

Rating Action: Moody's assigns Baa3 final ratings to Global Switch

Global Credit Research - 27 Oct 2011

Approximately EUR600 million in rated debt affected

London, 27 October 2011 -- Moody's Investors Service has today assigned final ratings to Global Switch Holdings Limited ("Global Switch", "the company") of Baa3 long-term issuer rating and Baa3 rating to the 5.5% EUR600 million senior unsecured notes, guaranteed by certain subsidiaries and due 18 April 2018. The outlook for all ratings is stable.

Moody's has finalised the issuer rating following (i) the receipt of interim reviewed accounts as at 31 December 2010, which were not materially different from those previously received from the company, and audited accounts as at 31 March 2011; (ii) confirmation that any outstanding shareholder loans post-refinancing were capitalised; and (iii) the successful closing of Global Switch's refinancing.

Moody's has also finalised the bond rating following confirmation that (i) there is no secured debt in the group and no encumbered assets; (ii) the bonds are guaranteed by material subsidiaries (effectively the same subsidiaries guaranteeing the company's bank facility); and (iii) the final documentation is not materially different from the drafts reviewed in assigning the provisional rating.

RATINGS RATIONALE

Global Switch is a real estate operating company that owns, acquires, manages and develops data centres. The company has seven data centres in Europe, with its second data centre in Paris becoming operational in October 2011, and two in Asia Pacific. The company's carrier neutral data centres offer wholesale, multi-tenanted space on medium- to long-term leases. Global Switch is wholly owned by Aldersgate Investment, an unlisted investment vehicle owned by the Reuben brothers.

The key strengths that support the Baa3 rating with stable outlook are Global Switch's solid recurring income generated from long-term leases with high occupancy rates of around 93% and a very low tenant churn rate of less than 1% during the fiscal year ending 31 March 2011. Furthermore, in Moody's view, the growth in demand for data centre space is likely to continue to exceed growth in supply in the short- to medium-term, thereby supporting rental growth and continued low vacancy rates. The rating is also supported by the company's moderate leverage, as measured by net debt/EBITDA and good fixed charge coverage, measured by EBITDA/gross interest expense + ground rents which were at 2.4x and 3.5x respectively at fiscal year-end 2011. In addition, Global Switch benefits from an adequate liquidity risk profile. The first debt maturity does not occur before 2014 and headroom under its financial covenants is comfortable.

The rating is constrained by Global Switch's relatively small scale compared to its global similarly-rated peer group and the company's limited diversification by location with nine data centres in seven cities. In addition, revenues are concentrated by tenant with the top ten tenants comprising c. 52% of annualized rental income and the largest tenant c. 13%.

The stable rating outlook reflects Moody's expectation that no significant change occurs in the competitive landscape for the foreseeable future and that the lease-up of Global Switch's new facility in Paris will be in line with management's forecast. The stable outlook also assumes that adjusted net debt/EBITDA will remain around 3.0x or less, fixed charge cover remains above 3.0x, the development pipeline does not exceed 10% of gross assets, assets remain unencumbered and an adequate liquidity profile is maintained at all times.

Positive pressure on the rating could arise if the company grows larger and more diverse, with the market and tenant concentrations comprising less than 15% and 10% of GLA (gross lettable area) or revenues respectively, while maintaining its currently high occupancy rates and credit metrics. Conversely, a sustained deterioration of financial metrics with inter alia leverage rising above 3.5x or fixed charge cover falling below 3.0x, a sharp increase in development activity or an inadequate liquidity profile could be negative for the rating.

Global Switch Holdings Limited was founded in 1998. In 2007 Aldersgate Investment, an unlisted investment vehicle owned by Simon and David Reuben raised its interest in the company to 100%. Global Switch reported at fiscal year-end 2011 total revenues of GBP243 million and total assets of GBP3.0 billion.

The principal methodology used in rating Global Switch Holdings Ltd was the Moody's Approach for REITs and Other Commercial Property Firms published in July 2010.

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