

Quarterly M&A Market Review Q3 2012

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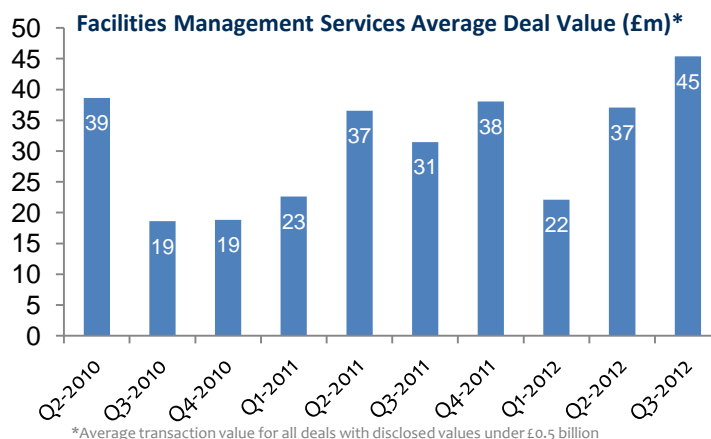
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Business Services Facilities Management Services

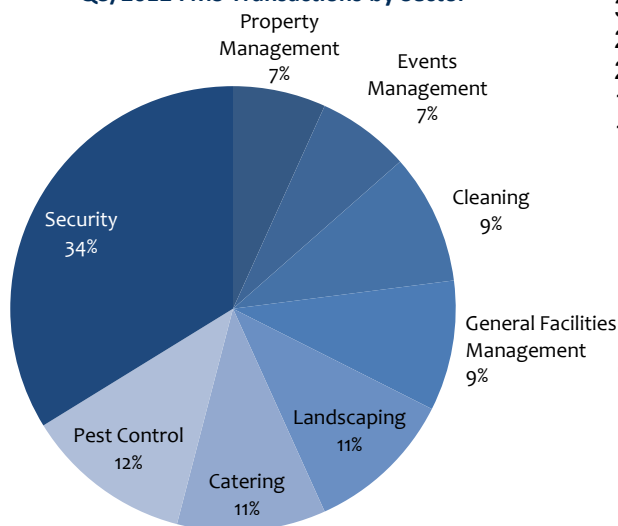
Facilities Management Services Industry Overview

Summary: Favourable M&A conditions are expected to continue for mid-market FMS companies...

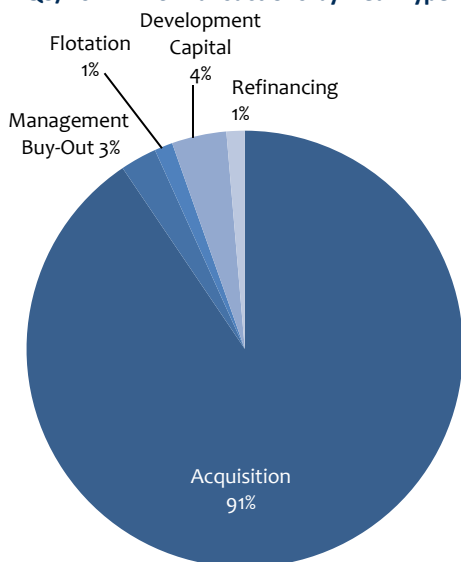
- **To acquire:** Conditions are conducive to the M&A environment with cash levels accumulating on corporate balance sheets, valuations becoming more reasonable and cross-border growth high on the agenda. 2013 is set to be an encouraging year.
- **Private equity:** We expect to see a continuation of the volume of investment in the FMS sector over the coming quarters as private equity houses seek to take advantage of consolidation opportunities via buy-and-build strategies.
- **Financing:** With pressure from the Government and a stabilising of liquidity within the debt markets, banks have become more willing to lend to companies with strong balance sheets, proven business models and strong cash generation.



Q3/2012 FMS Transactions by Sector



Q3/2012 FMS Transactions by Deal Type



M&A Highlights

- Facilities Management deal volume in quarter three remained consistent with the previous quarter with only one less reported transaction, a 7% increase from the same quarter in 2011. This is in contrast with a global M&A market that experienced a sharp fall in both volume and value during the quarter which had not been seen since 2010.
- There was a 22% increase in quarter-on-quarter average deal value. This is primarily attributed to the £393 million development capital raised by ISS A/S in August in order to repay 11% senior notes.
- The security sector dominated activity in quarter three, representing 34% of all transactions, up 11% from the previous quarter. Notable transactions included the acquisition of Reliance Secure Task Management Limited by Capita Plc for £15.6 million and Garda World Security Corp by Apax Partners Worldwide LLP for Can\$1.1 billion.
- Acquisitions increased by 11% from the previous quarter, where it only accounted for 80% of transactions, a sign that consolidation is still high on the agenda at a time when it is strategically advantageous to be making acquisitions.
- Ongoing worries over the global economy may continue to stifle M&A growth for the remainder of the year, with all eyes focused upon 2013.

Feature Article: Public Sector Outsourcing

Outsourcing within the Facilities Management sector has been overshadowed recently by the negative press concerning G4S' blunder over its handling of security for the London Olympics, which saw 18,200 military personnel stepping in to fill the staffing gap.

