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## **DBRS Rates FirstService Corporation Preferred Shares at Pfd-3 (low)**

### **Bloomberg: DBRS Rates FirstService Preferred Shares at Pfd-3 (low)**

**Industry Group: Corporates**

**Sub-Industry: Real Estate**

DBRS has today assigned a rating of Pfd-3 (low) with a Stable trend to FirstService Corporation's (FSC or the Company) new Preferred Share issue.

On June 25, 2007, FSC declared a stock dividend of one 7% Cumulative Preferred Share for every five outstanding Subordinate Voting or Multiple Voting Shares of FSC. Each Preferred Share is non-voting, has a stated value of \$25 (total value of issue approximately \$150 million), carries a fixed cumulative annual dividend of \$1.75 (total annual cash dividend of \$10.5 million) and is redeemable for cash or subordinate voting shares of FSC at the option of FSC.

FSC is a diversified property service company operating in:

- Commercial Real Estate (45% of revenue; 36% of EBITDA) – FSC operates through its 83% ownership of Colliers Macaulay Nicolls (CMN). CMN is part of Colliers International, the third largest broker network globally behind CBRE and JLL, and operates primarily in the United States, Canada and Australia.
- Residential Property Management (33% of revenue; 34% of EBITDA) – FSC is among the largest players in the United States with a 2% share of a highly fragmented market. The Company provides integrated services for 3,700 properties (800,000 units) including luxury high-rise and condos in 18 states.
- Property Improvement (10% of revenue; 21% of EBITDA) - FSC is the franchisor for several leading brands including CertaPro Painters, College Pro Painters, California Closets and Paul Davis Restoration - 1,900 franchisees in the United States (90%), and Canada (10%).
- Integrated Security Services (12% of revenue; 9% of EBITDA) – FSC is the sixth largest player in North America (largest in Canada) providing engineering/design, service/maintenance, system monitoring and security manpower services.

FSC has displayed an impressive growth record, both organic and through acquisitions, with a five year CAGR for revenues and earnings above 20%. Since the Company acquired CMN in 2004, revenue increased to \$1,360 million in 2007 from \$651 million in 2005, and earnings before minority interest and discontinued operations have increased to \$53 million from \$21 million. Despite the fast pace of the growth, the Company has enhanced profitability as a result of strong market fundamentals and successful acquisitions. Strong brand names and market positions are reinforced by its partnership philosophy: all acquired companies keep minority interests and benefit from performance based compensation programs. Volatility in earnings is somewhat cushioned by the high variable cost

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structure of its businesses – particularly Commercial Real Estate brokerage. FSC also benefits from reasonable business diversification as the Residential Property Management and Integrated Security businesses offer a relatively high level of recurring revenue, estimated at 85% and 60% respectively.

Recently, strong earnings performance has converted to strong free cash flow generation given the low capital intensity of FSC's businesses. The growing free cash flow has enabled the Company to finance its acquisitions without external funding, and to maintain an acceptable level of leverage for this rating category. FSC had debt of \$230 million (\$430 million lease-adjusted) at the end of F2007, resulting in debt-to-EBITDA of 2.0 times (lease-adjusted debt to EBITDAR of 2.9 times), and cash flow-to-debt of 35% (lease adjusted cash flow-to-debt of 21%).

Despite the Company's improving performance during the strong market conditions of recent years, DBRS is concerned about FSC's exposure to the cyclical nature of its businesses – certain aspects of the Commercial Real Estate and Property Improvement segments in particular, which accounted for 57% of EBITDA in F2007. DBRS believes the high proportion of revenue and operating income from the United States (64%) exacerbates this risk. In addition, DBRS notes the low barriers to entry and highly fragmented nature of FSC's business segments results in intense competition and steady pressure on margins throughout the economic cycle. Also, the Company's ongoing ambition to expand through acquisitions results in integration risk and potential for increased financial leverage.

DBRS expects growth for all business segments to moderate (Commercial Real Estate, and Property Improvement in particular) in line with our view of a cooling economy and real estate market (i.e., less development activity over the near- to-medium term). In terms of FSC's growth strategy, DBRS expects valuations to temper, but acquisition activity is expected to remain strong. With respect to the financial profile, DBRS believes FSC will continue to use its free cash flow and debt to finance further growth and/or facilitate returns to shareholders. The Preferred Share issue does not have a significant impact on DBRS's view of FSC's balance sheet, as we afford it almost full equity treatment due to its features. The Preferred Share dividend does impact coverage ratios, as the \$10.5 million per year fixed charge reduces EBITDA to fixed charges to 4.2 times from 6.8 times. Although DBRS expects credit metrics will decline along with the economic cycle, we expect FSC should remain within the parameters of the current rating category.

Note:

All figures are in U.S. dollars unless otherwise noted.

Issuer	Debt Rated	Rating Action 	Rating 	Trend 
FirstService Corporation	Preferred Share	New Rating	Pfd-3 (low)	Stb

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# Press Release



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