

Quarterly M&A Market Review

Q3 2011

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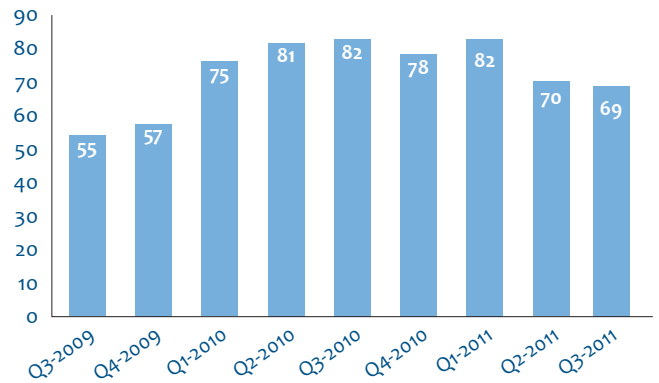
Facilities Management Services

Facilities Management Services Industry Overview

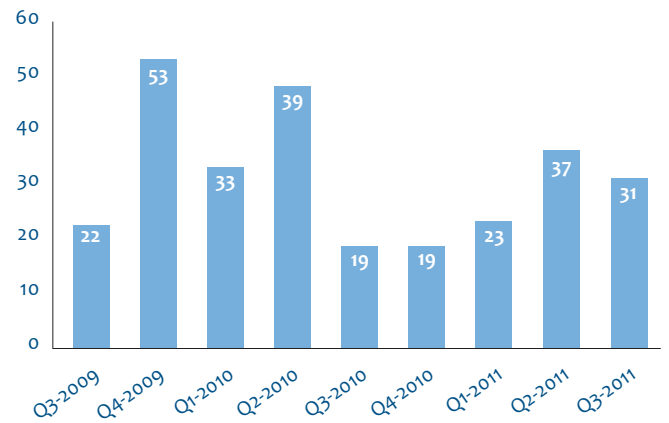
Summary: Favourable M&A conditions are expected to continue for mid-market FMS companies

- **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 for the remainder of 2011 and into 2012.
- **Private equity:** We expect to see an increase in the volume of investment in the FMS sector in the next few quarters as a number of private equity houses continue to see the FMS 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

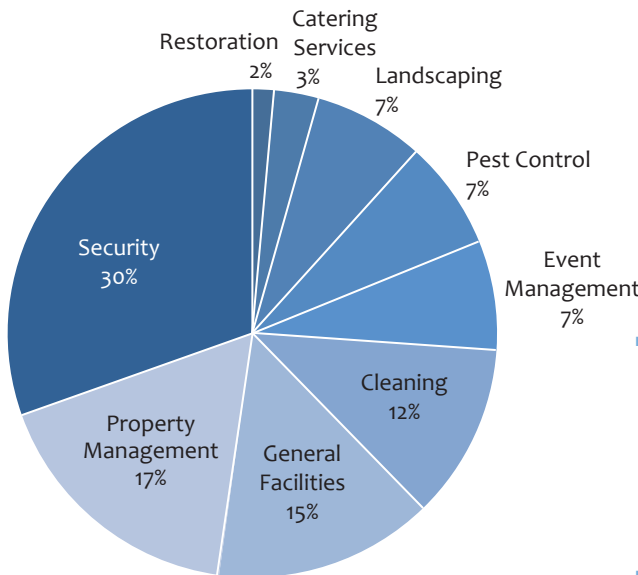


Facilities Management Services Average Deal Value (£m)*

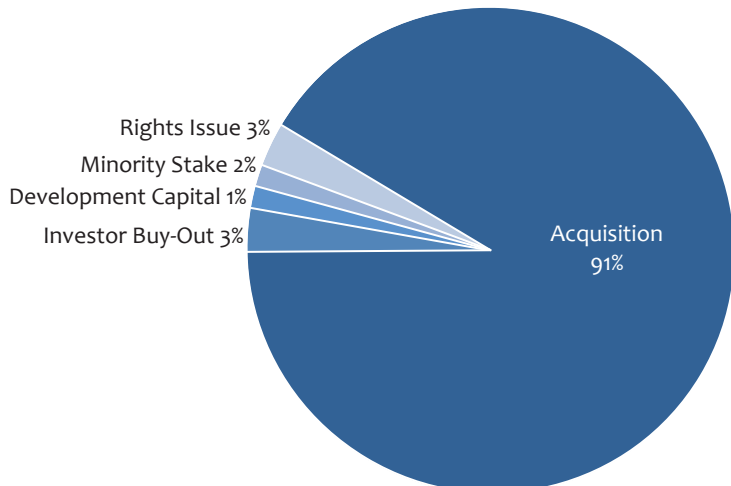


*Average transaction value for all deals with disclosed values under £0.5 billion

