligger der så bagefter både i drift og i holdingsselskaberne – det er jo det der giver den reelle gæld. Og der kan du sige, at der steg gælden jo markant. Og så skal I også være opmærksomme på, at der blev også finansiering med et aktionærlån. Så når i ser koncern-regnskabet, så er der et aktionær-lån. Sagt på en anden måde – egenkapitalen var ikke særlig stor.

*Interviewer: Så det var en del af finansieringen, at I gik ind og…?*

EB: Nej, det var i stedet for at komme med egenkapital, så var det en fordel at tage et aktionærlån.

*Interviewer: Men efter den første periode i virksomheden, så træder du langsomt ud, hvor meget kontakt havde du derefter, eller træder ud af det dejlige arbejde, hvor meget kontakt havde du derefter med ledelsen?*

EB: Som CVC, så skal du tage Søren og jeg under ét. Og der havde vi rimelig meget kontakt med dem, altså jeg var med i bestyrelsesmøder, og søren havde også nogle møder ind i mellem.

*Interviewer: Og skete der en ændring i frekvensen af bestyrelsesmøder, nu ved du måske ikke hvordan det var før, men altså, hvad var frekvensen af jeres bestyrelsesmøder?*

EB: Altså, jeg kan dårligt huske det. Om det var 6 gange om året? Og ind i mellem var der så nogle møder direkte mellem CVC og ledelsen. Så det var voldsomt meget.

*Interviewer: Men du havde kontakt med ledelsen bagefter, men primært i form af bestyrelsen?*

EB: Nu skal I se på Søren og jeg, og der var meget både under bestyrelsesmøderne, og også i mellem bestyrelsesmøderne. Cirka kontakt en gang om ugen.

*Interviewer: Og det var så ikke kun med steen? Men også med jørgen eller med andre personer i ledelsen?*

EB: Altså, når jeg snakkede med dem derude, så var det typisk med jørgen. Men så kan du sige, og så kan du sige Peter Taarnkvist, somi øvrigt var bestyrelsesformand, og chef for CVC Norden, han kørte meget med Steen. Og havde et meget tæt forhold med steen. Han kørte lidt ligesom jeg gør med EET, hvor han måske snakkede med steen en gang om ugen. Og vende småting osv. så derfor – der var meget tæt kontakt mellem CVC og direktionen derude. Så én gang om ugen er i hvert fald ikke helt forkert.

*Interviewer: Og var du med i hele perioden?*

Ja, jeg forlod CVC, faktisk den 1. Marts, eller 28. Februar 2006, hvor salget var sat i gang,

*Interviewer: Men I havde ikke overvejet at lave det som en IPO?*

EB: Jo, men det du ofte gør, det er du kører det der hedder "Dual Track". Dvs. i starten af sådan en proces, så beder du x antal investment banks om at fortælle,hvorledes, hvis man vil sælge, hvorledes skal man sælge den, hvad pris kan man få ude i markedet, hvem er de rigtige købere, hvad er rigtig timing i det osv. og der er det typisk det du gør, når de her store virksomheder som kan børsnoteres, det er, at du siger til dem: vi som ejere, vi lytter – det er jer der er eksperter. Fortæl os, er det bedre at sælge dem til en industriel køber, er det bedre at sælge dem til en næste kapitalfond, eller er det bedre simpelthen at børsnotere den. Og der havde de forskellige holdningerne, og det du typisk gør, i de der processer, det er du foretrækker én vej og begynder, men du holder den anden åben.

*Interviewer: Yes, okay – og kan man sige noget generelt, nu talte vi sidst lidt om timing, omkring, der var gunstige markedsvilkår hvis man kan sige det sådan?*

EB: Jo, men du kan sige – denne her transaktion den var begunstiget af at CVC købte den i 2003, hvor man ikke rigtig vidste hvor byggekonjunkturen skulle gå hen, og du solgte den vel på det mest geniale tidspunkt.

*Interviewer: Ja, lige et år inden det begyndte at dykke nedad.*

EB: Ja, og hvor det stadigvæk gik opad – fordi det er også vigtigt når du sælger en virksomhed, at du ikke sælger den som om alt er på toppen, men at der kan være mere gevinst i den. Så timingen, den var helt genial i den dér [case].

*Interviewer: Nu har vi været igennem de fleste ting, og nogle af de ting vi også har talt med ISS omkring, så vi kan foretage nogle sammenligninger.*

EB: Hvad siger ISS, er der nogle forskelle?

*Interviewer: Ja, der er væsentlig forskel omkring det med kontakten til markedet. Iss lukkede deres IR, men har nu åbnet den op igen, fordi de har så stor gæld bundet op på obligationer, så de bliver nødt til at servicere gældshaverne, så den er reelt set stadig på børsen, bare som gæld i stedet for aktier.*

EB: Ja, og der kan du sige – det var vel fordi ISS havde obligationsgæld i forvejen. Vi kunne nok godt have kørt noget obligationsgæld ind, men på den anden side set skal man passe på i denne her størrelse virksomheder, og igen, afhængig hvad man ellers kan få af banklån. Men fortsatte jo ude i trælasten med at udgive rimelig store årsrapporter, og vel også udsende pressemeddelelser.

*Interviewer: Ja, hver gang I opkøbte et lille byggemarked, så kom der en pressemedd…*

EB: Ja, og i og for sig, det hele var rimelig åbent. Folk ku ringe ud og stille spørgsmål, og pressen har steen vel altid taget vel i mod, ik. Så på den måde ændrer det ikke det store at CVC overtog, bortset fra at lige pludselig ikke var et LOVMÆSSIGT krav til at du skulle offentliggøre det hele, fordi du er børsnoteret. Men man valgte bevidst, også fordi man har så mange forretninger og man er så stor, at fortsætte stort set at offentliggøre de samme ting i årsregnskabet.,

*Interviewer: Så informationsniveauet er ikke faldet væsentligt efter I overtog, så på den måde minder den meget om ISS. De har også bare speedet processen op. På den måde ligner de meget hinanden. Det er to sunde virksomheder og så har de bare speedet op. Og der har ISS så nogle andre udfordringer I og med at de ikke kan få den solgt nu. Ja og så har de valgt at skifte direktionen, i og med at Erik Rylberg og Jørgen Polvsen forlod virksomheden…*

EB: Og så en helt anden stor forskel, tror jeg, det var jo, at det var offentlig kendt at Codan ville sælge sine aktier. Og at det var jo en ren proces, hvor rådgiver til Codan, tog fat i os, og tog fat i nogle andre og spurgte om vi kunne tænke os at byde på det. Så på den måde kan du sige, at her kom vi og løste et problem for nogle ejerne, som ville ud af det. Hvorimod hos ISS kom det mere eller mindre som lyn for en klar himmel, nu kom der et bud.

*Interviewer: Ja, de mente at virksomheden var undervurderet [af aktiemarkedet]. Samtidig havde Erik Rylberg forsøgt at arbejde på et opkøb, som kapitalfondene så går ind og overhaler, og det er i en væsentlig ændring, især i forholdet mellem bestyrelse og ledelsen.*

EB: Ja, så derfor kan du sige. I trælasten var alle gode elementer tilstede. Det ene gode element var, du havde en kanon-god direktion. Du havde en virksomhed, som organisatorisk havde det rigtig godt – dygtige mennesker, også divisionsdirektørerne. ;Man stod med et ejerproblem, ikke et virksomhedsproblem, et ejerproblem, hvor nogle gerne ville sælge. Og selv om du gav en overpris, så kom du ind i et konjunkturforløb som var rigtig godt, og du får lavet de rigtige tiltag, som ledelsen måske nok er i gang med, men du sætter turbo på. Og så får du den exittet, ikke fordi CVC stod og sagde : ”Nu skal vi satme exitte”, men nu var man kommet 3 år hen, og ledelsen kunne pga. 3-års reglen, så skulle de ikke betale skat af aktiegevinsten, ik. Så de syntes det var en god ide. Og markedet det boomede jo på det tidspunkt. Så alle de ting, det er nok med til at det har været et meget meget lykkeligt ægteskab mellem ledelsen og kapitalfonden. Og så tror jeg også det er noget med, det tror jeg nu også EQT gør, du har en god ledelse og så behandler du dem godt og giver nogle gode vilkår, og så kan de ellers arbejde videre med deres forretning og udvikle den. Og vi køber ind i DERES business plan. For det er jo en helt anden ting - kom vi nu og sagde det hele sku laves om, så kunne det da godt være at Steen og jørgen havde sagt, ”jamen så bliver det uden os”.

*Interviewer: Ja, præcis. Når I har samme interesser, og ikke skal lave store ændringer…*

EB: Dygtig ledelse, sammenfaldende interesser og så en god konjunktur, så har man et godt udgangspunkt.

*Interviewer: Steen har nok også været en glad mand da den blev solgt? ☺*

EB: Hvis du tænker økonomisk…så tror jeg ikke han….så kunne han da sådan set godt have pensioneret sig selv… ”ik træls nogle gange” eller hvad siger han der????

*Interviewer: Okay, det var i hvert fald spændende input – så kan vi arbejde videre med det. Tusind tak for din tid.*

EB: Ja, det var så lidt - held og lykke med det.

# APPENDIX 4: INTERVIEW WITH CHRISTIAN KOFOED JAKOBSEN (CKJ), HEAD OF TREASURY, ISS AND PETER HARDER THOMSEN (PHT), HEAD OF ACCOUNTING, ISS

**June 6, 2009.**

*Interviewer: I jeres synspunkt hvad har så de primære ændringer været efter overtagelsen?*

PHT: Jeg skal skynde mig at sige at jeg er kommet til for 2½ år siden, så jeg har ikke den store indsigt i den egentlige overgang så det er nok bedst at du svarer på den.

CKJ: Altså i kan tage overordnet, nu ved jeg ikke. For det første vil jeg sige at det er lidt det jeg sagde i introduktionen før. ISS var jo i den grad en veldrevet virksomhed forinden, og i den grad en veltrimmet virksomhed. Og det er den jo også fordi ISS er en "High volume – Low Margin Business" og det har du jo så pinedød været nødt til at være. Og jeg vil sige at det jo faktisk var den eksisterende strategi som blev lanceret i april måned 2005, altså buddet kom jo den 29 marts 2005. Men i april måned lancerede man jo den her Route 101 som jo var en strategi som ejerne accepterede og synes var en god strategi på mange områder. Men jeg vil sige at det jo er det som understreger at man købte virksomheden fordi man jo godt kunne lide den; måden den var drevet på og måden som de havde sat ambitiøse mål på. Og det var de jo helt med på så de havde ingen interesse i at gå ind at ændre på det. Men de købte den jo netop fordi de havde en klar opfattelse af at aktiemarkedet IKKE påskønnede den strategi og den måde forretningen blev drevet på. Så derfor havde de jo ikke nogen changes med i tasken fra dag 1. Selvfølgelig ville de tættere på, men man skal også huske på det bud der blev lagt, som jo selvfølgelig siger noget om den likviditet der var i markedet, men også på den fasthed i kødet man havde fra kapitalfondenes side omkring forretningen og det omfangsrige rapporteringsredskab man havde, man havde vundet regnskabsprisen året forinden faktisk. Og den blev købt alene på en outside-in due dilligence, og det siger jo noget om den stærke tro man havde eksternt. Men jeg vil sige de ændringer der har været, dybest set har det jo været kapital strukturen, det har jo været den mest materielle ændring. Men så har der jo selvfølgelig også været involvering fra bestyrelsens side over tid, både i starten men også over tid, altså du har en endnu mere aktiv dialog end du havde før, selvfølgelig havde ledelsen det også før, men jeg synes egentlig at bestyrelsen rammer bredere nu. Altså vi skal ikke så spørgsmål tegn ved de kompetencer der var i bestyrelsen tidligere for det er der på ingen måde nogen grund til, men jeg vil sige den bestyrelse vi har i dag er sammensat af repræsentanter fra begge ejere men også af nogen ret tunge industri gutter; hvor du har Leif Østling der CEO i Skania og du har John Allen som er CEO i Deutsche Post, så havde du Sir Francis McKay. Så du har nogen ret tunge drenge siddende som i den grad har kunnet tilføre noget. Men det havde du også før, så havde du en Tom Knutzen for eksempel, og du havde en række andre tunge personer. Men jeg vil sige det at bestyrelsen ønsker at delagtiggøre sig endnu mere, altså ejerne ønsker at delagtiggøre sig endnu mere. Men ændringerne har mest været på head office siden, så det vil sige de procedurer og de ting som er blevet leveret her, en ting er finans, men også strategi formulering og egentlig ikke så meget på operationen, og det egentlig ret utroligt når du tænker på en forretning der da de købte os havde ca. 300.000 mennesker ansat, og så er det egentlig de 80 eller 100 mennesker her, der bliver berørt da vi bliver opkøbt og det har jo været et del af vores mantra i starten, altså at det ikke havde nogen forstyrrende elementer for selve operationen.

Men jeg vil sige at det er nogle relativt begrænsede ting. Så er det klart at de selvfølgelig ønsker at involvere sig i strategien så har det jo også en indflydelse på akkvisitions strategien, måden man kigger på hurdle rates og der har været noget på den måde godkendelsesprocessen, hvornår at man ligesom godkender den. Det er ret vigtigt at huske på at alle akkvisitioner, uanset hvor store de er, bliver godkendt her i huset af vores Executive Group Management. Så der er ikke nogen lokal management som bare kan gennemføre en akkvistion uden at den bliver godkendt herfra.

*Interviewer: Men det er lokalt at initiativet til opkøbet bliver taget og så kører den hele vejen igennem organisationen her til?*

CKJ: Ja det vil det typisk være, for det er der man har den største chance for en succes, fordi de kender markedet og det er folkene lokalt, der skal integrere ind i organisationen, og det har de jo ikke så stor interesse i, hvis det er os der siger at "nu skal i købe den og den", altså det kan vi godt, det gjorde vi da vi købte et selskab tilbage i 2000, et dansk/skandinavisk stort selskab, og det var drevet på en lidt anden måde, hvilket vil sige at så får du bare ikke det samme commitment. Så ja det er rigtigt. Men det er nogen af de små tilpasninger

PHT: Altså det er små "tweeks" i forhold til radikale ændringer, det er der ikke så meget tvivl om.

*Interviewer: Hvor meget kontakt er der mellem bestyrelse og ledelse i forhold til tidligere?*

PHT: Kontakten vil jeg skyde på er blevet større. Og det er klart at, mit bud vil være, at der ugentlig/ månedlig kontakt nu, men det er altså ikke som man hører ude i byen at der som i TDC bliver rendt på dørene hele tiden, det er ikke den situation vi er i overhovedet. Og en af de ting der er sket for nylig er at der er to ting der gør at bestyrelsen er kommet tættere på. Et er at du har fået en formand, der er dansk i form af Ole Andersen, tidligere EQT chef. Og så er det selvfølgelig den finansielle krise, det er klart, så vil de gerne ind at høre og have lidt flere oplysninger osv. Så det er to ting der gør at dialogen er måske blevet mere hyppig end den har været før, plus du har, som Christian var inde på før fire – seks komiteer som jo mødes på tværs af bestyrelses møderne, kan man sige. Nogen gange er det i kobling der til, og andre gange møder de forskudt. I og med du har flere komiteer end du havde før, jeg tror ikke at du havde det organiseret på samme måde før, det er der i øvrigt også kommet øget lovgivningskrav på, så har du en tættere kontakt, men de render os ikke på dørene hver anden dag. På nogen måde, det gør de ikke.

*Interviewer: Men er der ugentlig rapportering?*

PHT: Nej, der er ikke ugentlig rapportering, så er der mere at Ole Andersen griber knoglen og siger "at til sidste bestyrelses møde, der snakkede i om at i ville nå det her for den her måned, hvordan gik det så egentlig?"

CKJ: Men altså du kan sige at vi har månedsrapportering, det har vi jo, det har vi jo alle dage haft, det havde vi også før overtagelsen. Men det er jo fordi ISS havde fået opbygget et meget stort og omfangsrigt rapporteringsapparat og det vil sige at det vi så bliver overtaget, var der dybest set ikke nogen ændringer i det. Den månedsrapport skal jo sendes til hele vores banksyndikat i en eller anden udstrækning. Så du har altså her et rapporteringsapparat på omsætning, ebita cashflow, på cash conversion, på akkvisitioner, på treasury, der er covenants, der er verbale kommentarer til PL udvikling, der er cash flow. Og den kører vi månedligt.

PHT: Men det gjorde vi også før, den er så blevet raffineret.

CKJ: Den er på 60 sider og der er så forskellige forhold, der gør at vi ikke er i stand til, ikke må sende den, for der er noget der hedder private og public, det vil jeg sige, at det er også et af de forhold der er ret specielle, men der kommer vi igen tilbage til kapitalstrukturen, fordi nu har vi i dag noget der hedder Private Investors, og nogen der hedder Public Investors. Og det er på gældssiden, så det har ikke en skid at gøre med den egenkapital der bliver skudt ind. Der er Private Investors som er de banker der får adgang til vores forecast og det vil sige at de må ikke handle i vores obligationer, så har du public investors og det er alene dem som får public available information og som så må handle i obligationerne, det skisma havde du ikke før. Altså det havde du, men der var ikke et rapporteringskrav overfor dine public investors, du skulle ikke holde dine investor calls og dine obligations noteholders, der var ikke nogen forpligtelser som sådan, det har du i dag. Og det er derfor, det kan godt være at vi siger at vi ikke længere er et børsnoteret selskab, men det er jo ikke sandt for nu er det bare vores gæld der er børsnoteret. Hvilket jo så betyder at vi stadig har vores kvartalsvise investor calls, vi har stadig rapporteringskrav, som hvis vi havde været et almindeligt aktieselskab.

PHT: Men du kan sige at vores kvartalsmeddelelse, vores årsregnsrapporter det er fuldstændig som om vi var listed, der er ingen forskel overhovedet, og vi opererer, altså når jeg kigger på hvordan det skal se ud, så sidder jeg og skeler til; hvad er kravene til et børsnoteret selskab, det er det vi vil leve op til, for på et eller andet tidspunkt, jamen så er det ikke utænkeligt at vi er noteret igen.

*Interviewer: Ja, der kan man se at i er et af de firmaer der er blevet overtaget hvor informationsniveauet ikke er blevet sænket.*

PHT: Jeg vil vove at påstå at det er blevet bedre

CKJ: Jeg vil så også sige, at man gjorde jo den fejl at faktisk lige efter overtagelsen, der sløjfede vi IR afdelingen (investor relations) og den er så poppet op igen i min afdeling fordi du har jo stadig dine investorer, altså din gældsinvestorer, de skal jo stadig serviceres og kunne stille spørgsmål de har. Udfordrende spørgsmål, i hvert fald fra tid til anden, omkring forhold de ønsker at få belyst, og så har du jo dine kvartalsvise investor calls.

