

## Quarterly M&A Market Review

### Q1 2012

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## Business Services

### Facilities Management Services

# Facilities Management Services Industry Overview

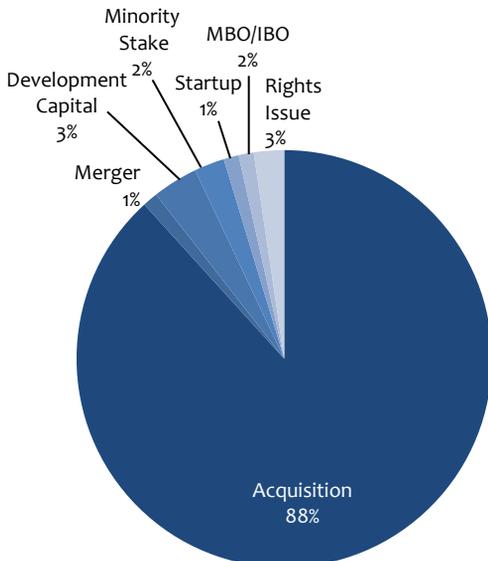
**Summary:** Favourable M&A conditions are expected to continue for mid-market FMS companies...

- To acquire:** The transaction environment remains positive as many large/medium sized FM companies with accrued cash reserves seek growth via acquisition into the remainder of 2012 with good opportunities available at realistic valuations.
- 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 take advantage of consolidation opportunities via buy-and-build acquisitions and seek to establish new platforms within a highly attractive sector.
- Financing:** With Government intervention and the stabilising of liquidity in the debt markets, banks will become more willing to lend to companies with a strong balance sheet, proven business model and strong cash generation.

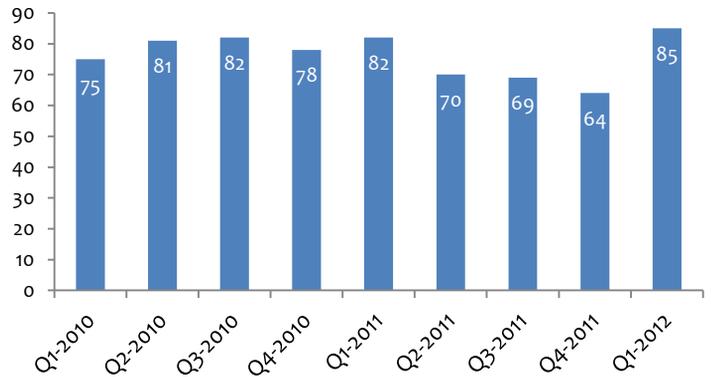
## Q1/2012 FMS Transactions by Sector



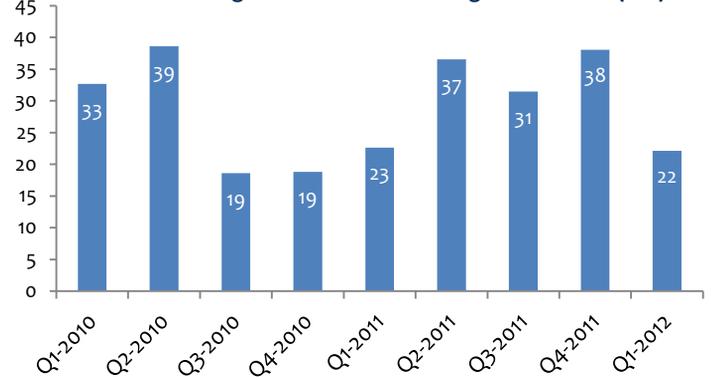
## Q1/2012 FMS Transactions by Deal Type



## Facilities Management Services Deal Volumes



## Facilities Management Services Average Deal Value (£m)\*



\*Average transaction value for all deals with disclosed values under £0.5 billion

## M&A Highlights

- The first quarter of 2012 saw the largest volume of transactions since the recession began, a 33% quarter-on-quarter increase from 64 to 85 transactions.
- The average deal value fell reflecting the absence of many mid-market transactions. The majority of transactions consisted of large FMS companies acquiring smaller, niche bolt-on targets, a trend which we expect will continue to define and drive the M&A market through 2012.
- The Security and Property Management subsectors continued their stronghold on the sector as a whole, with the Property Management subsector experiencing an increase of 19% through the quarter to the detriment of General Facilities which saw its share decrease by 13%.
- Acquisitions accounted for 88% of all transactions, notably including the acquisitions of Fountains Environmental Limited and Don Thaker Group by OCS Group. These transactions are indicative of large strategic competitors utilising bolt-on acquisitions and acquisitions in new service areas to deliver growth at a time when organic growth opportunities are limited.

