

Quarterly M&A Market Review Q2 2012

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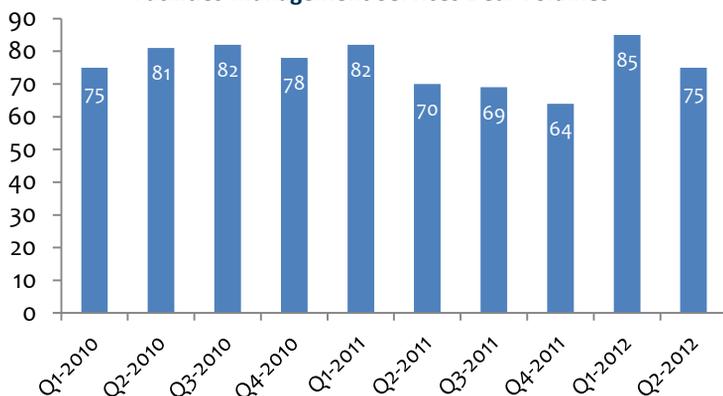
Business Services Facilities Management Services

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 FM companies seek to pursue strategic growth ambitions via acquisition.
- 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 establish new platforms within a highly attractive sector and take advantage of consolidation opportunities via a buy-and-build strategy.
- Financing:** With Government intervention into bank liquidity appearing increasingly likely following the recent Bank of England announcement, it can be hoped that conditions will improve through the remainder of 2012.

Facilities Management Services Deal Volumes

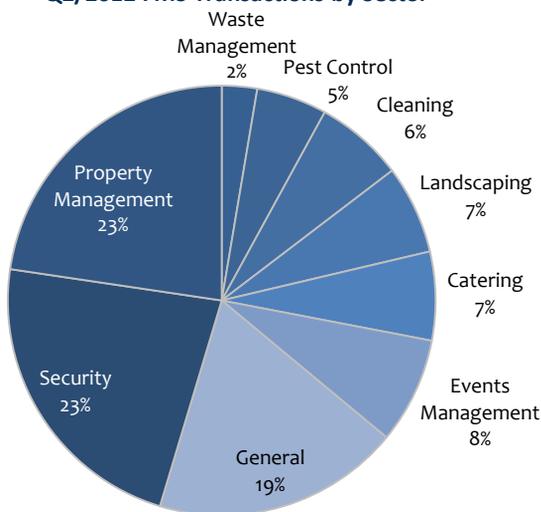


Facilities Management Services Average Deal Value (£m)*

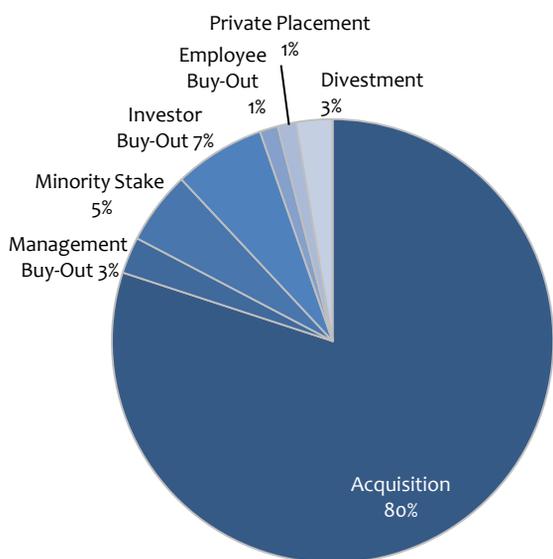


*Average transaction value for all deals with disclosed values under £0.5 billion

Q2/2012 FMS Transactions by Sector



Q2/2012 FMS Transactions by Deal Type



M&A Highlights

- There were 75 transactions during the second quarter of 2012, a decrease of 12%. Such a trend was felt throughout the markets following a very buoyant beginning to the year. The levels are still above those experienced during the first half of 2011 which is an encouraging sign for the remainder of 2012.
- Average deal values bounced back to the levels experienced towards the end of 2011. This can be attributed to a number of large private equity investments in FMS companies during the quarter, including the £255 million investment in Anticimex AB, a provider of pest control services, by EQT Partners.
- The property management and security subsectors again dominated transactions, representing 46% of all transactions during the quarter. Notable transactions include the acquisition of Stag Security Services Limited by Servest Group Limited as a further step towards Servest's strategy to become one of the top five multi service providers in the UK. Such companies can be expected to continue the drive for consolidation through acquisitions.
- Acquisitions accounted for 80% of transactions, a fall of 8% which can be explained by the increase in private equity investment in the sector.