*Interviewer: Så når f.eks. Steen Weirsø fra DT Group udtaler at overtagelsen frigiver en masse ressourcer når man bliver afnoteret, så er det ikke noget i har kunne mærke noget til?*

CKJ: Det har været røv og nøgler i vores sammenhæng fordi vi er jo også et relativt lille hus, så vi er ikke mere end ca. 100 til at varetage en organisation som generer en omsætning på godt og vel 70 mia. og har de der 470.000 ansatte, så det er et ret lille hovedkontor og når man så samtidig har opretholdt det der, så er det jo klart, så. Men DT Group har jo så heller ikke haft nogen obligationer udestående så der ligger der også en væsentlig forskel.

*Interviewer: Har PF fondene introduceret nogen "Unique tools":*

CKJ: Altså man kan sige at der er ikke nogen "Unique Tools", det de selvfølgelig kigger på, det som de har været meget begejstret for er den her prioritering som ISS jo har opereret med over de sidste 8-9 år altså med at sige cash conversion er 1. prioritet, operating margin er 2. prioritet og så er organisk vækst den 3. og så havde vi jo en der hed akkvisitorik vækst, den er så ikke længere end operationel prioritet i kraft af at der ikke længere er et funding apparat der kan understøtte den strategi. Men den måde kan de jo godt lide at anskue verden på, det er jo også nogen meget væsentlige parametre i din værdiskabelse, det mangler så godt nok lige den indsatte kapital, men den har vi jo så selv indført, så det vil sige, at dybest set er det din return on capital employed og value creation som de ligesom har fostret. Men ISS har jo også, netop for at adressere det forhold at du skal sikre dig at en anden også er opmærksom på den kapital der er investeret i deres forretning, introducerer man så det begreb der hedder Capital Employed, dvs. at vi har lavet vores egen børs, der hedder ISSDAQ. Det opererer vi med, og den fokuserer på, altså den ville være launched uanset om overtagelsen var sket eller ej. Det ISSDAQ gør er at landene bliver målt, selvfølgelig på deres performance, men så får de mulighed for at øge deres andel af denne værdiskabelseskage som selskabet leverer. Dvs. hvis UK starter på 100 og de så har skabt værdi på 108 efter år et, jamen så har de 8 % af kagen. Og dvs. deri er kapitalanvendelses også, hvor meget kapital binder de op, hvor meget kapital bruger de til at investere i forretningen, hvor meget likviditet binder de op på working capital, hvor meget bruger de til at investere i akkvisitioner f. eks. Så hele det apparat har vi så rullet ved siden af, og det ville man have lanceret selv uden overtagelsen. Det vel en fornyet måde at se på det, altså Return on Capital Employed havde vi nok også selv introduceret på et eller andet tidspunkt.

PHT: Det er klart at hele den der Value Creation tankegang er blevet endnu mere eksplicit end den har været før.

*Interviewer: Fokuset på cash conversion er vel også blevet mere vigtigt end det har været før, jeres store gæld taget i betragtning?*

CKJ: Nej, det har det alle dage været.

PHT: Low margin business du!

CKJ: Du kan sige ja, i kraft af at din rentelinie øges fra 300 mio kr til 2,5 mia kr så er det klart at så har du ikke råd til de ”bløps” der måtte være, men uanset hvad har du altid haft intensiv fokus. Altså du kan se ham den lille tykke dreng som var portrætteret i Jyllands Posten i søndags, Henrik Andersen som tidligere sad her i den funktion her, som var med til at rulle det ud, virkelig big time så landene kunne forstå at det er ikke kun et spørgsmål om at skulle lave de der simple ting, men det er et spørgsmål om at du skal uddanne dine folk til at kunne forstå hele din ”from order to cash” proces. Det er en kultur du har udviklet, og den kultur er så forstærket af at landecheferne og landeledelserne har haft nogle bonusprogrammer som har været bundet op på din cash conversion, på din operating margin og den organiske vækst. Man havde det der hed $MC=e^2$ i gamle dage som jo var fra continous growth cp3 margin, din EBITA margin og din cash conversion, og det var ligesom det der var værdiskabelsen dengang, men der manglede man netop parametret med kapitalbinding. Så du har altså den der fokus, men du har ret i at der er blevet endnu mere fokus på det nu. Men det er ikke sådan så der er tale om et paradigme skifte fordi folk har været fokuseret på det før. Den fokus der er intensiveret nu er at nu er den også intensiveret på kvartalerne, tidligere har den været meget fokuseret på year end, men vi har så sørget for at landene også forstår at det hedder kvartaler nu. At når du måler din financial performance og financial covernants overfor bankerne så foregår det på en rullende måde, altså det hedder LTM, de sidste 12 måneder som du hele tiden måler på.

*Interviewer: Og det skal i hele tiden rapportere ind til bankerne?*

CKJ: Nej, altså det sker en gang i kvartalet men bankerne får jo vores P&L, vores balance og vores cash flow statement uden management kommentarer i non-quarter months.

*Interviewer: Så det bliver kommunikeret rimelig klart ud til divisionerne i verden og de ved hvor fokus ligger?*

PHT: Ja, altså det er et performance mål for dem[1].

*Interviewer: Hvordan er i påvirket af den finansielle krise?*

CKJ: ja, jeg vil sige at det er vigtigt at man skelner mellem den finansielle og den økonomiske krise. Altså den økonomiske krise det er klart at det noget af det som afstedkommer et drop i den organiske vækst og et drop i margin. Nu skal i huske på at den måde som vi faktisk driver vores forretning på. Omkring 80 % af ISS's omkostninger er variable give and take. 2/3 er lønninger og der er forskel på at når vi ser en situation. Nu prøver jeg lige at beskrive de forhold omkring den økonomiske krise. Det forhold der sker som vi ser f.eks. i de lande hvor vi er eksponeret til det industrielle segment er at når en fabrik pludselig lukker ned i en måned så står vi stadig med medarbejderne på bøgerne, havde vi nu tabt kontrakten til en anden provider, så er der det der hedder tubi transfer regulations, altså hvor den nye provider er forpligtet til at overtage de gamle medarbejdere, så det vil sige at havde du tabt kontrakten så havde din omkostningsbase været væk fra dag 1. Men hvor et selskab pludselig reducere sin aktivitet til 10 % eller tæt på ingenting så får du kun din minimumomsætning, og den omsætning dækker ingen engang de udgifter du har, så rammer det dig på din vækst og det rammer dig i særdeleshed på din margin. Der sker også det at mange af vores selskaber, ISS har jo en kombination af portefølje business vores løbende kontrakter, f.eks rengøring hvor du gør rent 3 gange om ugen, og så har vi vores event service dvs. hvis der er landskamp i Parken så er det måske os der står for sandwich. Det er jo de der one-off forretninger, der i det her økonomiske klima bliver barberet væk. Så det rammer dig på den organiske vækst, men samtidig sker der jo også noget som er med til at counter balance det forhold og det er jo netop at der sker en meget større centralisering i de større virksomheders procurement afdelinger så de har jo interesse i at få en professionel spiller som ISS er som er opmærksom på hvorledes man håndterer de medarbejdere som man overtager. Fordi IBM eller et andet stort selskab er jo ikke interesseret i at de medarbejdere som vi overtager, bliver overtaget af en eller anden som er pisse ligeglad med minimumslønninger eller hvad ved jeg. Det er der altså meget reputational risk i, så derfor skal det være en som har høje etiske standarder og derfor har man behov for at tørre sådan en opgave af i et selskab som har et renomme. Men det betyder også, og det var det jeg ville frem til, at der er altså en øget efterspørgsel efter de services. Så det vil sige at der er folk der er på jagt efter omkostningsbesparelser og dermed har man en interesse i at få barberet alt der hedder non-core aktiviteter væk, og derfor er der altså et argument for at vi kan sælge mere til de her kunder. Men det er klart at hvis kunden kommer og siger at "jeg bliver presset af min chef, så vi skal barbere omkostningerne på

[1] 15.15 inde i interviewet

rengøring her i hytten, og det er jer der gør rent, så i stedet for at gøre rent hver dag, gør i det nu kun tre gange om ugen”. Det er fint siger vi så, og det rammer os jo hårdt, så vi prøver så at tale med kunden og det er også en del af den indarbejdede kultur, at man siger: ”jamen så lad os prøve at om noget reshuffling af de services vi har, for vi kan kun hjælpe jer med at give noget mere substans hvis det viser sig at vi så også skal tage os af jeres catering, jeres office support eller hvad fanden det nu må være”. Så sætter man sig ned med kunden og får skaleret kontrakten således at vi opretholder vores toplinie og vores margin det opfang det nu er muligt, men det er klart at det kan godt ske parallelt, så du kan godt blive ramt. Så der vil være nogen ting. Men det er så hele den økonomiske side, eller ikke hele, der er mange andre ting, men meget forsimplet. Så er det klart at det vi bliver ramt af er når vi har haft en eksponering til f.eks. de franske bilfabrikker og vi har noget i Belgien også og uanset hvordan du begår dig i Spanien så vil du også blive ramt når du har en arbejdsløshed der nærmer sig en 17-18 %. Vi er også blevet ramt i Holland hvor vi har haft nogen strukturelle og nogen andre problemer, men det er ligesom det. Hvis du så ser på den finansielle situation, så er det klart at den finansielle situation gør jo at når vi har så meget gæld at vi så kan blive presset men end vi selvfølgelig har været tidligere. Men man skal huske på at vi har commitments, når man laver sådan en struktur her, så gør ejerne jo det at de sørger for at den bankpakke der er på plads fra dag 1 den er ganske lang. Så de faciliteter vi har udløber i 2012 og 2013 godt og vel. Så har vi nogen eksisterende obligationer, der udløber i september 2010 og det er klart at refinansieringen af dem er jo en del mere udfordrende i dag i dagens marked end det var for 2 år siden i maj 2007 hvor vi lavede den sidste refinansiering. Så ja, vi bliver påvirket af den økonomiske situation og vi bliver også påvirket af den finansielle, men den finansielle situation påvirker os jo ikke i højere grad end at vi selvfølgelig nok skal løse de her refinansieringer, selvom det er klart at det sker til en højere pris end det vi ville have kunne gjort det for to år siden. Men havde det været for et år siden, så havde det været næsten umuligt. Men så skal du stadig huske på at der står to ejere som altså fra starten har indsprøjtet en milliard euro i det her selskab og det betyder jo også at du så dybest set kun har to investorer du skal gå til, i stedet for, og det er egentlig det jeg synes er ret vigtigt at huske på og et af de positive elementer ved den her ejerstruktur, det er jo at du kan snakke med dine ejere først, før du faktisk går ud og agerer. Så det vil sige at kan sige til Goldman og EQT, nu skal i høre her, vi kan ikke refinansiere det her vi har altså behov for at få refinansieret de her 850 mio euro. Så repræsenterer de jo selvfølgelig funds for en masse andre fonde, men du behøver kun at gå ud og snakke med to, ligesom hvis du vil lave nogen ny operationelle tiltag. I modsætning til hvis du var børsnoteret. Så skulle du jo fremlægge en plan, så skulle du gå ud og spørge aktiemarkedet som så siger: ”Fuck, det der kan vi ikke lide, mand. En ting er at du diluter os, men vi er ikke helt overbevist om at det der er den rigtige plan”. Så får du et hak inden du egentlig har eksekveret de her forhold, så der er sådan nogen forskellige ting, så du har mulighed for at lave det her på en decideret forhåndsbevilling, hvor du på aktiemarkedet gør noget på en efterbevilling. Men det er ligesom det der beskriver den økonomiske og finansielle situation.

CKJ: Jeg vil nok sige at det er svært at sige at der er noget der direkte har været udslagsgivende ved ændringen i ejerforholdet. Jeg vil sige at det betyder meget at du også har fået ny ledelse, men det kunne jo også være kommet mens vi var børsnoteret.

*Interviewer: Har i for eksempel kunne mærke at det har været muligt at hente mere kvalificeret arbejdskraft til, her tænker vi bl.a. på den mere liberale lønstruktur som kapitalfondene bringer med sig?*

CKJ: Altså hvad tænker du på, i hovedkontoret? Nej, det har været det samme. Ledelsen har altid praktiseret en meget god kultur om at honorere kvalificeret arbejdskraft, også fordi der har altid været en opfattelse af at man har arbejdet meget herinde fordi det har været et lille hovedkontor og det påskønnede den gamle ledelse og det påskønner den nye ledelse også, så jeg vil sige at det har ikke ændret noget.

PHT: Og jeg vil sige det at det ry og rygte har også kørt før, men bestyrelsen foretog sidste år en benchmarking af vores lønninger i forhold til andre hvor man tog titler, niveauer og ansvar og så videre, og vi lå hvor vi skulle i forhold til sammenlignelige selskaber i DK. Det der er forskellen er at vi er kun 100 mand, men det er jo en lang direktionsgang forstået på den måde at i forhold til andre selskaber, jamen så er 70-80 % af os herinde på lederniveau, altså højt kvalificeret arbejdskraft. Det vil sige, du har jo ikke tonsvis af bogholdere, marketingsassistenter o.lign. rendende rundt, eller andre lidt længere nede i systemet, dem har du ikke her, det er jo folk på et ret højt niveau. Og det er klart at så får du også en høj gennemsnitsløn, sådan er det.

*Interviewer: Men er hovedkontoret blevet streamlinet efter overtagelsen?*

CKJ: Du har faktisk opskaleret i takt med at forretningen er vokset, du skal jo huske på at forretningen er vokset næsten 40 % siden overtagelsen, derfor er du nødt til at have nogen flere ressourcer. Det man har gjort er jo at man har etableret en corporate clients afdeling som man ikke havde før, man har dog forsøgt sig i nogle afskygninger. Men det har man gjort netop fordi man kan se substansen af at Integrated Facility Services kan rulles ud nu. Så derfor har man faktisk øget antallet af medarbejdere til ca.110 i dag. Så du har flere, men der er så lagt flere aktiviteter ind.

PHT: Corporate clients afdelingen er til for at servicere de store globale kunder, så det er en afdeling, der både vinder dem og servicerer dem. For før har vi været 50 lande der har opereret lokalt, men du har ikke haft en afdeling der kunne gå ind og sige at nu vil vi gerne vinde HP globally. Det er det man har sat op for halvandet år siden, og nu har man så haft de første sejre.

*Interviewer: Så det hjælper jer vel også i det nuværende økonomiske klima, hvor i har en bedre forhandlingssituation?*

PHT: ja for så kan vi jo netop som Christian sagde før tilbyde nogle flere produkter eller geografier[2].

CKJ: Jeg vil også lige sige at vi har det der hedder the Management Participation Programme, hvor de ledende medarbejdere ikke kun herinde, men også i landene har investeret deres egne sparepenge i forretningen, og det er jo noget der er rullet bagefter, men du kan selvfølgelig sige at før havde du jo dine medarbejderaktier.

*Interviewer: Er det blevet mere aggressivt bagefter, altså er det flere penge i selv skal smide ind end før?*

CKJ: Altså du var ikke presset til at købe aktier før, det var mere noget du gjorde fordi der var god økonomi i det. Det er et af de største MPP programmer der er rullet ud, i hvert fald ifølge Goldman, og det betyder at vi 150-170 personer der deltager og det er så typisk ledelsen fra landene, i de små lande er det måske kun landechefen der deltager, men i de store lande er der måske en ledelse på seks – otte personer som har investeret i det. Du kan jo hurtigt få alignet dine interesser. Det er så også nemmere for mig når jeg siger: Hør her Kevin, altså I bliver nødt til at forstå vigtigheden i at vi leverer på de her financial covenants, fordi gør vi ikke det, så er det jeres kapital der også forsvinder".

*Interviewer: Omkring jeres loan covenants kommer der ofte spekulationer frem fra diverse analytikere at i kan få svært ved at leve op til dem, det er især i forbindelse med den refinansiering. Altså der er ikke meget plads til at fejle. Hvad er jeres holdning til det?*

CKJ: Du kan jo sige at det vil der aldrig være i en forretning som vores, der er low margin business. Men når du tilrettelægger nogen finansielle strukturer, så bliver de jo altid lavet med en vis form for headroom på dine covenants også afhænger det jo af om dine grundforudsætninger så holder eller om de ikke holder. For hvis de ikke holder så er det jo klart at du har en risiko for at så bider du jo noget af headroom du har. Altså jeg vil sige at vi er stadig ganske komfortable med de her financial covenants som vi har, men det er jo klart at hvis vi står i en situation hvor vi ikke kan refinansiere eller vi skal refinansiere de her 2010'er som udløber i september, som vi i dag har en pålydende rente på 4.75% og så skal til at betale 20 eller 15 %, så bliver det mere udfordrende. Det er jo klart så får man

[2] Fra 26.29 – 30.15 en mere generel diskussion om forfatternes holdning til gæld, uden egentlig relevans for projektet, er derfor ikke medtaget i referatet.

fjernet når af det headroom. Men det er jo ikke sådan så vi vælger at lave en refinansiering som vi ikke kan holde. Så kunne det jo være at ejerne ville sige "det er vi helt enige om". Men det er den sidste løsning, for hvorfor fanden skulle de, hvis der er et marked for at rejse finansieringen til nogen satser som vi har råd til at betale under vores financial covenants, hvorfor fanden skulle de så smide mere egenkapital ind, som de kræver 35 % afkast på. Så det er sådan set ret simpel tankegang. Men det er noget der bliver arbejdet intenst på, og det har vi gjort siden efteråret sidste år. Og som vi har kommunikeret til markedet har vi en klar opfattelse af at vi vil kommunikere i 2. halvår hvor vi er med det. Men der er ingen tvivl om at vi har en interesse i, altså alle har en interesse, i at få det her løst. Det er ikke fordi vi spekulerer i at skal vi ikke lige vente, fordi de er krafteddeme så dejlige de der obligationer, vi betaler kun 4.75 %. Det er vi ligesom ude over, så gælder for os om ligesom at sige, lad os få det elimineret, men vi skal heller ikke sige gøre det, bare for at sige at vi tror vi gør det. Vi bliver nødt til at sikre os at vi gør det på det rigtige tidspunkt og vi har gjort det benarbejde rigtigt. Men der er heller ingen tvivl om at ISS har været, og det er ikke noget selvsuccesion som jeg har fået bildt mig selv ind over tid, men ISS er blandt high yield investorerne en af deres darlings fordi vi er stabile, vi leverer hele tiden en stabil margin og et stabilt cash conversion, og organisk vækst, ja den vipper men det er de to andre ting som er ret vigtige. Men det vil sige at den stabilitet har en meget høj værdi i dagens marked hvor du ser den her fluktuation i selskabers performance.

*Interviewer: hvilke konsekvenser har ændringerne i skattelovgivningen afstedkommet? Vi tænker her især på reglerne om tyndkapitalisering og rentefradragsbegrænsningen.*

PHT: Du kan sige at der er ingen tvivl om at rentefradragsbegrænsningen den rammer os, og nu sidder jeg lige og tjekker i regnskabet hvad vi skrev sidste år, altså hvad beløbet var, og der siger vi at det har gjort at der er ca 826 mio. kr. i 2008 som vi ikke kunne trække fra af renteudgifterne og det er klart at den fordel vi har haft før er at vi har haft en masse skattemæssig underskud som vi har kunne ligge og bruge af. Jamen det bliver brugt relativt hurtigt, det vil sige at på et eller andet tidspunkt 09 eller 10 der begynder du faktisk at få fuld effekt af at du ikke har det her fradrag for de fulde renteomkostninger, det er selvfølgelig lidt irriterende og det var noget som man ikke kendte til dengang ejerne investerede osv. Så det rammer os, det er der ingen tvivl om.

