Annual waste and resource management review

May 2018
Foreword

The waste sector is a major driving force in the UK economy. Employing over 70,000 workers and with an annual turnover of at least £9 billion\(^1\), it has a major impact on Britain’s commercial, political and social systems.

In the last twelve months, the waste sector’s M&A activity significantly increased, with acquisitions linked to developing and diversifying strategic ambitions of the acquirers. Especially among the bigger players, their acquisitions have not been to achieve growth alone; every move has been to support longer-term, strategic initiatives of the business in question.

The industry has been increasingly focused on joining the circular economy through tapping into the manufacturing ecosystem, specifically in recycling. There is a growing recognition that the UK has to become more self-sufficient with regards to material management. China’s limit on plastic imports and the Brexit-driven uncertainty of the Refuse derived fuel (RDF) export market have created a situation where the UK would make an ideal material processing region, but the facilities aren’t up to the task.

However, changing this requires a real commitment to recycling and recovery, focusing on the country’s ability to improve the quality of waste materials which can be reprocessed effectively.

The good news is the waste industry is responding. Looking at some significant deals over the past year, particularly the creation of Renewi through the merger of Shanks and Van Gansewinkel and the partnership between Biffa and Covanta, it’s clear that major players have been looking to use strategic assets and partnerships to secure a position across recycling and recovery.

These trends will only become more prevalent over the next few years. One example is the rise in electric car use\(^2\) which will increase demand for lithium batteries, and as the UK cannot sustainably continue to buy batteries from overseas vendors, recycling of battery materials will need to play a greater part.\(^3\) This underlines how the circular economy will have a huge role to play in increasing the UK’s self-reliance in a difficult global economy.

This makes it crucial for the waste market to grow more confident about the part it plays in the manufacturing cycle. In doing so, it can make a much wider contribution to the circular economy, driving a dynamic and growing economy in a post-Brexit world.

I hope the insights in these articles provide a source of inspiration as you plan your success for the year ahead.

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\(^1\) Waste management in the UK: investment opportunities, Department for International Trade, 19 February 2014
\(^2\) ‘Electric car market statistics’, Next Green Car, 5 January 2018
\(^3\) ‘Recycling & The Rise Of The Electric Car’, CIWM Journal, 26 January 2018
A record for waste M&A

With a total of 50 deals, 2017 was a record year for M&A activity in the waste sector, with the final quarter proving particularly active with 21 deals.

Within the sector, recycling saw the highest number of deals at 21, followed by waste management and hazardous waste where there were 13 and 12 deals respectively.

While the high level of activity over the past 12 months reflects the confidence of key investors, consolidations and acquisitions are business-as-usual for the sector. For example, waste giant Biffa spent £44.2 million on five acquisitions in 2017, reflecting a need to consolidate its position and increase its economies of scale across the UK.

However, looking beyond these individual deals, it possible to identify some developments and trends that will drive future activity. They include greater public interest in recycling initiatives as well as growing recognition of waste’s potential to generate fuel. These sit alongside political and legislative challenges, such as the impact of Brexit, and greater pressure on waste targets from UK and EU governments. All of these provide an interesting context for the sector in coming years.

Deals by subsector - Q1-Q4 2017

Number of waste sector deals 2010-2017

Source: Grant Thornton UK and Zephyr

1 ‘Government waste strategy to ‘make the UK a world leader’, MRW, 12 October 2017
Number of waste sector deals Q1 2011 to Q4 2017

Source: Grant Thornton UK and Zephyr
Recyclers are increasingly attractive targets

The volume of recycling deals increased by 50% compared with 2016, representing the largest rise in the sector. This suggests it is bouncing back from the slowing in the market three years ago when oil prices collapsed.

Paper and metal recycling firms contributed most to the activity, making up 62% of recycling deals. Deals included Macfarlane Group’s acquisition of Nottingham Recycling Ltd and corrugated packaging manufacturer Greenwood Stock Boxes for £16.75 million, as well as Restore PLC’s purchases of Baxter Confidential and Lombard Recycling. This growth in part, stems from a recognition that the UK has the scope, opportunity and incentive to develop its recycling capabilities.

“Key players are waking up to the knowledge that the UK doesn’t have capacity to reprocess all the raw materials that are being collected.”

Lorna Pannett
Principal Consultant at Ricardo commented:

Growing international interest

2017 also saw a marked rise in overseas interest, with a number of international investors acquiring UK businesses as part of multinational acquisitions.

Foreign investors are either financial (such as private equity houses looking for strong returns on their investment), or ‘trade players’. Overseas companies with a strong base in their home nations and beyond, still see the UK market as a safe haven, and recognise it as an important part of their international operations.

This second camp of investors led some of the year’s most significant deals, including the merger of Shanks and Van Gansewinkel for £479 million, creating a new entity, Renewi PLC.

