



Insights into facilities management



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“Despite continued overseas interest in UK assets and active AIM-listed corporates, we have seen a decline in M&A activity during Q1. This is most likely due to macropolitical factors such as the forthcoming EU referendum, and its potential impact on global tendering processes and subsectors of the FM market which can be reliant upon a transient workforce. We expect the trend of lower M&A activity to continue through to the second half of 2016, with a possible increase in Q4 driven by highly acquisitive Asian corporates and global property managers.”

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Facilities management market, M&A update, Q1 2016

M&A activity in the facilities management market slowed in Q1 2016 despite a steady number of cross-border acquisitions.

Slower start to the year for M&A activity

Consecutive improvements in M&A activity in the last three quarters of 2015 gave way to a slight slowdown in the FM market in the UK in Q1 2016. Twenty-one deals were completed in Q1 2016, a 9% decrease from the same period in 2015 which saw 23 deals announced. The number of Q1 deals represents a fall of 28% compared to a busy Q4 2015 where 29 deals took place – the highest number since Q3 2012.

The decline in Q1 activity is primarily attributed to a slowdown in the domestic market, with cross-border acquisitions remaining fairly stable. There was also a slight increase in private equity activity in the FM sector during the quarter.

Notable deals

Notable transactions included Canadian investment house Cathexis finally winning its battle for full control of international construction and services group ISG PLC, following turbulent financial performance, taking it private for approximately £60 million. France's Samsic has bolstered its UK presence with the acquisition of commercial cleaner JPC Cleaning for its Regent Samsic business. Noonan, headquartered in Ireland, acquired The Shield Guarding Company, a provider of premium security services, to strengthen its UK operations.

- 2016 Q1 M&A review
- Quoted FM Tracker

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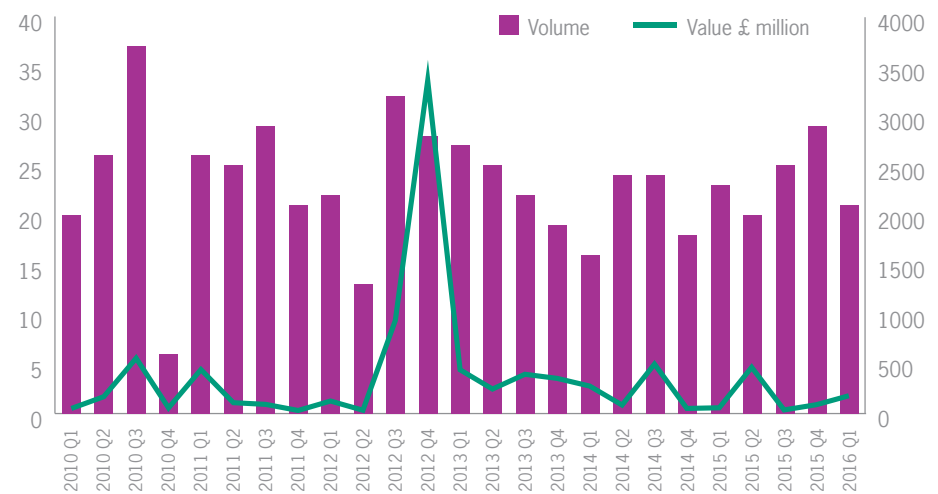
Private equity activity included London-based Maven Capital backing the £11 million MBO of fit-out firm EE Smith, Investec supporting the MBO of office and commercial cleaning services provider Premier Support Services for an undisclosed sum, and Rubicon Private Equity taking on the utilities and services contractor Enserve from Cinven for a reported c.£60 million.

UK quoted companies have been behind some of the momentum in Q1. Textile service company Johnson Service Group continued its expansion strategy with the purchase of Zip Textiles at a multiple of 9.9x January 2015 EBITDA, although this may fall with improved 2016 financial performance. Building services company Bilby maintained its acquisition plans, picking up maintenance firm Spokemead for c.£6 million (excluding an earn out) and building repairs firm DCB Kent for £2 million (excluding an earn out) at 5.2x EBITDA based on the target's March 2015 accounts.

Marlowe, the newly-listed investment vehicle of Lord Ashcroft and Impellam's former Head of Corporate Activities, Alex Dacre, paid a disclosed c.£13 million for fire protection and security systems provider Swift, the first step in its strategy of creating a critical asset maintenance services provider. Subsequently, it has already announced a number of bolt-on acquisitions.

Generally, private equity investors appear to be being more selective in the new investments they are making, and

UK Facilities Management transactions 2010-2016 by quarter



Source: Zephyr

are showing more interest in buy-and-build platforms than pure play organic growth-driven assets, given the maturity of the facilities management market in the UK.

Deal trends

M&A activity has been fairly evenly split between hard and soft FM, although transactional data highlights an increased interest in the maintenance and fit-out and Mechanical & Engineering (M&E) subsectors. Corporate strategies of the larger industry players have concentrated on either a determined push towards further service integration or, for those focussed more on commercial property, a move towards divestment of non-core services.

Both the private and public sector FM markets are continuing to follow

a trend towards contracting more integrated service offerings from a single provider. Government spending cuts have resulted in a change in local authority procurement patterns, with smaller teams procuring larger and more diversified contracts. The private sector market has seen a number of big players moving towards an end-to-end service model for large property portfolios, known as Total Facilities Management (TFM). The soft side has seen a particular increase in the bundling of services, with procurement being largely hard services-led. Looking forward, the trend towards integration of hard and soft services is likely to continue, driving further consolidation in the sector.