G4S' share price fell by 17% over four trading days in July as it emerged that the company could not provide enough security staff to meet its commitments – an acknowledgement made just two weeks before the games were set to start.

It sent concerns spiralling over a potential rethink of the anticipated volume of public sector outsourcing contracts due to hit the private sector as a result of continuing austerity measures which had been estimated at around £4 billion and described as the biggest surge in outsourcing since the 1980s.

Such concerns appear to have been largely unfounded. In spite of the negative publicity and the continuing poor trading conditions, a number of the larger players have recently announced strong interim financial performances on the back of large public sector outsourcing contracts, such as Interserve recently securing a contract to provide a full suite of facilities services to three NHS trusts. With a potential value of £330 million, the contract is the realisation of its strategy to become a key public service provider, whose contracts are among the longest in duration and proving highly lucrative.

With companies focusing upon the public sector for future growth opportunities, we expect to see further acquisitions in line with client demands for integrated services and total facilities management offerings. Consolidation can be expected as the larger players seek to fill gaps in their offerings and expand into new sectors via acquisition. The acquisition of Reliance Secure Task Management by Capita Plc enables it to provide further scale and depth to the solutions already offered within health and emergency services, the criminal justice system and wider public sectors. We also expect to see an increase in cross-border acquisitions as well-established outsourcing providers such as Serco, G4S and Carillion seek to export their capabilities in outsourcing overseas at a time when governments within Europe and North America are seeking to embark on further cost cutting measures.

Facilities Management Services Public Comparables

Company Name	Exchange	Q4 2011 EV/EBITDA	Q1 2012 EV/EBITDA	Q2 2012 EV/EBITDA	Q3 2012 EV/EBITDA
ABM Industries Inc	NYSE	8.6x	9.1x	7.8x	8.0x
Carillion Plc	LSE	8.7x	8.4x	8.3x	7.3x
Compass Group Plc	LSE	9.7x	10.3x	10.0x	10.3x
G4S Plc	LSE	8.3x	8.4x	8.9x	8.5x
Interserve Plc	LSE	5.9x	5.6x	6.1x	6.6x
Johnson Controls Inc	NYSE	9.6x	10.1x	9.6x	8.5x
Kier Group Plc	LSE	4.8x	4.1x	4.9x	5.2x
Mears Group Plc	LSE	5.2x	6.3x	6.8x	6.9x
Mitie Group Plc	LSE	7.8x	8.8x	8.1x	9.2x
Rentokil Initial Plc	LSE	7.7x	8.8x	5.4x	5.8x
Serco Plc	LSE	7.5x	9.3x	9.5x	9.7x
Sodexo SA	ENXTPA	8.0x	8.4x	9.2x	8.9x
Average		7.6x	8.1x	7.9x	7.9x

Enterprise Value and EBITDA as at 30 September 2012. Valuation statistics reflect most recent quarterly earnings reports.

Commentary

Average EBITDA multiples maintained their levels at 7.9x during quarter three of the FMS companies tracked by Gambit. This is an encouraging outcome following a number of events such as G4S' Olympics contract failure which impacted confidence in the outsourcing sector and share prices during the quarter. Over the last 12 months there has been an improvement in share price of 14%, a positive sign overall.

Focusing on the Future: Exploring Available Options

Succession planning is an essential feature of any business' life cycle whereby business owners develop and implement a suitable exit strategy and achieve an orderly transfer of ownership. Properly planned and executed succession planning should deliver significant benefits for owners, employees and other stakeholders by maximising shareholder value through effective corporate and fiscal planning, while minimising disruption. Failure to address this issue correctly can diminish shareholder value and endanger sustainability for the next generation.

A successful transition can be greatly enhanced by exploring the various options available to owners/managers or entrepreneurs. This may involve leadership development, fundraising for growth, transfer of ownership to existing shareholders or third parties. The biggest key to success is simply to make a decisive move towards exploring options available.

The initial consideration is for owners to decide whether they want to transfer the business. Secondly, they should aim to assemble a professional team which not only understands the business but is also familiar with the pitfalls of succession planning. Operating a business demands very different skills to selling one.

In many cases, owners often fail to get the best benefits from this transition stage. To ensure an ordered transfer of control and applicable competencies, the process should first be to understand the objectives of the current owners, which is likely to be value maximisation. Focusing on value maximising activities ensures management capability, performance and sector prospects are at an optimum.

Gambit specialises in providing expert and detailed advice to owner managers on succession and value optimisation and has developed a proprietary product to facilitate this. If you would like to set up a no obligation meeting to discuss the options available, please contact one of our Business Services team members.

Gambit's Business Services Team

Gambit has a dedicated Business Services team with a demonstrable track record in the sector. We maintain ongoing contact and relationships with a wide range of leading industry sources to stay abreast of the key issues and trends that drive M&A activity in the sector or otherwise influence our clients' businesses.

Our Business Services team would be delighted to meet with you to discuss your experiences within the sector or to answer any questions you may have on the current M&A market or our recent transaction experience.

About us:

Established in 1992, Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. Gambit is widely recognised as a market leader in M&A advice in the Business Services industry having built up detailed industry knowledge and an enviable track record in deal origination and execution.

Mergers & Acquisitions ~ Disposals ~ Management Buy-Outs
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