

Quarterly M&A Market Review Q2 2011

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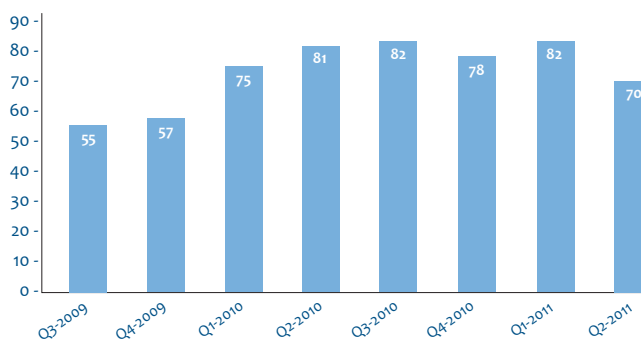
Business Services Facilities Management Services

Facilities Management Services Industry Overview

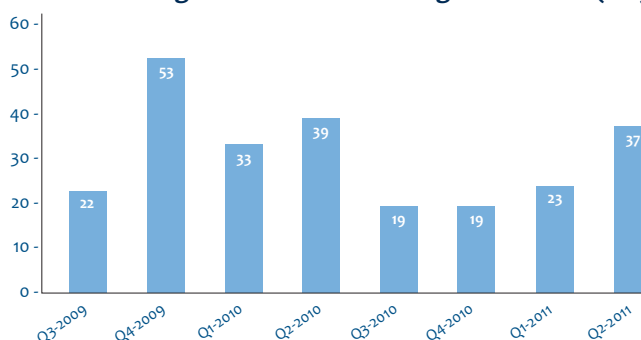
Summary: Favourable M&A conditions are expected to continue for mid-market FMS companies...

- **To sell:** With organic growth prospects becoming very limited, many large/medium sized FM companies with reasonable cash reserves will be seeking growth via acquisition through the remainder of 2011.
- **Private Equity:** We expect to see an increase in the volume of investment in the FMS sector in 2011 as a number of private equity houses continue to see the sector as highly attractive to take advantage of consolidation opportunities, to increase buy-and-build activity or establish new platforms.
- **Financing:** Liquidity in debt markets continues to improve as banks become more willing to lend to companies with a strong balance sheet, proven business model and strong cash generation.

Facilities Management Services Deal Volumes

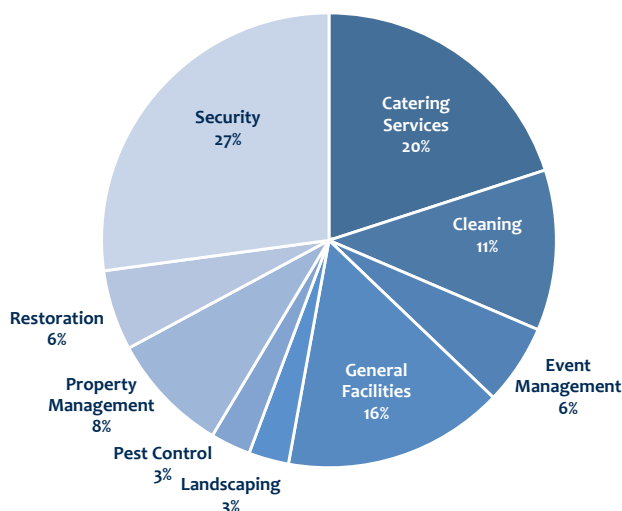


Facilities Management Services Average Deal Value (£m)*

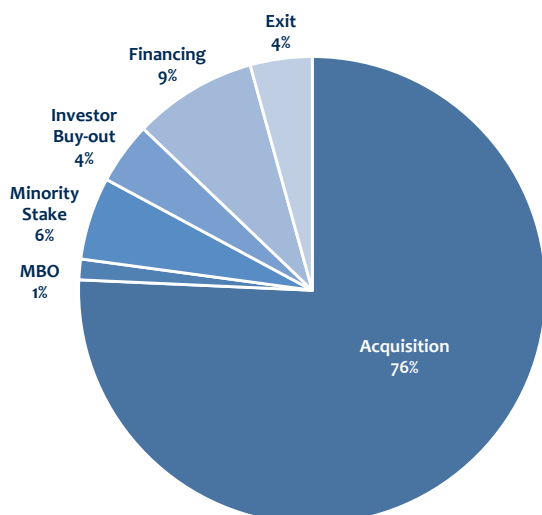


*Average transaction value for all deals with disclosed values under £0.5 billion