Elsewhere, Irish waste business Pandagreen made its second UK acquisition with WSR Recycling, and Bermuda-based Armour Holdings bought Cory’s landfill business for an undisclosed sum.

Private equity picks up the biggest deals

Private equity houses were involved in the largest deals in 2017 although they only contributed 10% of overall activity.

Apax Partners’ acquisition of international hazardous waste company Safety-Kleen Europe was the largest deal in 2017, at £640 million. Apax Partners plans to develop the waste disposal arm of the business, leveraging its scale to grow in an increasingly complex market. Similarly, Exponent’s purchase of DCC Environmental, which took many by surprise, was another big deal, worth £219 million.

2"Plastic recyclers feel the squeeze after oil price crash", Financial Times, 30 April 2015
Navigating key legislation in the waste sector

With waste legislation in the UK seeing little change due to Brexit uncertainties, Georgie Messent and John Bruce of Pinsent Masons look ahead to the key legal issues businesses should be aware of in 2018.

Navigating the Brexit uncertainty

The ongoing Brexit negotiations’ mean legislative change affecting the waste sector slowed down in 2017. Usually the sector sees numerous amendments, additions and withdrawals to waste management law and regulation but there has been little change over the last year. With the negotiation of a robust trade deal firmly at the top of the government’s priority list, environmental issues have dropped to the bottom of the list. Ministers are wary of pushing for legislation that differs too much from the current EU framework, for fear that any changes could conflict with agreements that might be reached in the coming months. This is creating a challenging and uncertain environment for the waste management sector and has resulted in a drop in confidence for some. Equally the range of potential outcomes from the negotiations mean that many companies have felt unable to make strategic plans or decisions.

A new focus on enforcing waste laws

While legislative changes have been slow, we have seen a new focus from the UK government on regulation and a tougher enforcement of existing waste laws. The experience of Thames Water shows how this is affecting companies. It was first fined £20.3 million for numerous sewage spillages in 2013 and 2014. This was followed by a £8.5 million penalty for failing to cut water leakages from its pipes in June last year. These were some of the largest fines posed for a waste offence, reflecting court guidance to issue penalties in proportion to turnover. As a result, companies are reviewing their processes to ensure they do not suffer the same fate.

They are not only looking at the effectiveness of their standard practices, but also preparing procedures if something does go wrong. The stricter approach from environmental agencies means it is vital to have robust contingency plans if the worst happens.

Planning for the future

However frustrating this current climate may be, it’s imperative that the waste sector starts to plan for the future. So far, most firms in the sector have been reluctant to focus on this. However every company has a variety of stakeholders that need to be protected in case of a challenging Brexit outcome, and they need to be managed in advance of the UK’s exit from the EU in March next year.

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1 “Brexit”, Financial Times, 23 April 2018
2 “Thames Water hit with record £20m fine for huge sewage leaks”, The Guardian, 22 March 2017
3 “Thames Water given maximum £8.5m fine for missing leak target”, The Guardian, 14 June 2017
New opportunities in UK waste treatment facilities

One area where legislative uncertainty isn’t necessarily having an adverse impact is the development of energy from waste. In fact, the potential for increased restrictions around waste exports, along with higher export costs due to a weakened pound, has further highlighted the need for the UK to be able to deal with its own domestically created waste.

With the future export market likely to decrease, coupled with less landfill space and high landfill taxes, energy-from-waste facilities are potentially attractive to investors. This is reflected in the fact that there are 40 new proposed energy-from-waste facilities in varying stages of pre-contract development throughout the UK.

For the developers of these projects, the key concerns will be less about Brexit and legislative uncertainties, and more about the robustness of their chosen technology and waste supply arrangements. Equally, they will want to make sure they can get ahead of competitors in securing the expertise of the limited number of construction and operating contractors in the market.
Key trends affecting the waste sector

With 50 deals, 2017 was a record year for M&A activity across the waste sector. Our analysis of the strategies that are driving that activity, as well as broader political factors, shows a number of trends emerging that will affect the waste sector over the coming years.

Recycling to grow in the circular economy

In contrast to the stable levels of deals in other waste sectors, recycling has seen an increase over the past 12 months. The effect of David Attenborough’s ‘Blue Planet’ means that waste, and how we deal with it, is firmly on the national agenda. This has created more pressure than ever on the UK government to rethink its approach to waste and recycling. As a result, we have seen the publications of an ambitious 25-year green plan, as well as initiatives like the ‘Latte Levy’ which aims to replace all disposable coffee cups with reusable ones. Alongside the rumoured ban on plastic straws and wet wipes, it’s clear that interest in recycling is set to continue over 2018.