*Interviewer: Men der har ikke været nogen måde at imødekomme effekten på?*

PHT: Jamen du kan sige at så skulle du have færre renteudgifter og den er jo svær. Fordi du kan ikke strukturere dig skattemæssigt ud af det her. Du kan sige vi laver selvfølgelig som alle andre danske virksomheder skatteplanlægning, men det er ikke noget aggressivt, så det vi laver er indenfor lovens rammer, uden at være alt for kreative, og den her kan du ikke strukturere dig udaf. Så det er noget vi følger og selvfølgelig er vi opmærksomme på det og

Christian bliver naturligvis involveret fordi det kommer til at koste os noget på et tidspunkt at vi faktisk skal betale noget skat.

CKJ: I Danmark!

PHT: Ja, vi betaler jo en del skat i udlandet. Så det her der har været fremme med uha man betaler ikke skat i ISS, det har aldrig været sandt. Men der er forskel på om man kigger på den danske selvangivelse. Før i tiden var man jo sambeskattet med alle juridiske enheder. Det lavede de jo om på for nogen år siden hvor der i dag ingen danske virksomheder, mig bekendt er sambeskattet, for det er simpelthen for besværligt. Og det gør jo så at så må du kigge på hvad er der betalt i udlandet i skat, og der bliver betalt ikke uanselige beløb.

CKJ: For lige at vende tilbage til det med vores forventninger til låneaftalen. Det afhænger jo fuldt ud af hvilket låneinstrument og hvor henne i strukturen vælger at placere dem. I har formentlig også set at årsagen til at der er så mange selskaber; der er jo ISS Holding, der købte ISS A/S, så er der ISS Equity og så er der noget i Luxembourg. Men årsagen til at du har de her selskaber er jo også fordi at du så har muligheden for for eksempel ISS Equities A/S niveau og så optage lån som er væsentlig dyrere, men det kan du gøre uden at skulle søge consent hos alle de långivere du har nede i kredsen nedenunder, så det vil sige at du har nogen strukturer, så det er derfor jeg vil sige at det afhænger helt af hvor fanden vi vælger at ligge og placere den gæld. Så derfor kender vi ikke noget til det på forhånd.

*Interviewer: Har bestyrelsen kontakt med hele ledelsesgruppen eller er det kun Jørgen Lindegaard?*

CKJ: Du har jo forskellige grupper, som i mange andre Private Equity funds, så har du en trojka gruppe som typisk er direktionen, bestyrelsesformanden og så en mere der er med i den. Så har du auditive committees som Peter er med i, og vi har en Finance committee som jeg er med i, acquisitions committee.

PHT: Og så har du en renumeration committee og det er typisk omkring direktionens aflønning. Men det varierer hvor mange møder der er årligt omkring de der komiteer.

CKJ: ja, det vil naturligt variere. Det er klart at jeg har meget tættere kontakt til ejerne i år, end de andre år. Da vi lavede refinansieringen i 2007 så gjorde vi det nærmest helt alene. Det vil sige at ejerne var ikke engang med til at vi var ude og rejse 1,7 mia. Euro, selvfølgelig blev de holdt orienteret om at vi lavede de rigtige indstillinger men altså vi drev det mere eller mindre selv hernede. Selvfølgelig holdt vi dem orienteret og spurgte "hvad mener I vi gør på de optioner vi har". Og det er klart at involveringen i refinansieringen nu er en helt anden og dvs. at vi taler i hvert fald sammen mindst en gang om ugen eller et par gange om ugen lige for at høre hvad vi gør. Så frekvensen varierer selvfølgelig efter hvad der sker. Og det er en helt anden dialog end man ville have under et traditionelt ejerskab. Så ville man selvfølgelig kun have sparring med direktionen.

*Interviewer: Udover muligheden for at købe sig ind i virksomheden hvordan er så jeres incitamentsprogram bygget op?*

CKJ: Altså som sagt er der dit MPP og så er der et almindeligt incitamentsprogram og de bonusaftaler har landene haft næsten alle dage, de er ikke blevet tilpasset.

*Interviewer: I hvor høj grad gør i brug af eksterne industrieksperter? På bestyrelsesplan er der jo som sagt kommet større personer ind, som kommer fra ledende stillinger hos andre spillere.*

PHT: Det er jo ingen hemmelighed at vi omkring midt 2007 jo stod overfor en potentiel IPO og i den forbindelse benyttede vi os af eksterne konsulenter til bl.a. at lave noget præsentationsmateriale osv. og det bliver da også brugt af og til på ad hoc basis hvis vi har en case med et land eller noget business og man siger der har vi behov for at få noget ekstern sparring, men det er ligesom i andre firmaer ved brug af eksterne konsulenter. Men du kan sige at vi er bare lidt større og vores sager er lidt større så det kan godt være de koster lidt mere. Men det er ikke meget og vi har ikke sådan en flok McKinsey rendende rundt på permanent basis, så der er det mere for at få noget indspark og sige at der har vi altså brug for nogen virkelige eksperter på området, for der mener vi en sjælden gang at der er vi ikke dygtige nok – det er meget sjældent.

CKJ: Du kan sige at materialet til forberedelsen af den her ISS way strategi som vi har lanceret for ikke så længe siden, der havde jo noget eksternt både til præsentationen men også til hvordan den skulle implementeres. Men du kan sige Jørgens optræden er jo så også en industriperson der går ind og overtager Erik Ryllbergs plads, og det er jo selvfølgeligt noget der er drevet af ejerne. Og han sad jo så også i bestyrelsen forinden.

*Interviewer: Har der været ændring i KPI'erne?*

CKJ og PHT: Nej!

*Interviewer: Hvordan er cash conversion eksekveret i den daglige drift?*

CKJ: Jamen vi har jo udviklet sammen med et konsulentbureau for 8 år tilbage det her working capital optimization program hvor vi jo er ude og undervise landene i og sørge for at de forstår det er ikke bare et spørgsmål om at man skal aftale, for det første skal man være opmærksom på betalingsbetingelserne, man skal også være opmærksom på hele processen der er fra for det første at man får sendt fakturaen ud til kunden men også du så får fulgt op på alle de her steps der er, faktisk fra du får ordren til du får pengene ind på kontoen. Så jeg vil sige hele det her operationelle fokus det er så dybt forankret nu mange steder, men når det så er sagt kan vi blive endnu bedre til det. Jeg vil også sige at noget af det kommer også af at den performance vi så også leverer i Q1 hvor vi for bragt vores debitor dage ned fra 49.8 til 48.6 det er altså en reduktion på 1.2 dag, én debitor dag i vores forretning betyder likviditetsfrigivelse på 230 mio kr. så hvis vi bare kan barbere en dag af så er det ret vigtigt. Så derfor forstår alle jo godt det her mantra at det er det man skal, men altså det er jo ikke sådan at jeg bare siger cash flow og så er alle bare sådan helt med på. Altså det er der mange der med på men længere nede i organisationen skal den der gospel fortsat kommunikeres ud, for der er jo nogen gange så har folk for vane at så skal vi lige huske at gøre sådan og sådan. Så det er sådan noget som altid vil være vedvarende.

*Interviewer: Hvordan gør i med de virksomheder i opkøber der må vel også være fokus på at få dette mantra inkorporeret?*

CKJ: Det afhænger for det første af hvor stor den virksomhed vi køber er. For er det en forretning som de fleste af vores forretninger er, som har en omsætning på ca. 20 mio. kr. der er det dybest bare nogle kontrakter du køber og så bliver de rullet ind i virksomheden fra dag 1. så er det et spørgsmål om at man bare siger: "Bum ind på den konto og du skal sådan sådan sådan"[3] og så er det det. På de større er det klart at det tager lidt længere tid. Altså der vil være nogen operationelle procedurer som du skal sikre dig, nogen gange er der jo så behov for at vi holder de her working capital optimization sessions for de nye selskaber vi har købt. Men altså i et land som UK, schweiz og Spanien til dels også er vel egentlig de lande der står øverst på listen når det kommer til det. Så det vil sige at de har jo deres egne working capital champions som selv ruller det ud i alle de der business units så det behøver vi jo ikke engang at deltage i, og det er en helt optimal måde at gøre det på.

*Interviewer: Men hvor ligger fokus? Er det primært at få penge ind fra kunder eller er det også at forlænge betalingsfrister overfor leverandører?*

CKJ: Selvfølgelig gør vi det, men nu skal vi huske på som jeg sagde før at hvis 2/3 af din omkostningsbase er lønninger, så er det ikke en særlig stor andel af leverandører som der skal betales til. Men jo selvfølgelig sørger vi for at få de rigtige leverancebetingelser på plads. Men vi har også noget andet der hedder subcontractors og dvs. et sted hvor vi ikke selv er i stand til at levere servicen og så er vi nødt til at kontrahere med en lokal provider. Dem er vi nødt til at behandle som vores egne medarbejdere, så derfor er vi selvfølgelig nødt til at sikre os at de også bliver betalt til tiden, som var det vores egne medarbejdere. For dem kan vi ikke presse, eller selvfølgelig kan vi presse dem i en eller anden udstrækning, men vi skal også passe på at vi ikke presser dem for meget for det er typisk nogen små providers og det vil sige at de har ikke den her fleksibilitet at arbejde med. Men det er klart at vores globale

[3] 44.57

indkøbsprogrammer om det er med JohnsonDiversy hvor vi køber rengøringsprodukter eller hvor fanden det måtte være, så er det klart at dem forhandler vi jo med som med en hver anden. Men det er stadig en lille del, så vi har stadig en hel del mere vi kan gøre på debitor siden.

*Interviewer: Og den anden prioritet er operating margin:*

CKJ: Der kører vi jo netop med at vi får skabt rigtig meget fokus på landenes og operatørernes fokus på at man får skabt en tilstrækkelig stor operating margin. Det bliver jo målt herfra på månedlig basis men vi prøver også at gøre folk opmærksomme på at det nytter ikke noget at de kun er opmærksomme på de kontrakter der ikke er profitable, det er også vigtigt at fokusere på de kontrakter som du har liggende over dit gennemsnitsniveau, for det er typisk dem der gør ekstremt ondt hvis de pludselig dumper og du taber dem. Så vi har flere forskellige uddannelsesprogrammer, vi har et bl.a. hvor jeg fortæller lidt om operating margin sådan meget overordnet og cash conversion og cash flow. Men det er sådan mere til de ledere som starter på programmet så vi ligesom der poder dem, men det giver ikke så meget hvis det ikke bliver praktiseret. Og det vil sige at i kraft af at de lokale lande ledelser har incentive schemes på din cash conversion og din operating margin og på dit salg, jamen så vil det jo helt automatisk blive cascaded længere ned i systemet. Det der er ret vigtigt at huske på og som også en del af vores forretningsfilosofi er at ISS[4] er en meget entreprenør drevet virksomhed så det vil sige at de lokale landechefer har ret store frihedsgrader og den eneste måde du kan kontrollere dem på er netop ved at lave meget meget strict finansiel rapportering hvor de hver måned bliver bedt om at rapportere fuld P&L income statement og balance og cash flow statement plus at de den tredje arbejdsdag i måneden rapporterer et cash flow forecast for måneden. Så det vil sige at vi kan se at hvis de den 5. i måneden rapporterer et cash flow forecast for indeværende måned. Og det vil sige at hvis vi så kan se at der er en afvigelse d. 12. juni på ex antal, så kan vi tage telefonen og ringe op til den CFO eller ned til den CFO og sige ”hvad er årsagen til det?”. ”Jah puha bum og det ene og det andet”, og der er meget ofte nogen meget gode forklaringer. Men det bliver monitoreret så tæt så, og det er det redskab du bliver nødt til at have på plads hvis du skal give dine landeledelser så store frihedsgrader, så de selv er i stand til at operere. Det mener vi er den rigtige måde at gøre det på, for så gør vi dem netop i stand til hurtigt at kunne respondere. Men det betyder så også at du skal sikre dig at de ikke går ud og byder på en kontrakt som ikke er profitabel eller også er der i hvert fald et meget godt kommercielt rationale for at byde på den pågældende kontrakt fordi de bliver ramt og det bliver målt meget hårdt.

*Interviewer: Men de har altså stor frihed til selv at prisfastsætte kontrakter?*

[4] 47.51

CKJ: Vi går ikke ud og siger til dem ”I skal i gennemsnit have 7½ eller 8 % på alle kontrakter”. Altså det kan vi ikke, det er vi ikke i stand til. Det ville være en helt forkert måde at lede tingene på. De bliver målt løbende og meget tæt.

*Interviewer: Men hvordan med operating margin, den ligger stabilt på lige knap 5 %?*

CKJ: 5.8 – 5.9 %

PHT: Det kommer jo an på hvilken en du måler på.

CKJ: Men det er også ligegyldigt.

*Interviewer: Kan den hæves og er der fokus på at få den hævet?*

CKJ: Selvfølgelig er der det, men man skal også huske på at, fordi man kan jo sammenligne med nogen af vores peers, en af peersene vil jo være hvis du går over i sikkerhedsbranchen og ser G4S eller hvem det nu måtte være for eksempel, som leverer en margin på hvad skal vi sige 8 % eller 7 % bare for at tage et tal, der er forskel på hvor du befinder dig i værdikæden i de services som du leverer. Vi skal huske på at stadig halvdelen af vores forretning er cleaning og cleaning vil alle dage være et mere low margin produkt. Så er der nogen investorer og analytikere som så siger det er fint, men når i så laver de der IFS kontrakter, der må være en premium eller et step up. Ikke nødvendigvis! Det kan der være, men det kan lige så vel være at dit strategiske rationale for at levere flere services er at fastholde din kunde og få bygget det her psykologiske hegn op omkring kunden. For jo mere komplekse kontrakter er jo sværere er det altid for en kunde. Og det vil sige at så kan du når du leverer kontrakten så er det ikke sikkert at der nødvendigvis er mere økonomi i det end hvis du har solgt servicesene individuelt. Men det har du mulighed for at udbygge, hvis du først har kunden inde så er det sværere for kunden at bryde ud. Du har samtidig mulighed for at skubbe for at udvide profitabiliteten på den pågældende kontrakt.

*Interviewer: Så som udgangspunkt er det ikke merværdi lige fra start og bedre indtjening?*

CKJ: Men du kan sige at det der margin, ja margin er pisse stabil, vi kan ikke lige løfte den op til 8 eller 9 %, men det er klart at du arbejder jo på at øge den, hvis du bare kan øge den med 10 basispoint om året eller i hvert fald 0,1 % om året så er det jo godt. Forrige år hævede vi den med 0,2, det var lige aggressivt nok.

*Interviewer: Men det er vel derfor i prøver at udvide til Catering og Security hvor marginen er lidt højere?*

CKJ: Ja ja ja, men ikke altid. Ikke nødvendigvis i catering, i sikkerhed vil den typisk være. Men altså du kan sige at den bør jo være højere i catering, fordi det er typisk forbundet med højere initial investments i køkkenudstyr og hvad ved jeg. Men det der er vigtigt det er at forstå i forretningen at det er stabil margin vi kører, kan du løfte den hele tiden lidt er det fint og så så vi jo tilbage i en periode i 2001 -2003 en mere aktiv contract trimming som jo også var et resultat af at man havde købt nogen margin dilutende forretninger. Du købte maybelive, den største akkvisition nogensinde tilbage i 1999 som dækkede Frankrig, Benelux og et land til sådan jeg husker det, som leverede en margin på 3 % og året i 2000 købte man den der virksomhed som jeg refererede til før som havde en margin på 1 % så det vil sige at for at sikre dig, de to akkvisitioner havde selvfølgelig en diluting eller udvandende effekt på din gruppe margin, så for at sikre dig at du fik marginen bragt op på de der 5½ % på det tidspunkt så du simpelthen nødt til at "slashe" helt ind i de der kontrakter. Så får du marginen op, men det har så også en negativ spill-over på din organiske vækst på det tidspunkt. Nåh, det var en lang historie om den operationelle margin, men det kommer ikke på 8-9 eller 10 %. Altså på sigt kan den selvfølgelig rejse sig, kan den komme på, fra det niveau vi er på nu, til 7 % på Ebita så synes jeg det er godt gået, men det er ikke noget der sker i den nærmeste fremtid.

*Interviewer: Hos Rentokil mener jeg den har ligget på 10 og 8 %, at de så har en masse andre problemer ser vi bort fra.*

CKJ: Du skal huske på at Rentokil har en anden forretning også, de kører typisk med PEST, og pest er high-margin, og det vil sige at når du er ude og banke rotter ned og sådan nogen ting, det har vi også haft i Italien og der lå margin på 16-17 % og før vi købte Tempo i 2004, lå vi også på de der 16 %, men der er bare ikke sustainability i at holde så høj en margin som i pest, udover det i øvrigt også er et meget snævert forretningsområde.

*Interviewer: Med hensyn til benchmark, hvad ville i så sige er jeres nærmest peer, Rentokil?*

CKJ: Det vil være nogen af de store som vi har ovre på skærmen (Rentokil, G4S, Compass osv.), man skal bare huske på at vores competitive landscape det er meget spraglet fordi i et land kan det være, selvfølgelig er Sodexo vores primære konkurrent på catering i Frankrig, men catering i UK er en helt anden, catering i Danmark er en helt tredje, catering i norge er en fjerde bla bla, så du har en myriade af forskellige spillere, du må regne med at der er 75000 operatøre i Europa bare, indenfor det der hedder support service segmentet, altså det vi bevæger os indenfor. Men det er klart at du har nogen globale peers, jeg vil sige på de store globale kontrakter er det vel primært Johnson controls, der er en facility manager frem for en Facility Services Provider, som er vores konkurrent, der tror vi jo på at forretningsfilosofien i at være en self deliver er mere sustainable end at være en ren facility manager. En facility manager er jo en der går ud og får fat i dine subcontractors og så squiser dem for at få en billigere pris, på et eller andet tidspunkt kommer du ned på et niveau der er så tilstrækkeligt lavt at det går udover kvaliteten, altså der er i hvert fald en minimumslønning der skal overholdes for at du kan få rengjort det her rum. Der tror vi på at der er mere værdi i at arbejde med synergierne i at kunne levere flere services og selv levere.

PHT: Og så kan man sige at der er ingen af vores konkurrenter, der som os kan, altså det er enten indenfor catering ELLER security ELLER cleaning, vi kan hele paletten. Og det er det vi siger, et er at vi kan levere hele paletten til dig og vi kan også levere facility management til dig, men det er jo vores value proposition.

*Interviewer: Præcis, det er der er så svært når vi laver bench mark analyser.*

PHT: Jamen det kan du ikke for der er ikke nogen der er fuldstændig lig. Og at vi så også kan få de globale internationale kontrakter i spil og få kontrakter der kører cross boarder, det er altså en meget vigtig en.