A number of property managers are moving from an outsourced to a more integrated or hybrid delivery



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model, as shown by CBRE's purchase of Norland Managed Services and the Global Workplace Solutions unit of Johnson Controls Inc. This trend is likely to continue, with more property managers heading downstream into the supply chain to differentiate their market proposition and search for enhanced profitability; further evidence of such a pattern includes Jones Lang LaSalle's acquisition last year of interior fit-out firm Bluu. Also, whilst not concluded in the first quarter Jones Lang LaSalle's acquisition in June 2016 of Integral group for a disclosed value of \$330 million provides further evidence of this trend.

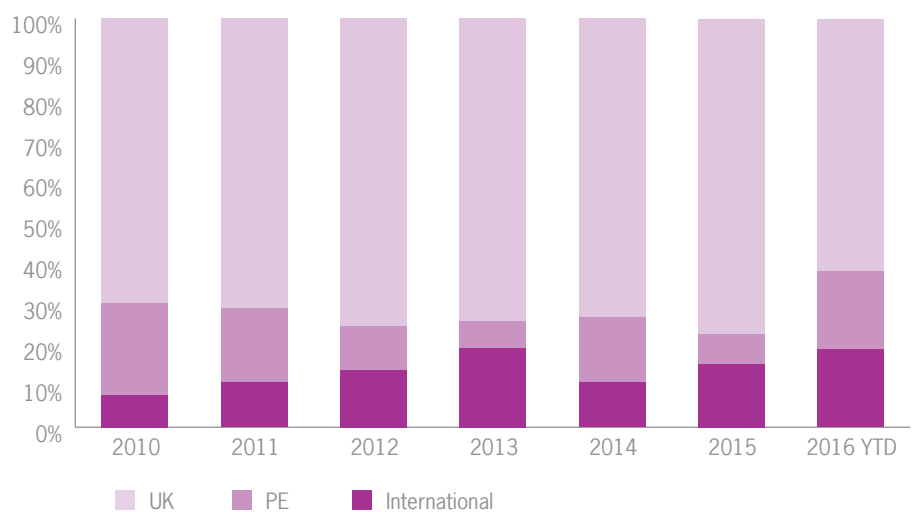
Listed companies on acquisition trail

Companies such as Bilby, Premier Technical Services Group and Marlowe have made a number of acquisitions since listing on the AIM market in the last year and further deals are anticipated. Subject to overall market conditions we anticipate more small bolt-on deal activity in the lower mid-market space in the coming year. Acquisitions such as Marlowe's acquisition of WCS Environmental Group are expected to drive transaction volumes over higher transaction values.

International appetite for M&A

There remains a clear appetite for UK FM businesses from overseas. The UK is still seen as a robust market compared to other world economies, especially to Asian buyers. Indian security and facilities

UK Facilities Management transactions by acquiror type



Source: Zephyr

management company Mortice PLC, for example, recently purchased London-based soft services-led Office and General Group (with Grant Thornton Corporate Finance acting as lead adviser on the transaction). Despite "Brexit" looming on the horizon, we continue to anticipate French and German trade buyers targeting smaller companies in niche verticals, rather than making large scale acquisitions.

Looking ahead

In the short-term FM sector M&A may already be feeling the effects of uncertainty surrounding the result of the UK's EU referendum on June 23. The

potential impact of Brexit and resulting restrictions on free movement of labour into the UK cannot be ignored, especially in light of many larger companies moving towards a global tendering procurement strategy. Concerns about the potential impact on the operations of players in the soft FM sector, generally reliant on a more transient and lower skilled workforce, remains to be seen however current uncertainty may be suppressing deal activity in both value and volume terms.



FM

Quoted FM Tracker



Weaker performance overall by our peer group of quoted companies compared to FTSE indexes

Most companies in our peer group of quoted companies have seen a reduction in share price in Q1 2016. After showing modest rises in the last quarter, overall share price performance declined by 5.6% for the quarter. This compares to declines in the FTSE All Share index of 1.4% and the FTSE Support Services index of 2.45%.

The overall performance of the peer group has been dragged down by significant falls in share price from two of its constituents: Lakehouse PLC and MITIE PLC. Adjusted for the share price movements of these two constituents, we would have seen a fall closer to the 1.5% to 2.5% range of the FTSE indices. Looking at performance over the past year, our FM tracker has dropped 3.1%, while the FTSE All Share declined by 7.3% and the FTSE Support Services index fell 2.3%, demonstrating the overall robustness of the FM sector, with the nature of the long-term contracted revenues the sector enjoys.

Notable performers

The tracker's standout performers include Berendsen PLC and Rentokil PLC, both achieving approximately 11% growth in share price over Q1. Industrial laundry services provider Berendsen reconfirmed its strategic restructure, and Rentokil posted profits ahead of expectations after purchasing 12 businesses in the past quarter.

Serco Group managed an 8.5% rise in share price over Q1 as it rebuilds its position in the public sector outsourcing market, whereas embattled competitor G4S saw a 15% decline.

The services and construction group Lakehouse, fared the worst of our peer group during the quarter, experiencing a significant drop in share price of 45% amid ongoing Board issues. MITIE, the strategic outsourcing and energy services provider, and competitor Interserve experienced material reductions in their share prices over the quarter as well. MITIE dropped more than 17% and

Interserve also dipped just under 17% despite recently being awarded a £230m defence infrastructure contract.

Another noteworthy change in share price is Bilby's drop of 2.4% in Q1 2016 after a very strong performance in Q4 2015 posting gains of 37.6%. Despite posting encouraging results, Kier plc has not seen a significant impact on its share price.

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Grant Thornton Facilities Management – subsector map

Hard FM	Soft FM
Fabric maintenance	Security
Fit-out	Cleaning
Mechanical & Engineering	Catering
Fire Protection	Washroom hygiene
Grounds Maintenance	Textile/Laundry
Utility Maintenance	Pest Control
Reprographics	Space planning
Relocation and Storage	Reception/ Concierge



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