These efforts coincide with those being made in other parts of the world. Last year China announced it was refusing to take any more plastic waste imports, a move which has impacted the UK’s plastic recycling efforts. In response, UK recycling businesses are looking to protect themselves against the risk of losing a key market, with Biffa’s acquisition of Eco Foods Recycling an example of the action they are taking. In Norway, the introduction of a new deposit-based system for recycling bottles has proved effective in tackling plastic litter - a scheme the UK may adopt.

In light of this, recyclers will continue to grow their stake as key players in the circular economy over the coming year. From expanding material portfolios to acquiring assets across the waste reprocessing supply chain, companies will look to maintain and develop the value of their materials. This will reduce the risks of overreliance on one segment of the waste-to-product process.

As a result, we anticipate a higher number of consolidation deals in 2018, to enable recyclers to tap into the new opportunities presented by a changing and complex sector.

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1 ‘Theresa May proposes plastic-free supermarket aisles in green strategy’, The Guardian, 11 January 2017
2 ‘Latte levy’ of 25p urged by MPs in bid to cut cup waste’, BBC, 5 January 2018
3 ‘Cotton buds and plastic straws could be banned in England next year’, The Guardian, 19 April 2018
4 Chinese ban on plastic waste imports could see UK pollution rise’, The Guardian, 7 December 2017
5 ‘UK could adopt Norway bottle recycling system’, BBC, 7 February 2018
Fulfilling the promise of hazardous waste recycling

Alongside recycling, niche waste markets are set to pick up further interest this year. Hazardous and industrial waste in particular could increase, after accounting for 24% of deals in 2017.

The level of activity will depend on how the technology to treat and recycle hazardous waste develops. While contractors are confident that the capability to recycle hazardous materials is not far away, the fact remains that the majority of such waste is not recyclable. It still needs specialist treatment before being put in landfill and this has made investment in hazardous processing plants less appealing to some investors. However, if the sector is able to demonstrate it can get the technology right, it will become a far more attractive acquisition proposition.

Looking ahead to the rest of this year, those that continue to bridge the gap between waste and energy production are sure to attract significant interest.
'New diesel and petrol vehicles to be banned from 2040 in UK', BBC, 26 July 2017

'Jaguar's new I-Pace electric car: gaining pace on Tesla?', The Telegraph, 1 March 2018
Beyond waste-to-power: The waste-to-fuel revolution

Changes in policy mean that the growth of waste-to-energy looks set to continue over the next few decades.

The UK government’s plans to ban new fossil fuelled cars by 2040, considering stricter performance requirements for hybrids and placing further restrictions on carbon-emitting energy production, is one initiative that is providing real incentives for the development of waste-to-energy options. The waste sector is already repositioning itself as an energy source in that future. It is looking at both supplying the National Grid as well as fuel production.

There are a number of businesses that are ready to seize these opportunities and are already seeing the benefits. 4 NEW Ltd, a London-based network of waste-to-energy treatment plants, received investment of approximately £40 million in 2017, including £18 million from Mirach Capital Group. Another company, Biogen expanded its recycling network through the acquisition of Tamar Energy, one of the largest anaerobic digestion and biogas plants in the UK.

During 2018, we are likely to see this repositioning of waste go even further as the idea of waste-to-fuel becomes even more of a viable and lucrative growth opportunity. In particular, the demand for more environmentally-responsible fuel sources will grow as the car industry responds to the government’s plan to replace all conventional fuel cars.

A number of major car manufacturers, including Jaguar Land Rover*, recently revealed plans for new electric or hybrid cars and those developments look set to continue.

A growing role for renewables

The waste sector could also benefit from the need to meet ambitious renewable energy targets. By 2020, 9.75% of all fuels used in the UK should come from renewable sources, and this will rise to 12.4% by 2032.

A changing car industry

The government has recently confirmed that the Renewable Transport Fuel Obligation (RTFO) will have a greater emphasis placed on biofuels created from waste sources. There is also agreement that the use of land for the production of crops to develop fuels, rather than food, is not responsible or sustainable in the long term. These developments create a clear opportunity for the RDF/SRF and waste wood sectors to be a viable long-term solution to the UK’s fuel challenges, mitigating the issue Brexit causes to RDF exports.

The right opportunity at the right time

These opportunities are coming at just the right time. Thanks to both the cost and the impact of Brexit, waste businesses have been looking for UK-based solutions to enable them to process the huge quantity of refuse-derived fuels currently being exported. Waste-to-energy offers one way to address this problem.

The path to waste-to-energy has therefore now been well and truly cleared. With high expectations that it can be a key component in the growth of biofuels, the market now needs to get its approach right to take advantage of the opportunity. By focusing on developing waste-to-energy capabilities, and in particular the technology that will make this possible, the sector should be able to seize this huge opportunity for growth in both the short and long term.