*Interviewer: Hvordan var fokus på at få ændringer implementeret indenfor de første 100 dage efter overtagelsen, som er det man taler om i teorien?*

CKJ: Populistisk begreb, altså det vil sige godt og vel 3 måneder efter. Jamen der var ikke så meget, der var jo stadig lidt granatchok rundt omkring. Hvis buddet kom d. 29. marts, så var rundt omkring juli og selve købet blev effektueret d. 11. maj, så skal du selvfølgelig måle fra maj til august. Det der med 100 dage, det der var fokus på var at sikre dig at du havde en midlertidig lånepakke, den skulle jo selvfølgelig erstattes af en permanent lånepakke og der blev selvfølgelig forberedt syndikering som vi lavede i november første gang og havde en bankgaranti i januar og så var der hele det high yield issue altså obligationsudstedelsen i april/maj måned 2006. Så der var ikke noget… Det hænger jo også sammen med at de jo ikke stod med en plan, der skulle eksekveres fordi der skulle laves ændringer

*Interviewer: Der er lavet en McKinsey rapport hvor 80 % af de store ændringer er foretaget indenfor 100 dage.*

CKJ: Det bør de også være for at få fjernet uklarhederne.

*Interviewer: Men her var der så bare ikke så meget der skulle laves?*

*Interviewer: Så er der jeres "Best practise" koncept. Er det helt nede på det operationelle niveau?*

PHT: Det er lidt det her "The ISS way" som vi implementerer. Det vi siger at tidligere havde man 50 lande der har gjort det, ikke på 50 forskellige måder nødvendigvis, men det vi egentlig siger er "hov, der er jo ingen der behøver at opfinde den dybe tallerken i fire lande, vi kan lige så godt se om vi kan lave, udvikle og samle de best practice der er og kører dem ud til landene, for der er også forskel. Du har et land som Frankrig, der omsætter for hvad ved jeg, en 6-7 mia. og så har du nogen der omsætter for 100 mio.. De er meget meget forskellige i deres tilgang og deres professionalisme osv. Så det er ikke alle ting du kan rulle ud, men vi prøver dog at centralisere nogen af tingene og så rulle dem ud. Det der så…

CKJ: Men det er rigtigt at det er på flere forskellige niveauer for det er både på finans, men det er også helt nede på – vi har excellence centre på cleaning og på de forskellige services, jeg tror ikke at det er introduceret på alle.

PHT: Men ja, det er helt ned til hvordan du gør rent.

CKJ: Hvordan du effektivt måler et rum op, hvordan gør du det hurtigst rent, hvordan prissætter du den rigtigt.

PHT: Den skulle egentlig dække, altså i årsrapporten har du vores value chain hvor du egentlig ser på de forskellige steps hvor det kører lige fra employee satisfaction til customer satisfaction og hele vejen rundt. Og det vi så gør for at få det lidt mere operationaliseret, så siger vi ”okay vi kan rulle det ud globalt for alle lande er ikke ens”, nej vi kigger regionalt på det og så siger vi at så er vi etableret på, afhængigt af hvilke niveauer vi befinder os på, om der er nogen regionale fora eller centre som så går ud og implementerer det. Hvoraf Norden er nok det der er længest fremme mht. at få centraliseret noget procurement, centraliseret noget nordisk budgivning osv. og IT cheferne mødes, og finans funktionerne osv.. Så men det er noget vi fokuserer på og vi siger så, vi har en masse gode ideer liggende og vi har også set eksempler på at den samme ting har været to steder, og så siger vi ”Nej nu samler vi altså viden op og deler den”.

CKJ: Et meget simpelt eksempel på det er jo også at vi har nogen store hospitalseksperter siddende i UK for eksempel der har hospitals markedet været outsourcet i lang tid og hvor vi jo har flere kontrakter hvor vi laver alt bortset fra operationen dybest set. Og der har vi så sendt et par folk over til Singapore hvor vi også har vundet en eller to store hospitalskontrakter.

PHT: Jamen vi har 8 ud af 10 nu derover.

CKJ: Rigtigt, rigtigt. Og så har vi nogen security folk fra Australien som er røget til Holland for at være med på hvordan Hollands proces kører på. Så du bruger også de der ekspertiser meget mere på tværs af landene end hvad man har gjort tidligere.

*Interviewer: Så det er rimelig bredt fra alle regioner og niveauer der er oppe at lære et sted?*

CKJ: ja ja ja, og det har man rullet ud i en mere struktureret format nu, men det har ikke en skid at gøre med ejerskabet at gøre for det ville man også have gjort i det andet selskab.

PHT: Det er sådan forretningsudviklingens next step, altså hvad gør man så nu? Så kom vi hertil hvordan kommer vi så de par skridt videre osv.

*Interviewer: Men man kan vel overordnet set sige at forretningsudviklingen er vel blevet accelereret efter der er kommet nye ejere? Altså omsætningen er steget 40 %.*

PHT: Jamen havde du ikke samme akkvisitionshastighed før?

CKJ: Der har været nogen store klumper. Du skal huske på at billedet er lidt farvet af at du køber Tempo som du jo i starten vel ikke, jeg kan ikke engang huske om du prorater konsoliderede Tempo på toppen.

PHT: Man den vel som associerede, havde du ikke?

CKJ: ja ja, så du lavede din US entry, så du havde nogen relativt store nogen, det havde du også tidligere altså, så det er ikke helt i samme scale. Så altså det har ikke rigtigt ændret sig.

*Interviewer: Har der været fyringer.*

PHT: Ja men ikke, altså du kan sige at det eneste der er kommet som resultat af ejerskabet det er vel den tidligere direktion Eric Rylberg og Thorbjørn og Flemming. Andet har bare været drevet af den løbende udvikling i forretningen, så det ville være sket under alle omstændigheder. Så hvis der er nogen der ikke performer, enten på landeniveau eller her, jamen så har vi skilt os af med dem.

CKJ: Men det også vigtigt at huske på at det er jo ikke fordi at de så går ind og så saver de topledelsen, det er mere fordi der er noget kemi der ikke rigtigt kan fungere, det vil sige at derfor finder man at den bedste måde at skilles på er at så finder vi hver vores vej. Det var jo 14 måneder efter så det var på ingen måde planen. Men det hængte jo også sammen med at Eric jo var en af dansk erhvervsliv absolut dygtigste og mest intelligente fyre og han havde meget store frihedsgrader og havde jo selv en meget åben dialog med bestyrelsen men brød sig jo ikke om at bestyrelsen på denne her måde lagde hænderne på hans bord og havde nogen spørgsmål til nogen ting som han vel typisk selv drev og selv udviklede, så det er jo sådan helt på kemi og det personlige niveau.

*Interviewer: Omkring strategien, altså der er kommet i stedet for route 101 er der kommet The ISS way, men dybest set er det jo stadig Integrated Facility Service Management man går efter og IFS huset er præcis det samme, det er endda samme logo der bliver brugt.*

PHT: Men det er en build-on kan du sige for de gamle eksisterer jo stadig på den måde at koncepterne derfra er rullet ind i den nye, men du meget ind i det her best practise og knowledge sharing og hvad hedder det. Hele det her vidensdeling er egentlig det der er puttet ovenpå og så hele corporate clients setuppet. Det er vel nogen af de vigtigste ting der er kommet på

CKJ: Det er jo også i erkendelse af at de tidligere strategier var rigtige, men de passede sig, og de er stadig rigtige, men de passer ligesom ind i de forskellige faser. Jeg vil også sige at Route 101 strategien var ret vigtig for, og det der kom op før den Create 2005, for at få skabt en platform som vi har i dag til at kunne styrke og til at kunne kvalificere os til at være en global provider havde vi ikke haft det så var vi ikke i stand til at kunne vinde de der store kontrakter de globale kontrakter, så det har været den rigtige strategi hele vejen igennem, men man har så også sagt at nu er det vigtigt at nu mener vi at vi har en tilstrækkelig stor platform på globalt plan  til at sige det er det her vi bygger videre på, de steder hvor vi så har måtte mangle nogen services eller en geografisk placering er det ikke så vigtigt for os, det kan det være, vi skal overveje om vi skal købe servicen hvis vi kan få den billigt, men det er ikke så vigtigt for os, så er det vigtigere for os at vores folk er i stand til at kunne håndtere subcontractors fordi det kan være at vi ikke mener at der er et fornuftigt marked for os til at gå ud og købe den her, enten fordi de er for dyre eller fordi de ikke lige passer ind. Det kan også godt være at man ikke er i stand til at håndtere en pågældende service i et pågældende land fordi man ikke har ekspertisen til det og så er det mere hensigtsmæssigt at insource den.

*Interviewer: men hvor meget er ejerne eller bestyrelsen inde i strategi planlægningen, altså nu har i den her strategi i kører efter?*

CKJ: Altså de er selvfølgelig med i den løbende vurdering i den forstand at vi jo her i slutningen af juli præsenterer den opdaterede strategi plan for perioden 10-12, og det vil sige at den skal selvfølgelig godkendes af bestyrelsen, og så er det klart at den bliver ikke bare godkendt, den bliver også udfordret af bestyrelsen og ultimativt godkendt, så de er selvfølgelig med, men det er jo ikke dem der sidder og forfatter arbejdelserne.

*Interviewer: Så på den måde er ikke ændret noget fra tidligere?*

CKJ: Der er jo også noget sustainable i den her strategi for det er vigtigt at sikre noget, som Peter sagde før, fokusere på forretningsudviklingen, fokusere på din operations efficiency, altså gøre tingene på nogen mere effektive måder og samtidig fokusere endnu mere på organisk vækst.

*Interviewer: Så den bliver formentlig ikke skrottet den bliver bare udviklet. Tegningen til denne strategi blev jo også allerede lagt i midt 90'erne*

CKJ: Jeg vil også sige at man er kommet til erkendelsen af at der er nogen lande hvor IFS er for lagt nede af vejen fordi det pågældende land eller marked ikke er tilstrækkelig modent til det så der kommer ikke til at ske noget, altså en general accept af at integrationen af de forskellige services over de næste par år. Det kan være igen et land som Østrig bare for eksempel, og det er så ikke tilfældet for østrig, det kan være at du har nogen forskellige og det vil sige den erkendelse er mere legitimerende i dag hvor man ser at vi bliver nødt til at tage højde for de ting. Det nytter ikke at vi bare hævder at vi kan lave fuld hammers i alle lande. Og det synes jeg også er ret vigtigt i den del af strategien.

PHT: Men det er en bevidst del af strategien, lige at gå ind og mappe og sige vi er i land x hvordan ser vores markedsforhold ud, hvordan ser kunder ud og hvordan ser vores konkurrenter ud, hvad betyder det for hvilke services vi skal være i frem for at man kommer og siger "ok når men nede fra hylden fra ISS oppe på hovedkontoret der har vi en fem søjler og vi har en oversøjle vi skal have dem alle sammen i vores land". Nej det skal vi nødvendigvis ikke og det skal være ud fra nogen konkrete markedsforhold.

CKJ: Meget mere kvalificeret.

*Interviewer: Og det kommer vi så lidt mere ind på at i siger at man ikke bare kan gå ind med hele produkt paletten i hele verden, hvordan ændrer i så produkt mix og geografi, for eksempel i forhold til at gå ind i USA?*

CKJ: Det har ikke en skid at gøre med ejerskabet, for du skal huske på at vi har mappet det amerikanske marked i 2-3 år før at ejerskiftestrukturen kom og der har været flere potentielle kandidater som man har kigget på og i hvert fald en eller to, som man har været ret langt med, men hvor man ikke var enige om prisen.

*Interviewer: Så det har de ikke haft noget med at gøre, det har hele tiden været planen.*

CKJ: Ja, det har hele tiden ligget i kortene.

*Interviewer: Det var vel heller ikke bevidst at man røg ud af USA i første omgang, og vel snarere grundet svindel?*

CKJ: Præcis, så derfor har der også været, ikke berøringsangst, men altså man har selvfølgelig været endnu mere obs på det marked end man har været på mange andre lande.

PHT: Man skulle også have det lidt på afstand, ik?

CKJ: Men det er ikke fordi at man først siger at så åbner vi posen når nu de nye ejere kom til. Man arbejdede også på det i årene op til. Du har haft kandidater på sådan relativt tæt hold hvor du egentlig måtte sige nej tak til sidst. Pga. pris og konditioner.

*Interviewer: Har i outsourcet nogen support funktioner?*

PHT: Nej vi er ikke, altså du kan sige qua vi er i modsætning til nogen andre koncerner som siger at vi er så ens i de 50 lande vi opererer i så vi tager for regionerne og laver shared service centers der der og der, og så kører vi med alt det. Sådan er vi slet ikke struktureret, vi er struktureret, i hvert fald ind til videre hvor du har landene og de er meget entreprenør agtige og de kører deres eget. Altså du kunne egentlig cutte benene til hvert land og det ville kunne køre videre. Selvfølgelig ville du mangle noget finansiering, du ville mangle noget strategi osv. osv. men de vil kunne fungere på stand alone basis on a day to day basis. Så nej vi har ikke noget shared service center eller noget i den stil som er outsourced.

*Interviewer: Man har ikke overvejet om det kunne have nogen fordele frem for at lade dem kører for hver enkelt.*

PHT: Du kunne tage det som næste skridt, fordi du ville kunne se det i norden som er dem som er længst fremme i det her regionale setup. Hvis det er sådan, så kunne det godt være at de kunne komme om nogen år og sige "hmm kunne det være at vi skulle centralisere vores invoicing eller vores et eller andet", men det er langt ude.

CKJ: Du har forskellige IT systemer i mange af landene, du har forskellige måder at gøre tingene på, du har forskellige måder at. Selvfølgelig kunne du så sige skulle du ikke bare have best practises, jo det kunne man godt, men der skal man bare huske på at hvis du også samtidig har nogen individuelle kundeaftaler så er det ikke helt lige så nemt som det. Og tror mig at hvis det var, så havde man implementeret det.

PHT: Du gør det på en anden måde hvor du så siger "ok, på procurement siden, den del som vi kan påvirke som er det der ikke er lønningsbaseret der har vi jo globale aftaler", med vores leverandører, f. eks. Leaseplan som supplerer biler, med Ford og Renault som også supplerer os, vores rengøringsartikler; JohnsonDiversey, vores tøj, vores papirvarer. Der er nogen globale aftaler, de bliver rullet ud til landene og de vilkår der er effektueres. Så på den måde har vi jo noget der er centraliseret.

CKJ: Du har også ret Peter for der er ingen tvivl om at næste skridt i dine sharing af best practise, altså din organisatoriske alignment er jo med og skal vi sige faciliterer du vil i højere grad kunne….

PHT: Det er ikke noget der sker på den korte bane. Men jeg vil da ikke afvise at om 2-3 år at sådan nogen som Norden kunne komme frem og sige kunne det være næste step for os. Nu har vi fundet ud af at det og det og det virker.

*Interviewer: Jeg tænker også sådan noget som IT practise, det burde måske også…*

PHT: der har vi selvfølgelig lidt, forstået på den måde at vi har ikke fælles IT platform i alle landene qua at nogen af dem jo er blevet købt op som et helt land, og så har de fået lov til at køre videre på det, men det vi egentlig har gjort for nogen år siden er at vi har sagt ok til de mellemstore og nye lande, der har vi egentlig udviklet en Navision platform som de kan kører ind med og den begynder vi at sige nu at alle de store også kører på. Vi tvinger dem ikke over på den, men vi siger at hvis i skal skifte så skal i komme med nogen ret tungtvejende grunde hvis i skal vælge noget andet i hvert fald. Men jeg, man kan have forskellige holdninger til det, min personlige holdning og det er nødvendigvis ikke ISS holdning, er at en global it platform er ikke nødvendigvis det bedste at rulle ud. Alle lande kan ikke køre på SAP og der er ISS nok en koncern der er endnu mere kompleks end så mange andre for du kan sige at landene varierer i størrelse, varierer i kompleksitet, varierer i erfaringsniveau og kompetencer, så at smide en SAP ud left right and center det tror jeg ikke på. Det tror jeg personligt ikke på.

# APPENDIX 5: INTERVIEW WITH JAKOB STAUSHOLM (JS), CFO OF ISS

## July 30, 2009.

*Interviewer: Ja men det var som vi lidt talte om sidst kunne det være sjovt at høre din vurdering af det, dels fordi du har meget med det finansielle at gøre og har været her lidt kortere tid så du kan vurdere forskellene til hvordan man arbejder i andre virksomheder. Så det første vi selvfølgelig har kigget meget på er at vi kigger på fire ben i vores rapport; Financial Engineering, Strategisk, Governance og så Operational engineering. Og det første omkring det financial engineering det er sådan i forhold til arbejdet med kapital strukturen, for det var i hvert fald, som jeg også kunne forstå på Christian sidst der at de store ændringer skete efter i blev overtaget.*

*Hvordan er din holdning til det? Vi kan starte ud med det lidt generelle, det er de første tre spørgsmål vi har i forhold til de mest synlige ændringer var i forhold til skiftet af ejerskab.*

JS: Altså nu har jeg ikke være med på det pågældende tidspunkt, men jeg kender til historien meget godt, men det er på anden hånd, ik.

*Interviewer: Men hvad med i forhold til Shell (hvor Jakob kom fra forinden)?*

JS: Jamen der er forskel på hvordan vi arbejder. Men af de ting der er fedt det er jo at vi ikke hele tiden skal ud at forklare os i markedet, vi hele tiden skal ud at forklare os til en gruppe folk, der faktisk dedikerer en stor del af deres tid til det her, således at man fra det samme har en forståelse og man ved hvordan og hvorledes situationen er fordi det er jo bare sådan at vindende strategier er jo sådan at du vælger en strategi og så holder du fast i den over en rimelig lang tid næsten som alle virksomheder og være fokuseret omkring eksekveringen af din strategi. Og det kan være svært hvis du hele tiden skal ud og forklare til markedet hvor dit sentiment ændrer sig hele tiden fra det ene øjeblik til det andet øjeblik og man vil hele tiden have et nyt spin på sin historie. Der vil jeg sige at der har det givet rigtig god ro med det ejerskab vi har haft. Vi kan også se at for eksempel bestyrelsen, der er det de samme bestyrelsesmedlemmer mere eller mindre, der har været der fra starten. Der er mange folk der har været med og fulgt det hele vejen igennem og også nu sidder i dag fire år efter de har overtaget ISS og siger at det her det er vi godt tilfredse med. Der er ikke noget med at ”her lave I en fejl”, nej det er ”her lavede VI en fejl”. Og vi har været sammen om at træffe nogen beslutninger. Så det har helt klart givet den ro til at vi har kunne lave det vi gerne ville lave. Så for mig at se er der ikke meget forskel på at drive forretning her eller drive forretning i Shell. Det er mere typen af forretning der anderledes, ik.

*Interviewer: Men man kan sige at vi talte også om med Christian sidst at der er jo stadig en eller anden form for investor relations bare i forhold til obligationshaverne.*

JS: Ja det er klart og det er der selvfølgelig meget arbejde med, og det er en risiko når man er highly leveraged at man bliver for serviceorienteret mod debt holders, fordi det skulle jo gerne dreje sig om at skabe aktionær værdi, frem for blot at køre så lav risiko som overhovedet muligt for bond holders, for det vil de jo gerne have. Og derfor har du jo hele tiden det der trade off, du vil altid have at bondholders synes at man ikke skulle lave opkøb for eksempel fordi de vil have en lav risiko.

