

The UK's Top 20

Mark Wilson, research director, and **Robert Pearce**, mergers and acquisitions analyst at Catalyst Corporate Finance, assess the leading players in the UK waste management industry

There have been interesting developments in the UK waste market during the last 12 months; however the fundamental structure of the market has broadly remained the same, as it has done for the past few years. The impact on the industry of the EU Landfill Directive, which became effective in October 2007 has been

tangible, but we are still to see the significant levels of investment required by the major players in order to reduce reliance on landfill.

Biffa continues to top the list with revenues of £743m in the year to 31 March 2007, a figure expected to rise to around £800m when it reports in 2008. In February, Biffa was acquired by a buy-out vehicle backed by Montagu Private Equity and GE Global Infrastructure Partners for £1.23bn. Whilst there was speculation at the time that trade parties such as Suez (Sita) were also looking to acquire Biffa, as were other third parties, a trade buyer never materialised.

The other industry leaders included Veolia, SITA, WRG, Viridor, Cory and Shanks Group. Between them they have grown at around 10 percent annually since 2005 and invested over £900m in their asset base, which included acquisitions.

Nine of the top 20 businesses (45 percent) are owned by groups listed (in the UK or overseas) and only

one business, Shanks, is listed in its own right. The top seven businesses represent approximately 36 percent of the overall waste market. We would expect this to become higher, as businesses build scale to support the increasing costs associated with bidding for long-term local authority contracts and the continued pressure on operating margins.

Biffa is one of only three private equity-backed businesses within the top 20 (see Figure 2). Cory Environmental is backed by a consortium led by ABN Amro Global Infrastructure Fund and Reconomy is a waste sector "buy and build" investment of Englefield Capital.

It is surprising that so many businesses have survived in private ownership or in local authority control given the increasing pressures to have a balance sheet that can support large projects. We anticipate that the market will become more concentrated over the next few years and consolidation amongst the top players is inevitable.



UK Revenues (£m)	
Biffa	743
Veolia Environmental	697
Sita UK (Suez)	603
Waste Recycling Group (FCC)	519
Viridor (Pennon Group)	368
Cory Environmental	189
Shanks Group	144
Greater Manchester Waste	84
London Waste	84
Reconomy	80
Grundon Waste Management	71
Mersey Waste	50
Hills Waste Management	48
Greenstar Holdings (NTR)	46
ECT Recycling (May Gurney)	46
PHS All Clear	41
Cleansing Service Group	40
White Rose Environmental (Stericycle)	40
SCA Recycling UK	40
Premier Waste Management	38

Table 1: the UK's top 20 by UK revenue

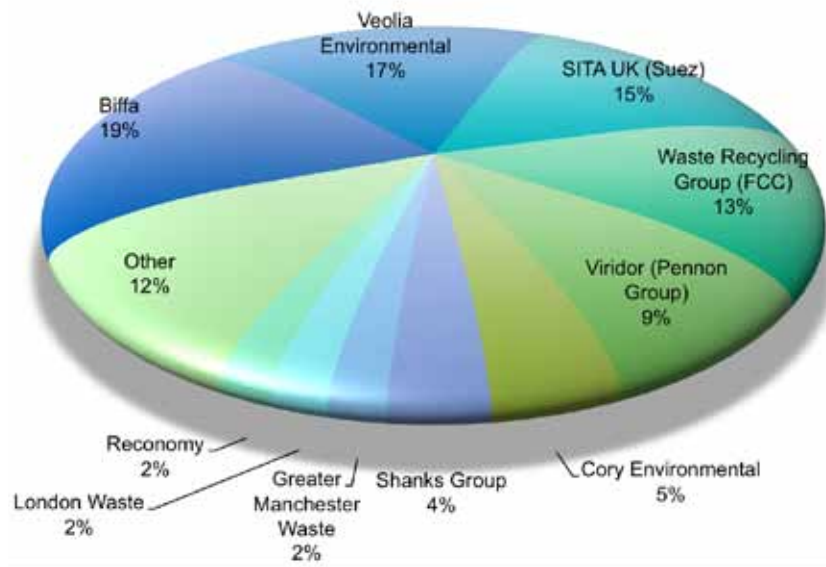


Figure 1: percentage of the total top 20 UK waste management companies' revenue

Meet The Big Seven

BIFFA

FOLLOWING THE buy-out it is understood that Biffa is concentrating on streamlining operations to generate increased free cash, which will help pay down its £1bn of bank debt. It remains to be seen whether Biffa's strategy will alter greatly in the next couple of years especially with GE, famed for its Six Sigma tools, supposedly driving strategy. To date there has been little sign of non-core disposals or dramatic changes in strategy, although diversification from landfill is anticipated. We will not be surprised if Montagu and GE sell the business to a trade party in three or four years' time.