Q3/2011 FMS Transactions by Sector



Q3/2011 FMS Transactions by Deal Type



M&A Highlights

- The average deal size for Q3/2011 was £31 million, a slight decrease from the level of £37 million experienced in the previous quarter. This can be attributed to the presence in Q2 of a number of large deals which were lacking in Q3. It is encouraging that the average deal value remains well above the low levels experienced during the latter part of 2009 despite a continuing uneasy economy.
- Deal volume has remained broadly constant decreasing from 70 to 69 transactions in Q3/2011. This is a decrease of 16% from the same quarter last year, though less than the average decrease of 19% experienced globally across all industry sectors. At a time of stock market volatility and economic uncertainty, a more cautious 'wait and see' approach is beginning to be felt in the market.
- Trade acquisitions accounted for 91% of all transactions during Q3/2011. At a time of intense competition and limited organic growth, large companies with impressive cash reserves will continue to seek to increase market share by absorbing smaller rival firms.
- The security subsector dominated transaction activity for a second consecutive quarter through Q3/2011, up by 3% on the previous quarter, accounting for 30% of transactions. Property Management was the second most dominant subsector, replacing Catering Services which saw a 17% decrease in transaction share from its 20% level in Q2/2011.

Feature Article

The trend towards 'bundled' and 'niche' services

Economic challenges faced throughout the last few years have significantly reshaped the facilities management sector. Facilities managers are under pressure to cut costs yet maintain standards of high quality in a profession that is becoming increasingly transparent within the procurement supply chain. This mounting pressure to achieve 'more for less' combined with a growing consciousness towards 'going green' is manifesting itself not only in the preference for cheap yet environmentally-friendly products but also with a marked focus on sustainability in order to drive down the cost of operations.

As a result, many FM clients in the public and private sector are opting for bundled services in a bid to cut costs by reducing the number of suppliers. This trend will continue to provide growth opportunities for the larger FM providers who have the internal economies of scale and capabilities to offer cost effective integrated solutions.

Single service providers can avoid potential loss of market share and evade competition with the larger FM companies by carving themselves a niche in the market with more targeted strategies. The Government's focus on introducing initiatives and funding opportunities for SMEs in 2011 in the hope of promoting economic growth through the private sector will, in turn, provide optimism for single service providers targeting smaller contracts.

Maturity in the facilities management sector has made it heavily dependent on the economic climate and, as a result, stabilisation and growth can be expected in the short to medium term as construction projects increase in number and draw to completion. Moreover, the 2012 Olympic Games is bringing lucrative FM opportunities alongside the growth in the budget hotel sector which is set to continue its upward trend for the remainder of the decade.

These encouraging signs are further cemented by research which shows over 60% of the sector is depicted as having either a 'good' or 'excellent' credit rating. The number of single and multi-service companies considered as a high failure risk now stands at only 2%, reflecting a significant core industrial strength.

Such positive signs of growth are expected to lead to further consolidation within the FM sector, with mergers and acquisitions becoming increasingly likely as providers seek to strengthen their position in the market and extend their service offerings to become providers of the much sought after bundled services.

Facilities Management Services Valuation Parameters

Company Name	Exchange	Q4/2010 EV / EBITDA	Q1/2011 EV / EBITDA	Q2/2011 EV / EBITDA	Q3/2011 EV / EBITDA
ABM Industries Inc	NYSE	10.3x	11.1x	10.1x	8.0x
Carillion Plc	LSE	9.4x	8.2x	8.5x	10.1x
Compass Group Plc	LSE	9.7x	8.7x	9.1x	8.4x
G4S Plc	LSE	8.4x	7.8x	8.2x	8.8x
Interserve Plc	LSE	5.9x	5.9x	6.6x	6.1x
Johnson Controls Inc	NYSE	12.4x	12.3x	12.4x	9.5x
Kier Group Plc	LSE	4.6x	4.7x	4.9x	4.3x
Mears Group Plc	LSE	8.1x	6.2x	7.0x	7.3x
Mitie Group Plc	LSE	8.0x	6.4x	7.1x	7.3x
Rentokil Initial Plc	LSE	7.2x	6.5x	6.5x	5.2x
Serco Plc	LSE	10.7x	9.7x	9.4x	9.7x
Sodexo SA	ENXTPA	8.7x	8.3x	8.9x	8.2x
	Average	8.5x	7.7x	8.0x	7.7x

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

Commentary

The average facilities management EV/EBITDA multiple suffered a slight decrease to 7.7x in Q3/2011. This can be attributed to the dip in stock prices witnessed during the quarter, which saw the FTSE fall by 13.7%, its largest quarterly fall since Q3/2002. This is in line with the fall in the FMS Index tracked by Gambit which saw stock prices fall by 14.3%.

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	Document Storage	A company specialising in document storage and corporate relocation seeking additional opportunities in these sectors.
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 specialised in IT licensing, infrastructures 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 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 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.
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