*Interviewer: Men den anden case vi har med DT Group de har lavet finansieringen helt anderledes hvor gælden ligger hos private equity fundsene, så DT Group låner fra private equity fondene. Så de slap helt for det med investor relations, så hvad er årsagen til at i ikke…?*

JS: Jamen det har jo noget at gøre med at det er anden størrelse af virksomhed, du skal op i en ISS størrelse for at du kan have volumen, og for at du kan have brand recognition osv. til at du kan invitere dine egne obligationer. Med den størrelse og den gæld, vi har ca. 32 mia. kroner gæld, der er det opklart for os og drage nytte af forskellige kapitalmarkeder og have obligationer med forskellig sikkerhed, med forskellig maturity osv. og også have et lånesyndikat osv. Så jeg tror at det er den forskel det kommer an på.

*Interviewer: Hvilke unikke værktøjer ser du kapitalfondene levere til ISS?*

JS: Finansieringen er de jo rigtig gode til. Finansieringen er det jo helt fantastisk, og nu kan du se, Jeg ved ikke har i kigget på, følger i med i hvad der sker i ISS?

*Interviewer: Ja, vi følger rimelig godt med, kan man sige.*

JS: Så i har set at vi er gået i gang med en proces omkring refinansieringen af…

*Interviewer: ja af 2010'erne.*

JS: Præcis. Det gik vi ud med i sidste uge, og der har vi så Goldman der rådgiver os og både Goldman og EQT er utrolig engagerede i det her arbejde og virkelig er med til at øge vores professionalisme omkring den her finansiering. Og man må også sige at vi er kommet ind i den her makroøkonomiske krise som vi befinder os i lige nu, med en fantastisk kapital struktur, vi har virkelig en god lang løbetid på vores lån osv. det er en fornøjelse. Så hele den del som jo er en del af overtagelsen det er det sted hvor de har de spidskompetencer.

*Interviewer: Det er der de er inde i gamet og har bidraget med god assistance? Så du har stor kontakt til ejerne?*

JS: Ja på det område har jeg, der har vi altså meget daglig og især, mødte i Christian Kofoed? Han er meget, altså principielt har ejerne ingen anden adgang til andre end os tre i direktionen, men når det kommer til finansieringen har vi en helt anden løbende dialog og det er sgu i vores egen interesse, vi vil gerne have mest mulig input fra dem. Og de sidder jo med de samme banker som vi ser og vi kan sikre os at de formidler de rigtige budskaber.

*Interviewer: Hvis vi så kigger på det du selv sagde, den makroøkonomiske krise, hvordan den… Vi snakkede sidste gang med Christian Kofoed omkring den finansielle og den økonomiske krise hvordan den finansielle, nu har du jo selv været inde på det, hvad det betyder når i skal refinansiere nu. Altså hvordan det har påvirket det, det er i hvert fald noget der er blevet talt meget om det sidste års tid?*

JS: Ja klart. Altså markederne har jo principielt været lukket i en periode, og der er jo rimelig lang tid til det andet halvår 2010, men det synes markedet jo så ikke. Så der har været perioder hvor der har været meget pres på de her ting. Vi har og nu har vi jo så afsløret det i sidste uge, vi har i lang tid arbejdet os hen i mod det man kalder asset backed securitization, hvor vi så at sige udsteder et værdipapir på baggrund af vores debitorer. Og det kan struktureres som et rigtig rigtig sikkert produkt og derfor kan det sælges med en meget meget lav rente, så det er en ekstremt billig måde at finansiere os på. Det er bare administrativt et kæmpe arbejde at sætte op og derfor tager det også noget tid så vi har egentlig været rolige hele vejen igennem men vi har ikke kunne sige noget til markederne omkring det. Og det vi så gør nu, som i kan se på, det er at samtidig udsteder et senior unsecured lån oveni og det skulle gerne refinansiere de 2010'er. Når vi har refinansieret det så har vi ikke noget refinansiering de næste 3-4 år, og det giver jo en enorm ro i virksomheden.

*Interviewer: Ja men det er ikke også et typisk kapital fonds værktøj. Det er i hvert fald i det teoretiske fundament vi har, der er asset backed security også noget som de har arbejdet meget med, eller er det noget du tror ville være… Er det noget de ligesom har talt for i form af deres bestyrelsesleder eller?*

JS: Jamen altså vi har jo det der hedder en financing commitee i bestyrelsen og der har vi snakket om det. Nu havde jeg så lidt erfaring med det fra Shell og så sagde jeg "det er det rigtige, det går vi efter" og det var vi alle sammen enige om.

*Interviewer: Men hvordan har den sådan ellers påvirket, selvfølgelig har det påvirket forretningen også, det var de inde på sidst.*

JS: Der er da, altså konkret set er det jo ikke så mange ting som der skal laves om, det har jo hele tiden været strategien fra deres side af. De mente at de købte et godt selskab og det tror jeg også de gjorde, men jeg kender ikke selskabet 2005, ik. Så det var ikke meningen at alt muligt skal laves om, men det er jo lidt ligesom når man køber sit eget hus, så går man også ud og låner nogen penge i forbindelse med det og det er jo kapitalfondsmetoden at du går ud og køber, skyder noget egenkapital ind, men låner nogen af pengene, ikke. Og den måde du så bygger det op på med en holding struktur det er jo at du skal selvfinansiere dit køb så virksomheden skal selv finansiere kan man sige sit eget opkøb, ikke. Og det er klart at det er en helt anden kapitalstruktur og det er en ekstremt hård gearing, ikke gearing der er bekymrende fordi hvis du ser på hvad vores indtjening er i forhold til vores renteudgifter så ser det fornuftigt ud, men nu er der så siden hen sket en række ting med skatteændringer osv. som gør det lidt anderledes, ikke. Så der er jo ikke helt så meget fidus i det mere som der tidligere har været.

*Interviewer: Men den slår vel først endeligt igennem her snart, i har haft en del udskudt skat?*

JS: Ja netop, fuldstændig korrekt.

*Interviewer: Men nu begynder det jo…*

JS: Ja der er ikke så meget værdi af det, det er jo ikke negativt, du får bare ikke længere den positive værdi, som et tax shield ellers vil give dig. Men tanken er jo også at på en eller anden måde skulle vi jo også deleverage, altså vi har deleveraged på multiple basis således at vores indtjening er steget mere end gæld. Men man kan spørge sig selv om skulle man på et tidspunkt arbejde på den absolutte gæld og det er jo det der vil ske i et exit også.

*Interviewer: har i sådan ændret, altså der har været talt om at lave en IPO i løbet af 2007 men har i efter det lagt nogen planer om hvad løbetiden skal være.*

JS: Næh, det har vi ikke, men det er da klart at sponsorerne har været inde i fire år og de vil gerne ud om nogen få år og nu laver vi refinansieringen og så har vi en tre fire år at løbe på og det vil da være mystisk hvis der ikke blev søgt efter en exit inden næste refinansiering kommer.

*Interviewer: Men man kan sige markedet skal jo også være til det og det ville ikke være optimalt at gøre i den nuværende markedssituation. Men det som du selv nævner med holding strukturen, det er jo et stort arbejde når vi skal sidde og lave finansielle analyser på vores plan, når der er en holding struktur, der munder ud i Luxembourg og med en masse selskaber under sig.*

JS: men det er jo ret simpelt egentlig vores struktur. Nu forklarer vi jo den igen og igen og igen til banker osv. og det er jo bare dabdabdab og du har jo det globale som er vores mest kreditværdige enhed hvor du har alle datter selskaberne hængt op på, og så har du A/S, ISS A/S ovenpå og så har du jo ISS holding som jo nu er det selskab som vi har valgt til at udgive årsregnskab, ligesom defineret som koncernen. Og selskabet der ejer koncernen det er jo så ISS Equity og så har du så i Luxembourg og hvis du lige ser kort på det med bankerne så er det der er interessant, ISS Equity det er ligesom uden for koncernen og alt det derover er jo ligesom irrelevant, men fra Holding og nedefter er der jo så en række ting der er relevante omkring kreditværdighed, og der kan du jo også se at vores vi har visse EMTN'er udstedt globalt som har en lav yield, ikke. Og så vores high yield som er udstedt i holding den har den laveste sikkerhed, altså den er efterstillet, og den har så et meget højere afkast. Så det er egentlig en ret smart struktur vi har der med at…

*Interviewer: Så i har mulighed for differentiere produkterne?*

JS: Det bliver du nødt til, for du kan jo ikke få lov til hvad som helst når du laver tingene på syndikat.

*Interviewer: Så du kan sige ISS Holding som er det selskab der kommer årsregnskaber for, der ligger selvfølgelig størstedelen af gælden der er synlig der, og så ligger der så vidt vi kan se lidt yderligere gæld i ISS Equity, men det er sådan i modsætning til hvordan Dansk Trælast gjorde det, for de lagde al gælden i holding selskabet bagved, så hvis man kiggede på det officielle årsregnskab kunne man ikke se det. Man kunne selvfølgelig se hvad de havde af hvem der var det ultimative moderselskab hvor gælden lå, men på den måde er i vel rimelig udadvendte og åbne ud mod offentligheden i forhold til jeres gæld.*

JS: Nu er det sådan tit og ofte ledelsen har alle mulige følelser omkring det "det ødelægger min bundlinje og lign.", men vi skjuler ikke at vi har den gæld og jeg kan ikke se nogen ide i at prøve at holde tingene forskelligt, det er jo ikke al gæld der ligger på holding, vi har jo masser af gæld nede i selskaberne og det er jo det som vi forsøger på, hvilket jeg synes er yderst fair er at vi har jo ikke lyst til at holde gælden bare i et selskab her i Danmark, dels er det ikke skatteoptimalt vel. Altså som udgangspunkt er min tanke at gæld skal ligge i forretningen, når vi køber forretninger rundt omkring i verden så prøver at presse så meget gæld ned som kan rundt i de enkle lande, det giver jo selvfølgelig skattefradrag, men det er urimeligt overfor de danske skatteydere at man udelukkende søger om at få fradrag for sine renter i danmark. Så du prøver at presse gælden ned i koncernstrukturen, men det er jo på samme måde du bruger dine penge og du investere dine penge nede i koncernen du ser jo ikke. Altså vi investerer jo ikke mange penge i Danmark, vel. Vi investerer rundt omkring.

*Interviewer: Især for en virksomhed som ISS der jo er global.*

JS: Nej, vi køber ingen virksomheder i Danmark. Altså jeg tror vi har købt en til 20 mio. eller et eller andet lignende.

*Interviewer: Da ISS blev overtaget så fik obligationshaverne et ordentlig smæk, har det påvirket jer senere hen i forbindelse med finansieringen.*

JS: Nej, vi har aldrig mærket det. Jeg har hørt historier, men der har aldrig været en eneste fra bankerne, der har nævnt noget som helst, og jeg har mødt simpelthen så mange fra den finansielle verden, der er ingen der har nævnt noget om det, men jeg har hørt de der historier, og jeg læste ikke selv aviserne for jeg boede i udlandet, om at folk følte sig snydt, men nu kan du se, nu er vi der hvor vi er henne ved maturity og vi har hele tiden sagt at "jamen det forstår vi ikke, vi låner nogen penge i 5 år ved en fast rente og så betaler vi lånet tilbage og det er jo det vi gør".

*Interviewer: Ja ja, men den gang kom der i hvert fald en kraftig reaktion som gjorde at deres værdi, fordi i optog en masse anden gæld, så blev deres obligationer næsten halveret.*

JS: Hvem siger at du skal ligge og handle i dem, du har givet et lån så bliver du givet ved par ved udgangen. Så det forstår vi slet ikke.

*Interviewer: Men der blev optaget en masse risiko som ramte på obligationssiden.*

JS: Jamen sådan er det jo "a deal is a deal" og tingene er jo skrevet ned, ikke.

*Interviewer: Så det har ikke påvirket jer sådan det store, heller ikke i forhold til refinansieringen.*

JS: Det mener jeg ikke. Man kan selvfølgelig sige at de banker, der har lavet den udstedelse hvorfor har de ikke indført den extra control klausul. Og det er der bare ingen der har tænkt over. Der var heller ingen, der regnede eller tænkte over at ISS ville blive opkøbt af en kapitalfond. Det kom simpelthen som en overraskelse for alt og alle.

*Interviewer: Man kan jo så også sige at selvom Eric Rylberg havde været inde med en MBO i stedet for så, kunne der jo have været det samme. Altså hvis han havde været inde og opkøbe det.*

JS: Jah.

*Interviewer: Men ja de burde nok have lavet nogen klausuler…*

*Yes, men skattereglerne har vi ligesom været inde på. Du har kort nævnt at de har gjort en stor indflydelse, så det ikke er lige så lukrativt at have den store gæld som det har været tidligere, det giver jo ikke noget dårligt billede, men du har jo den der fradragsbegrænsning jo. Hvordan påvirker det sådan i kroner ører, jeg ved godt at i skriver det i…*

JS: jamen som du selv allerede har gennemskuet, så har det jo ikke påvirket kroner ører noget som helst, men det betyder jo noget i fremtiden og det der er problemet og det som er meget uheldigt som den danske regering er nødt til at tænke godt igennem, det er at det påvirker vores konkurrence evne, for dybest påvirker det jo overhovedet ikke vores indtjening her og nu, det påvirker vores fremtidige investeringskalkuler, det øger vores WACC og det er et problem. Og nu det seneste de har gjort, først lavede de det der med at det er 80 % man ikke kunne fratrække når man købte op i udlandet og nu har de så fjernet de sidste 20 % over en periode. Det er meget meget dumt, for man skal ikke tro at en koncern kan opkøbe virksomheder i udlandet og så overhovedet ikke har behov for at optage gæld og det man så principielt siger, det er at koncerner, der har hovedsæder i Danmark er dårligere stillet end koncerner, der har hovedsæder andre steder i Europa så det er klart det uhensigtsmæssigt.

*Interviewer: Er der så overvejelser om at flytte hovedsædet?*

JS: Men altså det er der ikke planer om, men det er da klart at det er uholdbart på længere sigt,

*Interviewer: Det svækker altså jeres konkurrenceevne? Men det har jo så også været talt om at skulle der laves en IPO skulle det ikke nødvendigvis være i Danmark, i og med at forretningen ligger…*

JS: Nej, det er jo klart at der vil vi jo se på… Nu er det jo heller ikke sikkert at det bliver en IPO.

*Interviewer: Hvis man ser på Governance Engineering i forhold til bestyrelsens arbejde og den måde det ligesom er kommet ind overfor, det er jo også noget kapitalfonde arbejder meget med, hvor tæt er direktionen og bestyrelsen?*

JS: Jamen der vil jeg så sige at, der er det jo egentlig meget mere normale forhold end de fleste andre kapitalfonde, at vi kører normal bestyrelsesgovernance. Der er jo en række, jeg tror ikke at du vil se nogen anden dansk virksomhed, der har så international en bestyrelse som vi har og i vil se at det er tunge industrialister, altså koncernchefen i Skania, CFO'en fra Deutsche Post osv.

*Interviewer: Men det er jo netop en ændring som kapitalfondene har været med til at indføre.*

JS: Selvfølgelig er det det, men det har ikke noget at gøre med hvem der peger på dem, de folk gider jo ikke at drive tingene, sådan lidt på en management konsulent basis, de vil køre de efter nogen fornuftige governance principper som de har lært og de har siddet i en lang række andre bestyrelser, så det der er hele pointen er, og det er meget EQT, der altid har haft det her med at de tror på en god corporate governance og derfor opfylder de gængse kodekser, plus de ser på en række internationale kodekser fordi de folk vi har i bestyrelsen de har en del erfaring med internationale corporate governance kodekser, så det egentlige bestyrelses arbejde er meget traditionelt. Heldigvis vil jeg sige for jeg ved hvordan en række andre kapital fonde hvor ejerne tror de skal rende rundt og spille daglig ledelse i virksomheden og det tror vi slet ikke på. Og det gør de heller ikke her. Det kan de heller ikke for der er også en anden ting man skal gøre sig klart og det er at ISS er så gigantisk stor, de virksomheder som kapitalfonde normalt kigger på er mindre end de fleste end vores datter selskaber og det er bare en helt anden ting. Så du kan sige at du kan forstå hvorfor de har fingrene nede i deres selskaber på samme måde som jeg har fingrene nede i mine datterselskaber

*Interviewer: Det er måske også sværere for de små selskaber at tiltrække den kvalificerede arbejdskraft som ligger i kapitalfondene hvor i måske har nemmere ved det.*

JS: Præcis. Altså folk her, der er en utrolig dybde i bare 100 mennesker herinde, de folk vi har her det er selvfølgelig top class.

*Interviewer: Så der er selvfølgelig dialog med bestyrelsen og de giver jer vel også, i og med at de er så professionelle og har den gode historik de har, en god sparring.*

JS: Jamen det synes jeg. Det lever fuldt ud op til de bedste standarder i Danmark.

*Interviewer: Så de blander sig altså ikke i det daglige arbejde og tror at de ved mere om driften.*

JS: Overhovedet ikke, altså vi taler kun sammen til bestyrelsesmøderne, altså syv – otte gange om året. Og det er det.

*Interviewer: nu ved du ikke hvordan det var inden, men det er altså ikke dit indtryk at frekvensen af bestyrelsesmøder er steget?*

JS: Nej, men altså det er en aktiv bestyrelse, det er en af de ting der gør sig til forskel på nu og før, det er jo at vi alle sammen har investeret i virksomheden inklusiv bestyrelsesmedlemmerne.

*Interviewer: Men man kan jo også sige at i og med at i har fået etableret de her forskellige komiteer som mødes uafhængigt af bestyrelsesmøderne så er der en øget frekvens i forhold til…*

JS: Jamen det ved jeg ikke om der, altså sådan noget som auditing commitee eller remuneration commitee som er en hel basal ting de mødes to eller tre gange om året, så det er ikke. Der er en ting som vi gør lidt mere ud af, der er måske to ting vi gør lidt mere ud af, vi har en finance commitee og når vi mødes der kan det godt være at vi har en masse telefonmøder, jeg har et telefonmøde i morgen når nu vi laver refinansiering, så kan det hele sådan lidt. Og det er jo fedt for os for så tager vi lige og siger at nu skal vi lige have fat i ejerne så den kører intensivt. Og så en gang imellem når vi laver opkøb så har vi en akkvisitionskomite, fordi det er ikke så meget at vi ikke har lov til at lave opkøbene selv men der er også et finansieringsaspekt omkring opkøbene så den diskussion er værd at have med aktionærerne.

*Interviewer: Der er vel også en fordel i forhold til et gængs offentligt tilgængeligt selskab at i ikke skal ud og lave en generalforsamling, altså der kommer en hurtigere beslutningstagningsproces.*

JS: Ja.