Feature Article: Private Equity Investment in Facilities Management

Facilities management has long been a highly attractive sector for private equity investment in the UK as a result of the high levels of growth that the sector can deliver and its flexibility towards service diversification. However, having experienced a period of austerity, strong competition, continual downward pressure on margins and a level of sector maturity, many organisations are experiencing a limitation on the levels of growth that can be achieved organically.

As a consequence, private equity firms have held onto investments for longer than usual, focusing on improving operational performance, reducing gearing levels and seeking growth via acquisition to meet their return expectations.

As a highly fragmented sector, facilities management naturally lends itself to consolidation which underpins the buy-and-build model, where an initial investment is enhanced by further acquisitions that exploit operational synergies and economies of scale. The buy-and-build model is consistent with the trend towards bundled services, with bolt-on acquisitions delivering innovative services and a one-stop-shop for customers. The benefits to businesses are an increase in revenue and profitability through scale and operating efficiencies and, in doing so, making the organisation a more attractive acquisition target.

Within the UK there are many small companies focused on niche service areas that have established themselves locally but are unable to raise the capital required to grow regionally. There are therefore significant buy-and-build opportunities for acquirers within niche and value-add subsectors.

A lack of growth opportunities has also led to a re-emergence of active trade buyers, notably the large corporates with impressive cash balances who do not require finance and are ready and willing to match seller valuation expectations if a potential acquisition is strategically important. Such strategic acquirers can be expected to provide increased competition to private equity buyers over the coming 12 months.

Conversely, however, the growing strength of corporates is of benefit to private equity firms as corporates are keen acquirers of private equity investments to deliver further growth and consolidation. The level of private equity activity in the FMS sector can be expected to be maintained, driven by continued interest in safe and stable investments as a result of high levels of contracted income.

Facilities Management Services Public Comparables

Company Name	Exchange	Q3 2011 EV/EBITDA	Q4 2011 EV/EBITDA	Q1 2012 EV/EBITDA	Q2 2012 EV/EBITDA
ABM Industries Inc	NYSE	8.1x	8.6x	9.1x	7.8x
Carillion Plc	LSE	10.1x	8.7x	8.4x	8.3x
Compass Group Plc	LSE	8.0x	9.7x	10.3x	10.0x
G4S Plc	LSE	8.2x	8.3x	8.4x	8.9x
Interserve Plc	LSE	6.1x	5.9x	5.6x	6.1x
Johnson Controls Inc	NYSE	8.5x	9.6x	10.1x	9.6x
Kier Group Plc	LSE	4.1x	4.8x	4.1x	4.9x
Mears Group Plc	LSE	7.3x	5.2x	6.3x	6.8x
Mitie Group Plc	LSE	6.9x	7.8x	8.8x	8.1x
Rentokil Initial Plc	LSE	5.2x	7.7x	8.8x	5.4x
Serco Plc	LSE	8.5x	7.5x	9.3x	9.5x
Sodexo SA	ENXTPA	8.1x	8.0x	8.4x	9.2x
Average		7.4x	7.6x	8.1x	7.9x

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

Commentary

Average EBITDA multiples decreased slightly to 7.9x during the second quarter of 2012. This was driven by a 4% increase in reported EBITDA combined with a slight contraction in share prices of 1.2% of the FMS companies tracked by Gambit. The fall in share price was not isolated to the FMS sector and was experienced across the stock markets as a whole, with the FTSE 100 falling by 17%. In this context, FMS companies fared better than could be expected which is a positive sign going into the second half of 2012.

Selling your business? What you should know...

A company sale is more than a business transaction – it is a life transition

Gambit Corporate Finance LLP recently set about conducting a survey of business owners who had sold their companies in order to better understand the issues and experiences they had encountered during the transaction.

Specifically, sellers were asked what factors influenced their decision to sell, the profile of the purchaser, how the sale experience differed from their expectations and advice they would give to other owners contemplating the sale of their businesses.

The theme of managing surprises was consistent throughout the interviews. Numerous times, interviewees cited “preparation” as the key to a smooth process and satisfying outcome.

Sellers were also asked to reflect on the most difficult challenges of selling their businesses and to cite issues they wish they had known before beginning the process.

Perhaps the most revealing question we asked former business owners was this: What are the most important pieces of advice you would give to someone contemplating the sale of their business? Answers focused upon three themes:

- 1) Be certain you want to sell the business.
- 2) Assemble a team that not only understands your business, but also understands the ins and outs of selling a business. Operating a business demands different skills to selling one.
- 3) Be prepared to give up some control if required to report to someone within a more rigid corporate structure.

The process of selling a business is lengthy and complicated. Consequently, things rarely go perfectly. Sellers should be certain of what they want and stick to their goals. The key to staying on the right road is to have the right individuals on your team and the flexibility to adjust to unforeseen challenges.

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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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.
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