## Feature Article: The Pitfalls of Poorly Approached M&A

2011 was a year when heightened volatility and uncertainty in the economic climate manifested itself in a string of large-scale failed acquisitions. One of the most notable was the aborted acquisition of ISS by G4S. The £5.2bn takeover was derailed by shareholders fearful of the scale, strategy and complexity of the deal against the backdrop of the uncertain European debt crisis.

The G4S share price fell by 22% immediately following the announcement of the acquisition, spurred on by a number of high profile investors publically announcing their concerns of the group's intention to finance the deal via a £2bn rights issue and £3.7bn of debt facilities.

The fate of the merger underlines the importance of the quality of M&A advice, notably pre-announcement. The aborted acquisition cost G4S £55 million in exchange rate losses and professional fees and contributed to the 17% fall in profit before tax for the year ended 31<sup>st</sup> Dec 2011. It also cost Deutsche Bank and Hoare Govett their positions as corporate advisers and brokers.

A good corporate finance adviser is key during any acquisition process and can make the difference between a successful and unsuccessful transaction. Their knowledge and experience of the market is invaluable in the planning and structuring of the transaction, informing the perfect moment to go to market, identifying potential risks and commercial issues that may derail the transaction. They will also ensure a transaction is structured and funded in the most appropriate manner.

Into 2012, it is evident that such failed transactions have not dampened spirits. The facilities management sector as a whole witnessed its highest level of M&A since the recession, whilst G4S has returned to its strategy of bolt-on acquisitions, acquiring Chubb Emergency Response and FMS assets in Botswana during the quarter. This level of improvement can be expected to continue as companies pursue increased scale and look to expand service lines.

## Facilities Management Services Public Comparables

Company Name	Exchange	Q2 2011 EV/EBITDA	Q3 2011 EV/EBITDA	Q4 2011 EV/EBITDA	Q1 2012 EV/EBITDA
ABM Industries Inc	NYSE	9.9x	8.1x	8.6x	9.1x
Carillion Plc	LSE	9.4x	10.1x	8.7x	8.4x
Compass Group Plc	LSE	9.1x	8.0x	9.7x	10.3x
G4S Plc	LSE	8.3x	8.2x	8.3x	8.4x
Interserve Plc	LSE	6.5x	6.1x	5.9x	5.6x
Johnson Controls Inc	NYSE	12.5x	8.5x	9.6x	10.1x
Kier Group Plc	LSE	4.7x	4.1x	4.8x	4.1x
Mears Group Plc	LSE	7.2x	7.3x	5.2x	6.3x
Mitie Group Plc	LSE	7.1x	6.9x	7.8x	8.8x
Rentokil Initial Plc	LSE	5.8x	5.2x	7.7x	8.8x
Serco Plc	LSE	9.6x	8.5x	7.5x	9.3x
Sodexo SA	ENXTPA	8.8x	8.1x	8.0x	8.4x
<b>Average</b>		<b>8.2x</b>	<b>7.4x</b>	<b>7.6x</b>	<b>8.1x</b>

\*Enterprise Value and EBITDA as at 31 March 2012. Valuation statistics reflect most recent quarterly earnings reports.

### Commentary

Average EBITDA multiples increased by 7% in the first quarter of 2012, driven by the 7% growth in total enterprise values since December 2011. This can in part be attributed to the improvement in confidence in the stock market which resulted in a 6% increase in average share price between the 12 companies tracked by Gambit and is a positive sign for the remainder of 2012.

# An illustration of current opportunities

## Opportunities in the UK and Europe

Gambit Corporate Finance LLP, together with its international network Corporate Finance International (“CFI”), currently has clients seeking acquisitions across many business services sub-sectors.

Below is an illustration of certain clients but if you would like to find out more about our current mandates across the network, please contact one of our Business Services team.

UK	Support Services	A company specialising in records management and confidential waste disposal is seeking acquisitions.
UK	Outsource Services	A company specialising in document storage and general facilities management is seeking acquisitions.
UK	Workplace Services	A company specialising in workplace services is seeking acquisition opportunities in washrooms, compliance testing and document storage.
Netherlands	IT Services	A company seeking acquisitions of IT and/or telecom companies with a significant managed services component. Size up to €100 million revenue in Benelux, Germany and the UK.

## 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.

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  
Fundraising ~ Financial Restructuring ~ Strategic Advice and Consultancy**



Gambit is the sole UK representative of Corporate Finance International, a global network of leading mid-market investment banking firms with members in North America, Western & Eastern Europe and Asia. ([www.cfi-network.com](http://www.cfi-network.com))

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