*Interviewer: Hvordan går cash conversionen som er jeres første prioritet, hvordan påvirker det den daglige operation?*

JS: Det er det der er en af de helt store styrker, jeg ved det lyder så banalt og folk. Du kan læse så mange artikler om at det drejer sig cash, men det er egentlig meget få virksomheder, der forstår hvad det drejer sig om. Og det er jo meget simpelt ved at ja vi er drevet af lønsomheden, altså vores EBITA margin og ja vi er drevet af organisk vækst, men førend alt det kommer vores cash, fordi det har noget at gøre med at tjene penge, ja det er meget godt, men det er ingenting værd hvis ikke kunderne betaler. Så det er det med at hele tiden det at pengene er først tjent når de er i kassen, og det er så simpelt, men folk tænker det ikke. Og der er store flotte virksomheder der er gået konkurs til trods for at de til den sidste dag tjente rigtig gode penge inkl. Enron. Og det ligger bare så dybt nede og vi ved bare at når der begynder at være en enhed eller et land der begynder ikke at få deres cash conversion ind og bliver ved med at tjene gode penge så siger vi "Hmm, det ser ikke godt ud, det må vi lige ned og se på" og igen og igen viser det sig at der er noget galt for når du ikke får pengene hjem, så er der noget galt og der er noget galt med at enten så har du kunder der er ved at gå konkurs eller også at du ikke leverer det rette produkt eller dårlig kvalitet og så brokker kunderne sig og betaler ikke regningerne eller også har du ikke styr på dine interne processer og så får du ikke faktureret til kunderne i tide. Altså alle de der ting det er alle sammen indikatorer på at det ikke fungerer på den rette måde.

*Interviewer: Og det er noget der er fokus på konstant?*

JS: Ja dagligt, hele tiden… og vi går hver eneste enhed igennem i detaljer hver måned.

*Interviewer: For at holde øje med at det bliver overholdt fordi det er så vigtigt.*

*Det er jo også et meget godt rapporteringsværktøj.*

JS: Hammer godt. Jeg har aldrig set noget lignende.

*Interviewer: Vi så også med rapporten nede hos Christian sidste gang, det var voldsomt. Ja men altså rapporteringen du ved jo ikke hvordan det har været før, men er det dit indtryk den er mere detaljeret end...*

JS: Nej det er den ikke. Det her har ikke noget med kapitalfonde at gøre, det har noget med at gøre at det ligger i generne og så havde man en gang skandale i 90'erne med USA. Og det var også et chok, så det er noget der er bygget op over meget lang tid, det er bare et ISS karakteristika uafhængigt med ejerskabet.

*Interviewer: Det der også er generelt med ISS casen når nu vi er gået ind her, det er også at det er utroligt så få ændringer der er lavet. Altså strategien er mere eller mindre den samme, der bliver endda brugt de samme ikoner fra tidligere og operations det er de samme mål der bare er sat mere fokus på, det eneste der egentlig er sket af ændringer det er finansieringen og governance.*

JS: Ja men det er en helt anden størrelse selskab, der er jo forskel på, altså da vi blev taget over, der var vi jo næsten ikke kommet ind i sydamerika og i fjernøsten og nu har vi over 100.000 ansatte i fjernøsten, den ekspansion der har fundet sted er jo helt unik.

*Interviewer: Ja man kan sige at de hele er blevet accelereret.*

JS: Ja, lige præcis. Hvis man kigger på nogen af vores rigtigt velfungerende områder, sådan noget som vores nordiske forretning er jo gået fra at være sådan "sort of okay" til at være sådan totalt star. Så der er en masse. Men det er jo også lidt det den tanke vi har, du skal skabe et godt stabilt arbejdsmiljø for at virkelig skabe ekstra, og jeg har stadig ikke set. Altså hvis du prøver at ændre alting så ender det tit og ofte med at blive sådan lidt below average det hele. Du er nødt til at pick your battles, ikke. Så der er rigtig mange ting som vi bare har holdt fast i, så er der også nogen ting som vi driver benhårdt for at gøre en forskel.

*Interviewer: Men ser du det som noget der skyldes kapitalfondene, den måde at køre på?*

JS: Det er jo ledelse, det er generel ledelse. Men det som de er gode til kapitalfondene, det er selvfølgelig at de tænker hele tiden shareholder value, ikke. De presser os til at sætte os ned, jeg har sgu ikke set andre danske virksomheder gøre. Det kan godt være jeg sidder og taler om lønsomhed og vækst og al den slags, men hvem sætter sig ned og regner ud og siger "jamen nåh ok, men hvor meget værdi skaber det så for de enkelte komponenter i hver eneste enhed og sådan noget" og det sidder vi altså at gør. Og det er sgu meget sundt.

*Interviewer: Det er jo også vigtigt at holde sig for øje, i og med at i også har den gæld som i har det gør vel også at i er nødt til at holde fokus på at få den cash conversion hjem så i kan servicere jeres gæld.*

JS: Ja man kan sige at hvis vi ikke gør det skulle vi finansiere endnu mere gæld, ikke. Man bliver meget mere bevidst om at man har ikke behov for mere end den marginale renteudgift.

*Interviewer: Så man kan sige den finansielle engineering, den har vel også gået ind og påvirket den operationelle engineering og har ligesom ledt til at den er blevet -…*

JS: Jo men vi bliver hold til ilden med vores gæld, så i den henseende er gælden sund.

*Interviewer: Ser du at der kommer en påvirkning af at der er et midlertidigt ejerskab, altså at der er tale om at man indenfor en specifik årrække, den er så rykket, men der skal så bare skabes værdi og der skal skabes en vis forrentning?*

JS: Det har man skulle hele tiden, men det er da klart at vi bliver nødt til at have en knivskarp exit historie som jeg også mener at vi stille og roligt bygger op, men det er klart sådan talmæssigt er det svært at bygge op i den dybeste recession i 50 år, ikke.

*Interviewer: Men det er mere med konventionelle virksomheder hvor der egentlig ikke er et sluttidspunkt for dem, altså i skal arbejde videre ud fra vision og mission, men - …*

JS: Der er jo ikke noget sluttidspunkt for ISS, men det er et spørgsmål om hvor hurtigt kan du komme derhen hvor du gerne vil, fordi som du siger så store strategiske ændringer har der ikke fundet sted, og hvis du spørger vores landechefer rundt omkring i verden, så vil de sige "hold da kæft over det sidste år der er ISS godt nok blevet et andet selskab" og vi udsender meget anderledes signaler fra ledelsen af, end man gjorde tidliger. Så der sker en masse ændringer, vi kan gå tilbage til det jeg kalder Strategic execution, det er bare et spørgsmål om hvor hurtigt kan du komme fremad.

*Interviewer: Det er jo også, altså IFS strategien blev lagt i 95-96, men det er først nu der er kommet mulighed for at eksekvere den.*

JS: Det er måske en hård dom, men altså i slutningen af 90'erne fandt man ud af at man ikke skulle være kun, der var man blevet verdens største cleaning selskab og skulle man ikke kunne mere. Og man risikerede at blive sådan en subcontractor og ikke have adgang til kunderne fordi der kom den der facility management forretning ind i mellem, og så var det at man gik ud i multiservice og der var man ikke helt klar i spyttet, "ej vi må ind i nogen flere services" og det var sådan lidt noget rod, ikke. Og så først der jeg tror det var 2003-4 stykker begyndte man at blive klar over at det var faktisk den integrerede løsning vi gerne vil sælge, ikke. Og der har vi så taget alvorligt fat her de sidste 12 måneder hvor vi blandt andet har fået nogen store internationale kontrakter og har virkelig lukket. Altså vi skaber et marked, og det er os der skaber et marked der ikke eksisterede og konkurrenterne begynder nu at kopiere os.

*Interviewer: Hvilke konkurrenter er gået ind på -…*

JS: Det er klart at sådan nogen som Sodexho de prøver at gøre det samme som vi gør.

*Interviewer: Men det er bare et mindre selskab.*

JS: Joh, men Sodexho er ikke noget lille selskab, de har trods alt 350.000 medarbejdere, og visse steder i Sydamerika og i fjernøsten er de nok større end os.

*Interviewer: Men de har vel nogen andre hovedområder end i har.*

JS: Ja men de kommer fra Catering siden.

*Interviewer: Ja og der er de klart størst. Det er også det der har været lidt svært når man skal finde en konkurrent. I har ikke en konkurrent man kan gå ind og matche…*

JS: Men Sodexho er nok den der ligner os mest, fordi Compass er endnu mere dominerende på catering, og Group4 det er sikkerhed, ikke. Men det er, servicegiganterne i denne verden det er Compass, Sodexho, Group4 og ISS, det er de fire største.

*Interviewer: Og hvad med Rentokil, de er meget lig.*

JS: Ej, det er jo et lille bitte selskab som performer elendigt, og det er seriøst. Altså det er dybt alvorligt.

*Interviewer: Det er gået ned af.*

JS: Ja fuldstændig ned af bakke.

*Interviewer: Dem har vi så også været inde og kigge på, for vi kører sådan flere forskellige peers for ligesom at sammenligne fordi det er så spredt udover flere forskellige industrier. Men altså det vi talte om før med at man arbejde hen i mod et peaking point, der var nogen af de andre, der talte om at det var ligesom at forberede sig til et OL fordi man har den der relativt begrænsede ejerskabsperiode så man har måske 4-5 år hvor man ligesom arbejder op i mod toppen.*

JS: Det er helt klart, det andet er også, for at tage en meget simpel ting så de 140 mest senior folk i selskabet de har investeret og deres incentive program, det bygger kun på en eneste ting og det er at tingene er succesfulde, altså fordi jeg har en dyb respekt for aktiemarkedet, så det er ikke noget med at du dresser et selskab op for analytikerne kigger lige, det er bare et spørgsmål om hvor stærkt et selskab du kan skabe i den periode og så bliver folk aflønnet på den baggrund.

*Interviewer: Selvfølgelig skal man også udvikle selskabet så det stadig kan udvikles bagefter, altså man skal ikke sælge et selskab som har nået toppen man skal vel altid -…*

JS: Det du typisk gør det, hvad forstår man ved et stærkt selskab, jamen det er jo et selskab, der vokser kraftigt og man kan vise at der er sgu ikke nogen grund til hvorfor det ikke kan fortsætte med at vokse, det er det det handler om, du kan jo selv lave din NPV, det er jo det der kommer til at drive din NPV. Og det mener vi også for eksempel at vi har. Lige nu for eksempel så vores historie den bliver for hver eneste dag stærkere og stærkere, vi har nogen fantastiske historier om hvordan vi har lavet entre i Asien og Sydamerika og sådan nogen steder, men det der er det bedste af det hele, det er at vores kæmpe forretninger såsom vores mature forretninger som Skandinavien, der er de helt overbevist om at vi på lang sigt kan fortsætte med at vokse med en meget høj procent. For det der gør forskellen.

*Interviewer: Man kan også sige at når i går ud og laver præsentationer så selvom i er blevet markedsledende på mange af jeres områder så i forhold til hvor stort hele det der Integrated Facility, så har i en lille promille eller procent af det marked så på den måde er der stadig mulighed for at vokse.*

JS: I fik årsregnskabet, ikke?

*Interviewer: jo det fik vi-…*

JS: I får lige et ekstra eksemplar. I læste godt den her på forsiden, altså nærlæste, nu kan jeg ikke huske om jeg sagde det sidst, men det er bare et eksempel. Det her det er ISS Norge, ikke. Hvis vi var lige så store i alle de andre lande relativt til økonomien som vi er i Norge, så ville vi være ti gange større og have 5 mio. ansatte, ikke. Det synes jeg siger det hele. Der er simpelthen så meget vækstpotentiale i den her biks her. Og det er ikke for de næste 5 år, det er for de næste 25 år. Det er who knows, ik.

*Interviewer: Så der er stadig godt potentiale. Så på den måde er det ikke kortsigtede ejerskab, det er også hvordan…*

JS: Men altså det du sælger selskabet på, det er at se på potentialet, men kan du vise at du kan komme op i det gear på en sund måde kan du vokse derudaf. Jamen så har virksomheden en helt anden værdi.

*Interviewer: I har jo heller ingen interesse i at sælge et sminket lig for altså track record for…*

JS: Næh, jamen det vil hverken ejer eller bestyrelsen. Hvis det bliver et IPO scenarie så kan du ikke regne med at ejerne bare kan sælge ud. Så starter du med at gøre det public og så er der en lock out period til at sælge ud af det, ikke. Så det er der bestemt ikke noget, nej nej tværtimod.

*Interviewer: Men hvordan med, du siger at det er en aktiv bestyrelse, og kapitalfonde taler meget om aktivt ejerskab, vi har tidligere været inde på det, men det er primært omkring finansieringen. Men hvor aktive er ejerne.*

JS: Jamen aktivt, hvis nu jeg skal være helt ærlig det drejer sig jo om at selvfølgelig er de inde og lave det et normalt bestyrelseserhverv sikrer sig, at der er den ledelse de gerne vil have og du kan se at der er blevet skiftet ud på alle de poster, alle os tre, Bjørn har siddet to år i jobbet, Jeff har siddet et år i jobbet, jeg har siddet 9 måneder i jobbet, ikke. Så de har ændret direktionen, det er et andet regime, der er der i dag end der var tidligere, ikke.

*Interviewer: Så det er mere i ledelse og i strategi eksekveringen de har været inde over. For Christian Kofoed var meget inde på at mange af tingene var nok sket alligevel fordi ISS var rimeligt ambitiøse og…*

JS: Altså en virksomhed af ISS størrelse kan du ikke komme ind og ændre dens kultur helt fundamentalt, men værdien og styrken ligger netop i den kultur der er bygget op over mange år. Men du kan være med til, altså hvis du laver en del ændringer, skal det jo gå gennem ledelsen og hvis ikke du mener at ledelsen de trækker i den rette retning, så er der jo ikke andet for end at skifte dem ud.

*Interviewer: Men hvordan har kan man sige, ejerskabet sådan i forhold til strategieksekvering og ændringen af strategi, altså jeg tænker på med udvidelsen til USA markedet igen og udvidelse til sikkerhedsområdet.*

JS: jamen der er ingen tvivl om at der har været en kæmpe diskussion om lige før jeg kom om at gå ind i USA ikke og det er der stadig, altså "the jury is out", og der er stadig om det er rigtigt eller ikke var rigtigt, for vi er stadig meget små i USA og lige nu har vi så ikke helt penge til at købe helt så meget som vi kunne gøre ellers. Det er heller ikke så nemt at retfærdiggøre det, for tit og ofte så har du bedre opkøbsmuligheder i for eksempel fjernøsten, så det er noget der er en kæmpe debat om og det er jo bare knald godt. For der er ikke noget rigtigt svar. Det er et spørgsmålet om at du får alting på bordet og håbe på at du træffer den bedst mulige.

*Interviewer: Så det er meget på bestyrelsesniveau?*

JS: Det tager de enormt seriøst.

*Interviewer: Omkring Incitamentstrukturen. Ifølge Christian var lønnings eller bonus strukturen den var ikke ændret. Du har ikke været med før, men har du hørt at der skulle være nogen ændringer i forhold til hvordan det har været tidligere?*

JS: Nej altså det ved Christian bedre end jeg gør. Men ISS har vel altid været sådan rimelig med fremme og været sådan rimelig lønførende, i hvert fald her på hovedkontoret ledelserne i de enkelte lande. Delvist fordi det er lille hovedkontor, så der er brug for et A-team, og delvist fordi vi er meget decentrale så det er utrolig vigtigt at vi har dygtige topledere i de enkelte lande, og det man så har gjort, det er at man har en meget markedsbaseret løn og bonus ordninger der er meget baseret på performance plus at de top 100-140 eller sådan noget lignende landechefer og landecfo's er med til at investere i sådan et program så man ligesom er aligned på sådan et program for at trække virksomheden fremad.

*Interviewer: Det har vel i hvert fald været et vigtigt parameter det med at landelederne ligesom har købt sig ind så man får noget fælles.*

JS: Det mener jeg helt sikkert.

*Interviewer: det er også en af de ting som vi ser som en stor styrke for kapitalfondene, du for meget hurtigere aligned hvordan strategien skal eksekveres.*

JS: Der er sgu ikke noget pjat. Når vi sidder med landecheferne herinde og vi har sådan et møde, der er ikke noget pjat med skal vi nu gøre det ene eller det andet. Vi sætter os ned og så siger vi "det er det bedste for firmaet, nåh men det er det bedste for os". Bang lad os se at komme fremad.

*Interviewer: Ja, og derved fjerne freerider problematikken.*

*Interviewer: Jamen så tror jeg at vi har været inde på de tre elementer vi havde. Og vi holdt den på 48 min.*

JS: Ja, det var perfekt. Super.

## APPENDIX 6: SURVEY RESULTS

### Conducted in March & April 2009.

**Which company have you been working with?**

| | |
|---|---|
| F-Group | 17% |
| Løgstør Rør | 17% |
| DT Group (Dansk Trælast) | 17% |
| Ilva | 17% |
| EET Nordic | 17% |
| Vest-Wood | 17% |

**What was the immediate purpose with the acquisition?**

| | |
|---|---|
| Business development and growth (acquisitions etc.) | 83 % |
| Efficiency improvement (divesting, cost cutting etc.) | 17 % |

**At the time of the acquisition, what was the expected time span before the anticipated exit?**

| | |
|---|---|
| 0-3 years | 17% |
| 3-5 years | 50% |
| 5+ years | 33% |

**How much time* did you spend in the acquired company DURING the first 100 days of the ownership?**

| | |
|---|---|
| Less than 10 % | 0% |
| Approx 25 % | 17 % |
| Approx 50 % | 67 % |
| Approx 75 % | 17 % |
| Approx 90-100 % | 0% |

### How much time* did you spend in the acquired company AFTER the first 100 days of the ownership?

| | |
|---|---|
| Less than 10 % | 17 % |
| Approx 25 % | 83 % |
| Approx 50 % | 0% |
| Approx 75 % | 0% |
| Approx 90-100 % | 0% |

### What was the time mainly spent on?
**Afkrydsninger i forhold til alle afkrydsninger**

| | |
|---|---|
| Daily monitoring | 18% |
| Conversation with the top management | 35% |
| Conversation with the middle management | 12% |
| Conversation with regular employees | 0% |
| Implementation of new routines/processes | 12% |
| Collection of information | 18% |
| Other tasks | 6% |

### Changes/replacement in the top management?

| | |
|---|---|
| Immediately after the acquisition | 33% |
| At a later time during the ownership | 17% |
| Immediately and at a later time during the ownership | 17% |
| No changes in the top management | 33% |

### Workforce reductions? In that case, at what level?
**Afkrydsninger i forhold til alle afkrydsninger**

| | |
|---|---|
| Top level | 0% |
| Mid level | 67 % |
| Bottom level | 33 % |

### Other operational changes?
**Afkrydsninger i forhold til alle afkrydsninger**

| | |
|---|---|
| Streamlining the company's headquarters | 12% |
| Focus on lowering overhead cost | 6% |
| Reduction in capital employed | 24% |
| Optimization of inventory | 24% |
| Reduction in cost of production (--> Increase earnings) | 18% |
| Optimization of terms of payment (debtors and creditors) | 18% |

### Governance initiatives?
**Afkrydsninger i forhold til alle afkrydsninger**

| | |
|---|---|
| New payment structure for the top level (performance-based incentive program) | 16% |
| New payment structure for division managers, if any? | 9% |
| Top management became part owners | 19% |
| Changes in board composition (size or members) | 19% |
| Increased board activity (more frequent meetings and more active members) | 9% |
| Implementation of performance management tools (such as KPI's, Balance scorecard or ABC) | 16% |
| Involvement of industry experts (at board level or on consultant basis) | 13% |
| Other initiatives | 0% |

### Strategic initiatives?
**Afkrydsninger i forhold til alle afkrydsninger**

| | |
|---|---|
| Divestment of divisions | 4% |
| Divestment of subsidiaries | 4% |
| Sell-off of buildings or other assets | 8% |
| Acquisition of other companies | 17% |
| International expansion | 21% |
| National expansion | 13% |
| Change or modify current business strategy | 13% |
| Introduction of new products | 4% |
| Outsourcing of activities | 8% |
| Other initiatives | 8% |

.

