



# Facilities management market M&A update, Q1 2014



**David Ascott**

Partner, Corporate Finance  
Grant Thornton UK LLP

## Quiet start to the new year

The trend which has seen a slow but steady decline in deal activity in the UK's FM sector continued in the first quarter of 2014, when just 16 deals were recorded, versus 19 the quarter before. This represents the sixth quarterly fall in succession and is the lowest Q1 figure in our data sample (from 2007 onwards). Few of the Q1 deals involved publically disclosed values, though clearly the highlight of the quarter was Interserve's acquisition of IFS (Initial) from Rentokil for £250 million. The deal, which remains conditional on CMA approval, earned an 8.3x EV/EBITDA multiple (9.8x based on trailing operating profits, according to JP Morgan) and continues the trend which has seen at least one or two larger ticket acquisitions in the sector each quarter.

Looking at the acquisitions by type it is clear that this latest drop is down to smaller numbers of deals by private equity investors and international buyers. Interestingly, international buyers had been more active in the last 18 months than in any previous period, so the fall in Q1 2014 to just one deal stands out. The sole international buyer in Q1 was US event caterer Centreplate, which bought Scottish historic buildings and arts venue caterer Heritage Portfolio; in 2013 the same buyer picked up the UK-based stadium caterer Lindley.

Meanwhile in terms of sector, the recent dominance of soft FM areas continues, with the majority of the quarter's deals coming in the catering, cleaning, security and other soft FM sectors. Just three hard FM deals were recorded during the period.



- Quiet start to the new year
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# FM update

**“Whilst deal flow and operational issues remain challenging in the FM sector it is encouraging to see investor appetite returning through the listing of ISS. This indicates that growth prospects are returning as the economy recovers and M&A resumes its importance in strategic development.”**

**David Ascott, Partner, Corporate Finance**

## Quoted FM businesses outperform

Although M&A activity may be at something of a low ebb currently, the businesses on our quoted FM tracker continue to perform well versus the rest of the market. Despite the largest three of these suffering significant share price declines in the first quarter of 2014 (and also right across the longer time-frames for G4S and Serco), average growth across the tracker stood at a little over 4%. While this is down on the 6.6% growth seen in Q4 2013, it is well ahead of the FTSE All Share and Support Services indices, which stood at -1.5% and 1.8% respectively. The outperformance is even more pronounced on the six-month, one-year and two-year measures; in the latter, the FM sector peer group has seen an average growth of 52% over the last two years, compared with 18.4% in the All Share index. Overall, the positive trend is also reflected in the successful listing by ISS, which shows a healthy endorsement of investor appetite in the FM sector; at the end of the first day of trading, ISS shares were up 14.2% on the offer price and although that level eased back, shares remain some 5% above the listing price.

Among individual members of the group, Berensden continues to shine, seeing share price growth of nearly 20% in Q1 (over 40% in the one-year and 114% in the two-year measures),

following a strong set of final results for 2013. Fellow textiles/hygiene firm Johnson Services grew by double the peer group average, having announced in the first quarter that it had moved into profit and having made an important acquisition (hotel linen firm Bourne). Interserve also continued its strong run on the back of good results, with Q1 growth of over 17%.

On the down side, Serco's share price decline is continuing to impact the overall average: it fell 15.7% in Q1 and has continued to slide since. At the time of writing the fall is nearer 30%. Although the arrival of a new CEO earlier than anticipated in May could provide a much needed boost to the company's share price in future quarters, the departure of the group's FD at the end of April reflects the challenges being faced by the company. Kier Group also had a difficult quarter, with the near 10% decline in share price seemingly at odds with positive interim figures and news of order book and contract wins. Nevertheless the stock will have been impacted by the £45 million write-down on May Gurney waste disposal contracts.

## Looking ahead: slow M&A markets

As is mentioned above, the trend towards slowing M&A markets is now well entrenched and there are few signs

of any real turnaround in the market that will bring any real acceleration in deal numbers. True, there will be a small number of deals in the hard FM space and continued consolidation in the soft FM area as the sector continues to move towards a multi-service model where economies of scale are critical. But there are multiple factors that suggest M&A activity will remain low or even decline further for the next year or so.

The main issue facing the market is the relatively limited pool of potential acquirers. On one hand many of the larger corporates have been comparatively acquisitive in recent times and are now in digestion/consolidation mode; they are unlikely to be making major new purchases without first having divested non-core assets. But the problem for them is that international buyers may well be put off by the unfavourable exchange rates, while private equity buyers are still somewhat cool on the sector after a number of difficult deals. So, with FM businesses not keen to sell non-core assets to competitors, finding the right buyer is going to be tough.

Instead, it is likely that the market over the coming months will be characterised by FM businesses actively pursuing opportunities in related, but adjacent sectors. We have already seen moves by some into areas such as healthcare and education and there are signs that other large FM players may be looking increasingly at the recruitment sector – especially markets where the end client is the same as their core FM spaces.

# Contacts

For any further information, please contact:



**David Ascott**  
**T** 020 7728 2315  
**E** david.p.ascott@uk.gt.com



**Pete Dawson**  
**T** 020 7728 3197  
**E** peter.dawson@uk.gt.com



**Martin Gardner**  
**T** 020 7728 2847  
**E** martin.n.gardner@uk.gt.com



**Usman Malik**  
**T** 020 7728 2321  
**E** usman.b.malik@uk.gt.com

## 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	



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