Q2/2011 FMS Transactions by Sector



Q2/2011 FMS Transactions by Deal Type



M&A Highlights

- The average deal size for Q2/2011 was £37 million, a notable increase from £23 million in Q1/2011 and a continuation of the trend begun at the end of 2010. This is a very encouraging sign for the remainder of 2011.
- Despite the clear upward trend in average deal value since the lows experienced at the end of 2010, deal volume has witnessed a 15% decrease from 82 to 70 transactions in Q2/2011. This figure is less than the average decrease of 17.5% experienced globally across all industry sectors following a promising first quarter. We expect the volume of transactions to increase during the remainder of 2011 as companies continue to look for consolidation opportunities and liquidity in debt markets continues to improve.
- Trade acquisitions accounted for 76% of all transactions during Q2/2011. In a time of intense competition and limited organic growth opportunities, consolidation via acquisition is high on the agenda for companies looking to increase their service offerings and geographical scope. This trend is most prevalent within the quoted sector, where companies are looking to maintain their share price.
- The security subsector dominated transaction activity during Q2/2011, accounting for 27% of transactions, followed by catering services at 20%.

Feature Article:

The Polarisation of Public Sector Outsourcing

Trading statements from some of the leading players in the support services sector in the last quarter suggest that the worst of the recession is behind them and prospects for the medium term look positive. Many are reporting a rebound in public sector outsourcing with Capita saying that central government outsourcing is back to pre-election levels.

In recent years the increasing scale and technical complexity of public sector outsourcing requirements has seen a polarisation in contracts being awarded to the larger market leaders at the expense of smaller bidders. To some extent this is inevitable given the infrastructure and technical expertise required to deliver the required services but there is a growing feeling that smaller providers are being disadvantaged in the tendering process. The coalition government's attempts to improve the ability of SMEs to secure public sector outsourcing contracts appears to be failing to meet the expectations of facilities management suppliers. In a recent survey by Interim Partners of Chairmen, CEOs and CFOs of the UK's leading outsourcing and facilities management businesses, 71% of respondents agreed that the government should do more to help smaller businesses win more work. When asked about the awarding of contracts, 64% felt that the government favoured larger outsourcing companies.

So what are the options for smaller facilities management companies looking to capitalise on the public sector outsourcing opportunity? For those with the desire to develop a credible presence in the public sector arena, acquisition seems the most likely route forward to provide the required scale and service capability. With margins squeezed following the budget cutbacks imposed during the recession, a number of smaller operators are struggling financially and remain prime targets for acquisition.

For those that do not have the appetite for expansion, exit opportunities remain positive with a significant number of mid tier buyers in the market for acquisitions. There is likely to be resistance amongst mid tier facilities management companies to consolidation on a large scale, which will further weaken their competitive position. However, a continuation of the consolidation trend appears inevitable as organic growth prospects play a smaller part in companies' growth plans in favour of cross-selling new services from bolt-on acquisitions.

Facilities Management Services Valuation Parameters

Company Name	Exchange	Q4 2009 EV / EBITDA	Q4 2010 EV / EBITDA	Q1 2011 EV / EBITDA	Q2 2011 EV / EBITDA
ABM Industries Inc	NYSE	10.7x	10.3x	11.1x	10.1x
Carillion Plc	LSE	9.2x	9.4x	8.2x	8.5x
Compass Group Plc	LSE	8.5x	9.7x	8.7x	9.1x
G4S Plc	LSE	8.6x	8.4x	7.8x	8.2x
Interserve Plc	LSE	4.6x	5.9x	5.9x	6.6x
Johnson Controls Inc	NYSE	13.5x	12.4x	12.3x	12.4x
Kier Group Plc	LSE	3.9x	4.6x	4.7x	4.9x
Mears Group Plc	LSE	7.8x	8.1x	6.2x	7.0x
Mitie Group Plc	LSE	8.4x	8.0x	6.4x	7.1x
Rentokil Initial Plc	LSE	8.7x	7.2x	6.5x	6.5x
Serco Plc	LSE	11.4x	10.7x	9.7x	9.4x
Sodexo	ENXTPA	8.0x	8.7x	8.3x	8.9x
	Average	8.4x	8.5x	7.7x	8.0x

*Enterprise Value and EBITDA as at 30 June 2011. Valuation statistics reflect most recent quarterly earnings reports.

Commentary

The average facilities management EV/EBITDA multiple increased to 8.0x in Q2/2011, still below the peak levels at the end of 2009 and 2010. As competitive pressures continue to increase, facilities management companies will seek bolt-on acquisitions, driving further consolidation and M&A activity in the sector.

An illustration of current opportunities.....

Companies with an acquisition strategy:

Gambit Corporate Finance LLP, together with our international network Corporate Finance International (“CFI”), currently have 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	Workplace Services	A company specialising in workplace services is seeking acquisition opportunities in washrooms, compliance testing and document storage.
Netherlands	IT Services	International IT services group looking for acquisition of companies specialising in IT licensing, infrastructure and managed services. Preferred skills: Citrix, VMWare and Microsoft.
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 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 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 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
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)

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