### What do you see as the MOST important change during the ownership?

| | |
|---|---|
| Changes in the capital structure (such as gearing) | 0% |
| Less public information required (compared to being a listed company) | 0% |
| Closer cooperation between board, | 17% |

| | |
|---|---|
| management team and PE fund | |
| Frequent and more careful reporting from the management team | 0% |
| Organizational changes | 0% |
| Operational improvements | 33% |
| Strategic re-directions | 33% |
| New governance initiatives | 17% |

### What do you see as the SECOND MOST important change during the ownership?

| | |
|---|---|
| Changes in the capital structure (such as gearing) | 17% |
| Less public information required (compared to being a listed company) | 0% |
| Closer cooperation between board, management team and PE fund | 0% |
| Frequent and more careful reporting from the management team | 0% |
| Organizational changes | 0% |
| Operational improvements | 33% |
| Strategic re-directions | 33% |
| New governance initiatives | 17% |

# APPENDIX 7: DT GROUP – REVISED INCOME STATEMENT

| Income statement (Amounts in DKK millions) | 2001 | | 2002 | | 2003/04 | | 2004/05 | | 2005/06 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Turnover** | **14,639** | | **14,878** | | **15,090** | | **15,973** | | **17,642** | |
| Cost of goods sold | -11,093 | | -11,216 | | -11,352 | | -11,892 | | -13,094 | |
| Other operating expenses | -970 | | -975 | | -1,032 | | -1,114 | | -1,249 | |
| Staff costs | -1,744 | | -1,790 | | -1,809 | | -1,900 | | -2,064 | |
| Depreciation and amortisation | -284 | | -285 | | -314 | | -228 | | -212 | |
| Operating profit before taxes | -14,091 | 548 | -14,266 | 612 | -14,507 | 583 | -15,134 | 839 | -16,619 | 1,023 |
| Tax on operating income* | | -175 | | -189 | | -305 | | -224 | | -296 |
| **Operating Profit after taxes** | | **374** | | **423** | | **278** | | **615** | **-16,619** | **727** |
| Other income | 30 | | 78 | | 37 | | 45 | | 7 | |
| Other expenses | -11 | | -30 | | -2 | | -5 | | -7 | |
| Special items | - | | - | | -125 | | - | | - | |
| Various financial income | 60 | | 64 | | 42 | | 24 | | 10 | |
| Various financial expenses | - | | - | | -4 | | -24 | | -12 | |
| Other Profit before taxes | 79 | 79 | 112 | 112 | -52 | -52 | 40 | 40 | -2 | -2 |
| Tax on Other Profit** | | -24 | | -34 | | 16 | | -12 | | 1 |
| **Other Profit after taxes** | | **55** | - | 78 | | -36 | | 28 | | -1 |
| **Total Profit from Operations** | | **429** | | **501** | | **242** | | **643** | | **725** |
| Share of result from associates | | 0 | | 0 | | 0 | | -3 | | 1 |
| Financial income | - | | - | | - | | 12 | | 2 | |
| Financial expenses | -214 | | -179 | | -600 | | -704 | | -274 | |
| Net financial items before tax effect | -214 | -214 | -179 | -179 | -600 | -600 | -692 | -692 | -272 | -272 |
| Tax effect on net financial items*** | | 64 | | 54 | | 180 | | 211 | | 77 |
| **Net financial items after tax effect** | | **-150** | | **-125** | | **-420** | | **-481** | | **-195** |
| Extraordinary items | | - | | - | | - | | - | | - |
| **Net Income** | | **279** | | **376** | | **-178** | | **159** | | **531** |

## APPENDIX 8: DT GROUP – REVISED BALANCE

| Operating activities: | 2001 | 2002 | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|---|---|
| ***Operating assets:*** | | | | | |
| Intangible assets | 843 | 794 | 1,683 | 1,600 | 1,765 |
| Land and buildings | 2,397 | 2,495 | 2,496 | 2,431 | 2,376 |
| Other equipment, plant and machinery | 344 | 318 | 272 | 225 | 219 |
| Tangible fixed assets under constr. | 48 | 83 | 34 | 18 | 33 |
| Inventories/goods hold for resale | 1,895 | 1,829 | 1,855 | 1,991 | 2,191 |
| Trade receivables/Trade debtors | 1,269 | 1,214 | 1,384 | 1,461 | 1,605 |
| Receivables from group companies | - | - | - | - | - |
| Investments in associated companies | | | | 10 | 11 |
| Other receivables | 185 | 137 | 142 | 132 | 151 |
| Deferred tax assets | 11 | 21 | 26 | 47 | 45 |
| Tax receivables | - | - | 22 | 9 | 1 |
| Assets hold for sale | - | - | - | - | 12 |
| Working capital | 146 | 149 | 151 | 160 | 176 |
| **Operating assets total:** | **7,138** | **7,040** | **8,065** | **8,084** | **8,585** |
| | | | | | |
| ***Operating liabilities:*** | | | | | |
| Trade payables | 445 | 873 | 1,263 | 1,726 | 2,323 |
| Tax payables | - | 6 | 11 | 36 | 113 |
| Pensions and similar obligations | 13 | 14 | 17 | 11 | 159 |
| Other payables | 531 | 486 | 751 | 765 | 718 |
| Deferred tax liabilities | 150 | 181 | 179 | 163 | 213 |
| Liabilities held for sale | - | - | - | - | 8 |
| Other liabilities | 10 | 10 | 18 | 11 | - |
| **Operating liabilities total:** | **1,149** | **1,570** | **2,239** | **2,712** | **3,534** |
| | | | | | |
| **Net operating activities (invested capital)** | **5,989** | **5,470** | **5,826** | **5,372** | **5,051** |

| Financing activities: | 2001 | 2002 | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|---|---|
| Equity | 2,777 | 3,077 | -60 | 20 | 613 |
| | | | | | |
| ***Interest-bearing liabilities:*** | | | | | |
| Debt | 3,338 | 2,569 | 6,424 | 5,383 | 4,296 |
| **Interest-bearing liabilities total:** | **3,338** | **2,569** | **6,424** | **5,383** | **4,296** |
| | | | | | |
| ***Interest-bearing assets:*** | | | | | |
| Other financial assets | - | - | - | - | - |
| Securities | -202 | -214 | -9 | -5 | - |
| Cash and cash equivalents | -70 | -111 | -680 | -186 | -34 |
| **Interest-bearing assets total:** | **-126** | **-176** | **-538** | **-31** | **142** |
| | | | | | |
| **Net financing activities (invested capital)** | **5,989** | **5,470** | **5,826** | **5,372** | **5,051** |

# APPENDIX 9: ISS - REVISED INCOME STATEMENT

| Income statement (Amounts in DKK millions) | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Turnover** | **36,165** | | **40,355** | | **46,440** | | **55,772** | | **63,922** | | **68,829** | |
| Staff costs | -24,414 | | -26,577 | | -30,592 | | -36,284 | | -40,998 | | -44,156 | |
| Cost of sales | -2,686 | | -3,146 | | -3,753 | | -4,911 | | -5,614 | | -6,134 | |
| Other operating expenses | -6,446 | | -7,736 | | -8,786 | | -10,598 | | -12,630 | | -13,609 | |
| Depreciation and amortisation | -587 | | -617 | | -659 | | -745 | | -845 | | -869 | |
| Operating profit before taxes | -34,133 | 2,032 | -38,076 | 2,279 | -43,790 | 2,650 | -52,538 | 3,234 | -60,087 | 3,835 | -64,768 | 4,061 |
| Tax on operating income* | | -683 | | -742 | | -786 | | -1,172 | | -1,021 | | -1,330 |
| **Operating Profit after taxes** | | **1,349** | | **1,537** | | **1,864** | | **2,062** | **-60,087** | **2,815** | **-64,768** | **2,731** |
| Other income | 6 | | 5 | | 285 | | 177 | | 146 | | 25 | |
| Other expenses | -81 | | -74 | | -571 | | -286 | | -275 | | -267 | |
| Integration costs | | | | | -68 | | -106 | | -67 | | -66 | |
| Various financial income | 6 | | 1 | | 49 | | 134 | | 50 | | 89 | |
| Various financial expenses | -29 | | -17 | | -21 | | -429 | | -833 | | -507 | |
| Other Profit before taxes | -98 | -98 | -85 | -85 | -326 | -326 | -510 | -510 | -979 | -979 | -726 | -726 |
| Tax on Other Profit** | | 27 | | 24 | | 91 | | 143 | | 245 | | 182 |
| **Other Profit after taxes** | | **-71** | - | -61 | | -235 | | -367 | | -734 | | -545 |
| **Total Profit from Operations** | | **1,278** | | **1,476** | | **1,629** | | **1,694** | | **2,080** | | **2,187** |
| Share of result from associates | | 7 | | 39 | | 15 | | -17 | | 8 | | 3 |
| Financial income | 125 | | 101 | | 116 | | 96 | | 150 | | 154 | |
| Financial expenses | -367 | | -428 | | -665 | | -2,152 | | -2,383 | | -2,465 | |
| Net financial items before tax effect | -242 | -242 | -327 | -327 | -549 | -549 | -2,056 | -2,056 | -2,233 | -2,233 | -2,311 | -2,311 |
| Tax effect on net financial items*** | | 103 | | 120 | | 186 | | 605 | | 596 | | 616 |
| **Net financial items after tax effect** | | **-139** | | **-207** | | **-363** | | **-1,451** | | **-1,637** | | **-1,695** |
| Extraordinary items | | -860 | | -1,177 | | -333 | | -1,035 | | -818 | | -1,125 |
| **Net Income** | | **286** | | **131** | | **948** | | **-809** | | **-367** | | **-630** |

## APPENDIX 10: ISS - REVISED BALANCE

| Operating activities: | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| ***Operating assets:*** | | | | | | |
| Intangible assets | 12,629 | 15,669 | 32,672 | 36,032 | 37,150 | 36,001 |
| Property, plant and equipment | 1,469 | 1,793 | 1,956 | 2,163 | 2,223 | 2,276 |
| Investments in associates | 67 | 178 | 132 | 66 | 28 | 24 |
| Inventories | 178 | 263 | 300 | 324 | 249 | 264 |
| Trade receivables | 5,420 | 6,376 | 7,564 | 9,281 | 10,114 | 10,097 |
| Contract work in progress | 102 | 156 | 153 | 207 | 161 | 182 |
| Other receivables | 685 | 736 | 844 | 924 | 1,020 | 719 |
| Deferred tax assets | 327 | 474 | 599 | 525 | 658 | 511 |
| Tax receivables | 26 | 103 | 139 | 217 | 277 | 228 |
| Assets hold for sale | - | - | - | - | 619 | - |
| Working capital | 362 | 404 | 464 | 558 | 639 | - |
| **Operating assets total:** | **21,265** | **26,152** | **44,823** | **50,297** | **53,138** | **50,302** |
| | | | | | | |
| ***Operating liabilities:*** | | | | | | |
| Trade payables | 1,355 | 1,773 | 1,952 | 2,595 | 2,750 | 2,835 |
| Tax payables | 189 | 240 | 81 | 167 | 151 | 123 |
| Pensions and similar obligations | 253 | 263 | 833 | 885 | 724 | 834 |
| Other provisions | 530 | 646 | 719 | 745 | 653 | 832 |
| Deferred tax liabilities | 310 | 318 | 3,302 | 3,173 | 2,786 | 2,498 |
| Liabilities held for sale | - | - | - | - | 351 | - |
| Other liabilities | 5,947 | 6,894 | 8,110 | 10,068 | 10,494 | 10,461 |
| **Operating liabilities total:** | **8,584** | **10,134** | **14,997** | **17,633** | **17,909** | **17,583** |
| | | | | | | |
| **Net operating activities (invested capital)** | **12,681** | **16,018** | **29,826** | **32,664** | **35,229** | **32,719** |

| Financing activities: | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Equity | 7,741 | 8,436 | 6,774 | 5,980 | 5,615 | 3,631 |
| | | | | | | |
| ***Interest-bearing liabilities:*** | | | | | | |
| Debt | 7,060 | 11,106 | 24,685 | 28,640 | 31,890 | 32,376 |
| **Interest-bearing liabilities total:** | **7,060** | **11,106** | **24,685** | **28,640** | **31,890** | **32,376** |
| | | | | | | |
| ***Interest-bearing assets:*** | | | | | | |
| Other financial assets | -201 | -221 | -234 | -239 | -229 | -238 |
| Securities | -38 | -586 | -59 | -59 | -83 | -86 |
| Cash and cash equivalents | -2,243 | -3,121 | -1,804 | -2,216 | -2,603 | -2,964 |
| **Interest-bearing assets total:** | **-2,120** | **-3,524** | **-1,633** | **-1,956** | **-2,276** | **-3,288** |
| | | | | | | |
| **Net financing activities (invested capital)** | **12,681** | **16,018** | **29,826** | **32,664** | **35,229** | **32,719** |

# APPENDIX 11: RENTOKIL – REVISED INCOME STATEMENT

| Income statement (Amounts in GBP millions) | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Turnover** | **2,426** | | **2,181** | | **2,301** | | **2,125** | | **2,203** | | **2,410** | |
| Staff costs | -1,138 | | -1,124 | | -1,216 | | -1,094 | | -1,082 | | -1,137 | |
| Cost of sales | n/a | | n/a | | n/a | | n/a | | n/a | | n/a | |
| Other operating expenses | -679 | | -560 | | -647 | | -592 | | -712 | | -949 | |
| Depreciation and amortisation | -157 | | -189 | | -195 | | -190 | | -197 | | -242 | |
| Operating profit before taxes | -1,974 | 453 | -1,873 | 309 | -2,058 | 243 | -1,876 | 249 | -1,992 | 212 | -2,328 | 82 |
| Tax on operating income* | | -136 | | -103 | | -86 | | -79 | | -72 | | -50 |
| **Operating Profit after taxes** | | **317** | | **206** | | **157** | | **170** | | **139** | | **32** |
| Other income | - | | - | | - | | - | | - | | - | |
| Other expenses | - | | - | | - | | - | | - | | - | |
| Special items | - | | - | | - | | - | | - | | - | |
| Various financial income | - | | - | | - | | - | | - | | - | |
| Various financial expenses | - | | - | | - | | - | | - | | - | |
| Other Profit before taxes | - | - | - | - | - | - | - | - | - | - | - | - |
| Tax on Other Profit** | | - | | - | | - | | - | | - | | - |
| **Other Profit after taxes** | | - | | - | - | - | | - | | - | | - |
| **Total Profit from Operations** | | **317** | | **206** | | **157** | | **170** | | **139** | | **32** |
| Share of result from associates | | 3.6 | | 1.8 | | 2.2 | | 2 | | 2 | | 2.6 |
| Financial income | 55 | | 55 | | 60 | | 61 | | 69 | | 92 | |
| Financial expenses | -102 | | -109 | | -115 | | -113 | | -140 | | -154 | |
| Net financial items before tax effect | -47 | -47 | -54 | -54 | -55 | -55 | -52 | -52 | -72 | -72 | -62 | -62 |
| Tax effect on net financial items*** | | 30 | | 33 | | 35 | | 34 | | 42 | | 44 |
| **Net financial items after tax effect** | | **-17** | | **-21** | | **-21** | | **-18** | | **-30** | | **-18** |
| Extraordinary items | | - | | - | | - | | - | | - | | - |
| **Net Income** | | **304** | | **187** | | **139** | | **154** | | **112** | | **16** |

# APPENDIX 12: RENTOKIL – REVISED BALANCE

| Operating activities (amounts in GBP millio | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| ***Operating assets:*** | | | | | | |
| Intangible assets | 196 | 150 | 180 | 559 | 683 | 755 |
| Land and buildings | 262 | 254 | 122 | 125 | 147 | 174 |
| Other equipment, plant and machinery | 401 | 408 | 375 | 388 | 414 | 547 |
| Inventories/goods hold for resale | 45 | 40 | 44 | 47 | 38 | 53 |
| Trade receivables/Trade debtors | 619 | 635 | 513 | 514 | 568 | 710 |
| Investments in associated companies | 12 | 10 | 9 | 9 | 6 | 14 |
| Other receivables | - | - | - | - | - | - |
| Deferred tax assets | - | 74 | 74 | 7 | 8 | 10 |
| Tax receivables | - | - | - | - | - | - |
| Working capital | 24 | 22 | 23 | 21 | 22 | 24 |
| **Operating assets total:** | **1,559** | **1,593** | **1,340** | **1,670** | **1,886** | **2,287** |
| | | | | | | |
| ***Operating liabilities:*** | | | | | | |
| Trade payables | 134 | 553 | 534 | 553 | 485 | 565 |
| Tax payables | 155 | 138 | 115 | 104 | 103 | 91 |
| Pensions and similar obligations | 186 | 312 | 182 | 119 | 14 | 20 |
| Other provisions | 375 | 25 | 31 | 22 | 51 | 32 |
| Deferred tax liabilities | n/a | 43 | 43 | 45 | 99 | 128 |
| Liabilities to group companies | - | - | - | - | - | - |
| Other short-term debt and liabilities | 91 | - | 1 | 5 | 14 | 53 |
| **Operating liabilities total:** | **941** | **1,071** | **907** | **848** | **766** | **886** |
| | | | | | | |
| **Net operating activities (invested capital)** | **618** | **522** | **434** | **823** | **1,120** | **1,401** |
| | | | | | | |
| Financing activities: | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Equity | -624 | -784 | -660 | -534 | 58 | -62 |
| | | | | | | |
| ***Interest-bearing liabilities:*** | | | | | | |
| Debt | 1,491 | 1,484 | 1,311 | 1,478 | 1,136 | 1,573 |
| **Interest-bearing liabilities total:** | **1,491** | **1,484** | **1,311** | **1,478** | **1,136** | **1,573** |
| | | | | | | |
| ***Interest-bearing assets:*** | | | | | | |
| Other financial assets | - | - | - | - | - | -28 |
| Financial instruments | - | - | -0 | -8 | -1 | -2 |
| Cash and cash equivalents | -273 | -200 | -240 | -135 | -96 | -104 |
| **Interest-bearing assets total:** | **-249** | **-178** | **-218** | **-122** | **-74** | **-110** |
| | | | | | | |
| **Net financing activities (invested capital)** | **618** | **522** | **434** | **823** | **1,120** | **1,401** |

# APPENDIX 13: SODEXO – REVISED INCOME STATEMENT

| Income statement (Amounts in EUR millions) | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Turnover** | **11,687** | | **11,494** | | **11,693** | | **12,798** | | **13,385** | | **13,611** | |
| Staff costs | - | | - | | - | | - | | - | | - | |
| Cost of sales | -9,516 | | -9,261 | | -10,033 | | -10,957 | | -11,396 | | -11,486 | |
| Other operating expenses | -1,482 | | -1,505 | | -1,143 | | -1,263 | | -1,355 | | -1,439 | |
| Depreciation and amortisation | -175 | | -213 | | - | | - | | - | | - | |
| Operating profit before taxes | -11,173 | 514 | -10,979 | 515 | -11,176 | 517 | -12,220 | 578 | -12,751 | 634 | -12,925 | 686 |
| Tax on operating income* | | -196 | | -173 | | -195 | | -218 | | -243 | | -260 |
| **Operating Profit after taxes** | | **318** | | **342** | | **322** | | **360** | | **391** | | **426** |
| Other income/expenses | 1 | | -33 | | -67 | | 27 | | 6 | | 4 | |
| Special items | - | | - | | - | | - | | - | | - | |
| Various financial income | - | | - | | - | | - | | - | | - | |
| Various financial expenses | - | | - | | - | | - | | - | | - | |
| Other Profit before taxes | 1 | 1 | -33 | -33 | -67 | -67 | 27 | 27 | 6 | 6 | 4 | 4 |
| Tax on Other Profit** | | -0 | | 12 | | 23 | | -9 | | -2 | | -1 |
| **Other Profit after taxes** | | **1** | | **-21** | - | **-44** | | 18 | | 4 | | 3 |
| **Total Profit from Operations** | | **319** | | **320** | | **279** | | **377** | | **395** | | **428** |
| Share of result from associates | | 0 | | 0 | | -6 | | 8 | | 7 | | 11 |
| Financial income | 24 | | 31 | | 60 | | 54 | | 78 | | 71 | |
| Financial expenses | -176 | | -149 | | -172 | | -162 | | -178 | | -173 | |
| Net financial items before tax effect | -152 | -152 | -118 | -118 | -112 | -112 | -108 | -108 | -100 | -100 | -102 | -102 |
| Tax effect on net financial items*** | | 62 | | 53 | | 60 | | 56 | | 61 | | 60 |
| **Net financial items after tax effect** | | **-90** | | **-65** | | **-52** | | **-52** | | **-39** | | **-42** |
| Extraordinary items | | - | | - | | - | | - | | - | | - |
| **Net Income** | | **229** | | **255** | | **221** | | **333** | | **363** | | **397** |

## APPENDIX 14: SODEXO – REVISED BALANCE

| Operating activities (amounts in EUR millior | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| ***Operating assets:*** | | | | | | |
| Intangible assets | 4,178 | 3,913 | 3,792 | 3,749 | 3,637 | 4,081 |
| Property, plant and equipment | 379 | 362 | 544 | 576 | 589 | 627 |
| Inventories | 170 | 163 | 176 | 168 | 185 | 202 |
| Trade receivables/Trade debtors | 1,383 | 1,368 | 1,750 | 1,909 | 2,089 | 2,615 |
| Investments in associated companies | 19 | 14 | 32 | 36 | 37 | 40 |
| Other receivables | 803 | 720 | 326 | 423 | 454 | 483 |
| Deferred tax assets | - | - | 225 | 242 | 136 | 86 |
| Tax receivables | - | - | 19 | 17 | 48 | 54 |
| Working capital | 117 | 115 | 117 | 128 | 134 | 136 |
| **Operating assets total:** | **7,049** | **6,655** | **6,981** | **7,248** | **7,309** | **8,324** |
| | | | | | | |
| ***Operating liabilities:*** | | | | | | |
| Trade payables | 1,128 | 1,035 | 2,197 | 2,369 | 2,618 | 2,631 |
| Tax payables | - | - | 84 | 80 | 57 | 61 |
| Pensions and similar obligations | - | - | 309 | 349 | 232 | 192 |
| Other provisions | 89 | 93 | 97 | 40 | 49 | 36 |
| Deferred tax liabilities | - | - | 54 | 49 | 35 | 45 |
| Financial instruments | - | - | 2 | 2 | 1 | 2 |
| Other short-term debt and liabilities | 2,088 | 2,174 | 1,001 | 1,127 | 1,290 | 2,087 |
| **Operating liabilities total:** | **3,305** | **3,302** | **3,744** | **4,016** | **4,282** | **5,054** |
| | | | | | | |
| **Net operating activities (invested capital)** | **3,744** | **3,353** | **3,237** | **3,232** | **3,027** | **3,270** |
| | | | | | | |
| **Financing activities:** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** |
| Equity | 2,315 | 2,217 | 2,078 | 2,173 | 2,300 | 2,171 |
| | | | | | | |
| ***Interest-bearing liabilities:*** | | | | | | |
| Debt | 2,488 | 2,128 | 2,130 | 2,125 | 2,115 | 2,685 |
| **Interest-bearing liabilities total:** | **2,488** | **2,128** | **2,130** | **2,125** | **2,115** | **2,685** |
| | | | | | | |
| ***Interest-bearing assets:*** | | | | | | |
| Other non-current assets | - | - | -18 | -18 | -13 | -13 |
| Financial instruments | -606 | -602 | -121 | -134 | -99 | -115 |
| Cash and cash equivalents | -570 | -505 | -949 | -1,042 | -1,410 | -1,594 |
| **Interest-bearing assets total:** | **-1,059** | **-992** | **-971** | **-1,066** | **-1,388** | **-1,586** |
| | | | | | | |
| **Net financing activities (invested capital)** | **3,744** | **3,353** | **3,237** | **3,232** | **3,027** | **3,270** |

# APPENDIX 15: G4S – REVISED INCOME STATEMENT

| Income statement (Amounts in GBP millions) | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Turnover** | **2,569.5** | | **3,093.6** | | **4,129.9** | | **4,036.8** | | **4,490.4** | | **5,942.9** | |
| Staff costs | N/A | | N/A | | N/A | | N/A | | N/A | | N/A | |
| Cost of sales | N/A | | N/A | | N/A | | N/A | | N/A | | N/A | |
| Other operating expenses | N/A | | N/A | | N/A | | N/A | | N/A | | N/A | |
| Depreciation and amortisation | N/A | | N/A | | N/A | | N/A | | N/A | | N/A | |
| Operating profit before taxes | | 66.8 | | 163.1 | | 248.7 | | 271.6 | | 309.1 | | 413.0 |
| Tax on operating income* | | -54.0 | | -62.6 | | -87.0 | | -79.1 | | -84.8 | | -114.6 |
| **Operating Profit after taxes** | | **12.8** | | **100.5** | | **161.8** | | **192.5** | | **224.3** | | **298.4** |
| Other income | 2.2 | | | | | | | | | | | |
| Other expenses | 0.0 | | -13.4 | | -33.8 | | -36.0 | | -41.6 | | -67.8 | |
| Integration costs | 0.0 | | -151.0 | | -22.2 | | 0.0 | | 0.0 | | 0.0 | |
| Various financial income | 0.2 | | 35.0 | | 60.8 | | 69.6 | | 80.2 | | 87.1 | |
| Various financial expenses | -9.0 | | -36.3 | | -66.2 | | -66.4 | | -76.5 | | -90.3 | |
| Other Profit before taxes | -6.6 | -6.6 | -165.7 | -165.7 | -61.4 | -61.4 | -32.8 | -32.8 | -37.9 | -37.9 | -71.0 | -71.0 |
| Tax on Other Profit** | | 2.0 | | 49.7 | | 18.4 | | 9.8 | | 11.4 | | 21.3 |
| **Other Profit after taxes** | | **-4.6** | - | **-116.0** | | **-43.0** | | **-23.0** | | **-26.5** | | **-49.7** |
| **Total Profit from Operations** | | **8.2** | | **-15.5** | | **118.8** | | **169.6** | | **197.8** | | **248.7** |
| Share of result from associates | | 1.7 | | 2.4 | | **5.3** | | **2.8** | | 3.0 | | 3.4 |
| Financial income | 5.6 | | 4.6 | | 12.0 | | 9.9 | | 12.4 | | 17.8 | |
| Financial expenses | -24.3 | | -22.6 | | -47.1 | | -52.0 | | -69.8 | | -99.0 | |
| Net financial items before tax effect | -18.7 | -18.7 | -18.0 | -18.0 | -35.1 | -35.1 | -42.1 | -42.1 | -57.4 | -57.4 | -81.2 | -81.2 |
| Tax effect on net financial items*** | | 5.6 | | 5.4 | | 10.5 | | 12.6 | | 17.2 | | 23.1 |
| **Net financial items after tax effect** | | **-13.1** | | **-12.6** | | **-24.6** | | **-29.5** | | **-40.2** | | **-58.1** |
| Loss on discontinued operations | | | | -39.7 | | -8.8 | | | | -33.0 | | -29.1 |
| **Net Income** | | **-3.2** | | **-65.4** | | **90.7** | | **142.9** | | **127.6** | | **164.9** |

# APPENDIX 16: G4S – REVISED BALANCE

| Operating activities (Amounts in GBP millions): | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Intangible assets | 531.2 | 1,374.9 | 1,441.4 | 1,418.4 | 1,583.6 | 2,513.6 |
| Property, plant and equipment | 159.8 | 339.5 | 355.4 | 354.9 | 400.9 | 528.6 |
| Investments in associates | 2.6 | 10.1 | 3.9 | 7.3 | 10.2 | 7.4 |
| Deferred tax assets | 0.0 | 111.0 | 112.9 | 115.7 | 84.2 | 155.0 |
| Inventories | 29.6 | 34.2 | 35.3 | 49.5 | 57.1 | 85.5 |
| Trade receivables | 0.0 | 40.5 | 50.3 | 49.9 | 69.4 | 198.0 |
| Contract work in progress | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax receivables | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other receivables | 523.6 | 702.6 | 830.7 | 798.3 | 885.0 | 1,362.8 |
| Assets hold for sale | 0.0 | 29.9 | 0.0 | 0.0 | 130.9 | 71.0 |
| **Total Operational assets** | **1,246.8** | **2,642.7** | **2,829.9** | **2,794.0** | **3,221.3** | **4,921.9** |
| Trade payables | -427.5 | -716.7 | -757.5 | -711.2 | -884.4 | -1,279.6 |
| Tax payables | -12.0 | -23.8 | -27.6 | -26.3 | -18.0 | -16.2 |
| Pensions and similar obligations | -17.4 | -204.8 | -211.0 | -208.3 | -120.1 | -278.6 |
| Deferred tax liabilities | 0.0 | -89.2 | -84.8 | -81.7 | -75.0 | -135.0 |
| Other provisions | -126.9 | -81.1 | -91.8 | -80.0 | -57.5 | -125.2 |
| Operational liquidity | -25.7 | -30.9 | -41.3 | -40.4 | -44.9 | -59.4 |
| **Operating liabilities total:** | **-609.5** | **-1,146.5** | **-1,214.0** | **-1,147.9** | **-1,199.9** | **-1,894.0** |
| | | | | | | |
| **Net operating activities (invested capital)** | **637.3** | **1,496.2** | **1,615.9** | **1,646.1** | **2,021.4** | **3,027.9** |

| Financing activities (Amounts in GBP millions): | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Total equity attributable to equity holders | 298.8 | 879.4 | 942.2 | 935.2 | 1,087.1 | 1,427.0 |
| Minority interests | 24.8 | 30.5 | 27.7 | 36.3 | 35.9 | 43.7 |
| **Total equity** | **323.6** | **909.9** | **969.9** | **971.5** | **1,123.0** | **1,470.7** |
| Long-term debt | 379.4 | 717.1 | 824.0 | 872.8 | 1,065.5 | 1,843.3 |
| Short-term debt | 72.2 | 121.6 | 158.5 | 181.2 | 206.7 | 305.1 |
| Other liabilities | 3.6 | 30.8 | 30.0 | 42.2 | 47.3 | 48.9 |
| Liabilities held for sale | 0.0 | 0.0 | 0.0 | 0.0 | 78.3 | 74.1 |
| **Total interest bearing debt** | **455.2** | **869.5** | **1,012.5** | **1,096.2** | **1,397.8** | **2,271.4** |
| Securities | -53.1 | -60.7 | -61.4 | -73.7 | -73.2 | -92.7 |
| Cash and cash equivalents | -62.7 | -191.6 | -263.8 | -307.5 | -381.3 | -562.1 |
| **Interest-bearing assets total:** | **-141.5** | **-283.2** | **-366.5** | **-421.6** | **-499.4** | **-714.2** |
| | | | | | | |
| **Net financing activities (invested capital)** | **637.3** | **1,496.2** | **1,615.9** | **1,646.1** | **2,021.4** | **3,027.9** |

# APPENDIX 17: BYGMA – REVISED INCOME STATEMENT

| Income statement (Amounts in DKK millions) | 2000/01 | | 2001/02 | | 2002/03 | | 2003/04 | | 2004/05 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Turnover** | **2,313** | | **2,516** | | **2,777** | | **3,085** | | **3,624** | |
| Cost of goods sold | -1,748 | | -1,884 | | -2,115 | | -2,311 | | -2,689 | |
| Other operating expenses | -123 | | -141 | | -148 | | -166 | | -192 | |
| Staff costs | -303 | | -326 | | -363 | | -413 | | -474 | |
| Depreciation and amortisation | -42 | | -42 | | -43 | | -44 | | -49 | |
| Operating profit before taxes | -2,215 | 98 | -2,393 | 123 | -2,669 | 108 | -2,934 | 151 | -3,404 | 219 |
| Tax on operating income* | | -33 | | -43 | | -36 | | -48 | | -63 |
| **Operating Profit after taxes** | | **65** | | **80** | | **72** | | **102** | | **156** |
| Other income | - | | - | | - | | - | | - | |
| Other expenses | - | | - | | - | | - | | - | |
| Special items | 0 | | - | | - | | 6 | | - | |
| Various financial income | - | | - | | - | | - | | - | |
| Various financial expenses | - | | - | | - | | - | | - | |
| Other Profit before taxes | 0 | 0 | - | - | - | - | 6 | 6 | - | - |
| Tax on Other Profit** | | -0 | | - | | - | | -2 | | - |
| **Other Profit after taxes** | | **0** | | - | - | - | | 4 | | - |
| **Total Profit from Operations** | | **66** | | **80** | | **72** | | **107** | | **156** |
| Share of result from associates | | 0 | | 0 | | 0 | | 0 | | 0 |
| Financial income | 10 | | 12 | | 12 | | 8 | | 10 | |
| Financial expenses | -29 | | -28 | | -23 | | -21 | | -21 | |
| Net financial items before tax effect | -19 | -19 | -16 | -16 | -11 | -11 | -13 | -13 | -10 | -10 |
| Tax effect on net financial items*** | | 9 | | 8 | | 7 | | 6 | | 6 |
| **Net financial items after tax effect** | | **-10** | | **-7** | | **-4** | | **-7** | | **-5** |
| Extraordinary items | | - | | - | | - | | - | | - |
| **Net Income** | | **55** | | **73** | | **68** | | **100** | | **152** |

# APPENDIX 18: BYGMA – REVISED BALANCE

| Operating activities: | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 |
|---|---|---|---|---|---|
| ***Operating assets:*** | | | | | |
| Intangible assets | 54 | 52 | 54 | 50 | 45 |
| Land and buildings | 364 | 383 | 448 | 475 | 541 |
| Other equipment, plant and machinery | 65 | 61 | 55 | 59 | 58 |
| Inventories/goods hold for resale | 338 | 377 | 415 | 462 | 499 |
| Trade receivables/Trade debtors | 310 | 351 | 389 | 424 | 511 |
| Receivables from group companies | - | - | - | - | - |
| Other receivables | 17 | 16 | 30 | 32 | 49 |
| Deferred tax assets | - | - | - | - | - |
| Tax receivables | - | - | - | 0 | - |
| Assets hold for sale | - | - | - | - | - |
| Working capital | 23 | 25 | 28 | 31 | 36 |
| **Operating assets total:** | **1,169** | **1,266** | **1,418** | **1,533** | **1,739** |
| | | | | | |
| ***Operating liabilities:*** | | | | | |
| Trade payables | 83 | 104 | 157 | 159 | 179 |
| Tax payables | 17 | 28 | 16 | 36 | 52 |
| Pensions and similar obligations | - | - | - | - | - |
| Other provisions | 4 | - | - | - | - |
| Deferred tax liabilities | 29 | 35 | 40 | 41 | 42 |
| Liabilities to group companies | - | - | 2 | 3 | 5 |
| Other short-term debt and liabilities | 105 | 93 | 101 | 122 | 155 |
| **Operating liabilities total:** | **238** | **260** | **315** | **361** | **434** |
| | | | | | |
| **Net operating activities (invested capital)** | **932** | **1,006** | **1,103** | **1,172** | **1,305** |
| | | | | | |
| **Financing activities:** | **2000/01** | **2001/02** | **2002/03** | **2003/04** | **2004/05** |
| Equity | 501 | 576 | 636 | 729 | 870 |
| | | | | | |
| ***Interest-bearing liabilities:*** | | | | | |
| Debt | 435 | 441 | 464 | 444 | 442 |
| **Interest-bearing liabilities total:** | **435** | **441** | **464** | **444** | **442** |
| | | | | | |
| ***Interest-bearing assets:*** | | | | | |
| Other financial assets | -3 | -9 | -9 | -11 | -12 |
| Securities | - | - | - | - | - |
| Cash and cash equivalents | -24 | -28 | -16 | -22 | -30 |
| **Interest-bearing assets total:** | **-4** | **-11** | **3** | **-2** | **-6** |
| | | | | | |
| **Net financing activities (invested capital)** | **932** | **1,006** | **1,103** | **1,172** | **1,305** |

# APPENDIX 19: CALCULATION OF ISS'S BETA VALUE

| | |
|---|---|
| Risk free rate | 4.00% |
| 5-year return (S&P1200 Global) | 5.43% |

| | Derichebourg | Ecolab | G4S | Rentokil | Sodexo | Davis Service Gr. | Compass | ISS | *Sector Beta* |
|---|---|---|---|---|---|---|---|---|---|
| Levered Beta (Reuters 1/8) | 1.24 | 0.67 | 0.85 | 1.44 | 0.77 | 0.91 | 0.59 | 3.27 | 0.92 |
| Debt/Equity (Annual Reports 2008) | 2.12 | 0.72 | 1.54 | -25.41 | 1.24 | 1.35 | 0.73 | 8.92 | |
| Unlevered Beta | 0.52 | 0.46 | 0.40 | -0.08 | 0.42 | 0.46 | 0.39 | 0.37 | |
| | | | | | | | | 0.92 | |

| | |
|---|---|
| Expected return ($R_f$ $[E(R_m)-R_f]\times\beta_i$): | |
| ISS | 8.67% |

| S&P Global 1200 | FY return |
|---|---|
| 2004 | 13% |
| 2005 | 8% |
| 2006 | 19% |
| 2007 | 8% |
| 2008 | -42% |
| 5-year return | 5.43% |

**Source:** Bloomberg.com, Reuters.com and Standardandpoors.com.