VEOLIA ENVIRONMENTAL

VEOLIA IS now the second largest waste services provider in the UK following its £589m acquisition of Cleanaway in 2006. It had a successful start to 2008, being the preferred bidder for waste services for Southwark Borough Council, a deal worth £665m over 25 years. In June it signed a £500m 25-year PFI contract for West Berkshire, taking over from current contractor Biffa. A 27-year waste disposal contract for Shropshire followed in August, which includes

provision of an energy from waste (EfW) facility. Veolia also remain in contention to provide MRFs and household waste recycling centres for the Merseyside Waste Disposal Authority. During the year Veolia made one small acquisition, C&C Recycling, a collection and recycling business based in Lancashire.

SITA UK

SITA IS a wholly owned subsidiary of the French Suez Environmental Group and has climbed the table since the last review to become the third largest waste services provider in the UK. Had Sita not pulled out of its bid to acquire Biffa earlier this year it would have found itself as the largest operator. It also has a 50 percent stake in London Waste, which provides the major incineration facility for North London. Sita has a strong record in operating EfW plants including the Isle of Wight, Kirklees and the 250 Ktpa plant in Teeside. Further growth is expected from recent local authority contract wins in Warwick (January 2008) and Calderdale (April 2008) and it is the only remaining company in contention for both Merseyside waste disposal contracts. David Palmer-Jones, who has been with the group since 1999, assumed the UK ceo position in October this year.

WASTE RECYCLING GROUP

WRG'S TOP 20 standing has slipped since the last review and it is now the fourth largest player in the UK. In 2006 WRG was the second largest, but the demerger of its EfW operations and subsequent sale of waste operations to FCC saw overall revenues drop. In August we saw the announcement that Buckinghamshire County Council has dropped Veolia from the shortlist of companies competing to win its 25-year, £100m contract to build and operate an EfW facility, leaving WRG competing with US incineration specialist Covanta Energy for the contract.

VIRIDOR

VIRIDOR REMAINS part of the Pennon Group, although rumours continue to circulate about a potential demerger. Pennon, like Anglian and Thames Water, is a candidate to be acquired by a global infrastructure fund, while there are a host of private equity firms eager to enter the waste market through Viridor. Although landfill disposal remains a significant revenue stream, its recent acquisitions suggest that the company is reducing its exposure to this unsustainable disposal route. Viridor recently announced it had ▶

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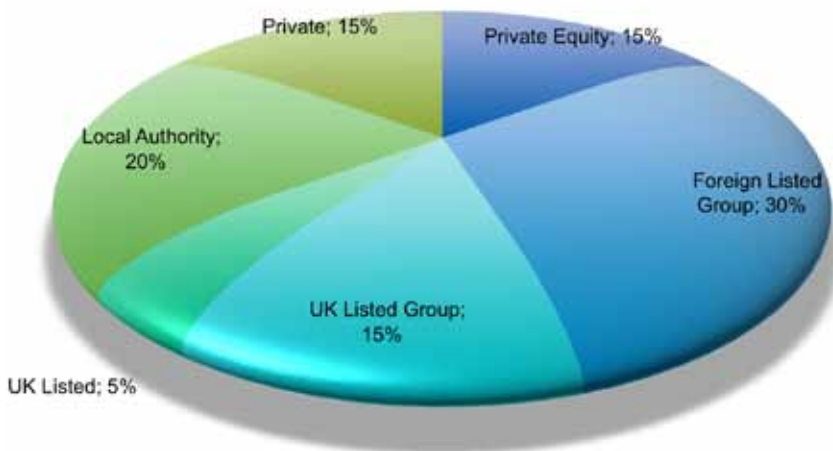


Figure 2: top 20 UK waste management companies by ownership

won a 14-year £112m contract to provide waste management services to Kingston, Merton, Croydon and Sutton councils. However, the Viridor-Laing partnership has yet to formally close its £3.3bn contract with the Greater Manchester Waste Disposal Authority due to a combination of financial and planning issues.

CORY ENVIRONMENTAL

IN MARCH 2007 a consortium of infrastructure funds led by ABN AMRO acquired Cory for £588m. The acquisition provided a quick but lucrative exit for Montagu Private Equity, the current Biffa owners, which doubled its money in 24 months. Since the acquisition, Cory has yet to make any significant “bolt on” acquisitions, instead focusing on organic growth through local authority contracts. It will start the construction of the controversial 585 Ktpa Belvedere facility in South East London after securing £570m of project funding from Barclays and Bank of Ireland. The site is due to start processing waste in January 2011, generating 72MW of electricity for 66 000 houses. During 2007/08 Cory has had mixed

success in the local authority bidding processes. The success of a £43m seven-year contract with Southend-on-Sea Borough Council in July was followed by the disappointment of learning that Serco was awarded preferred bidder status for Milton Keynes’ seven-year £80m contract, signalling an end to Cory’s current £40m tenure which began in 2000.

SHANKS GROUP

WHILST TOTAL group revenues are £564m, Shanks’ UK operations generate less than 26 percent of the total with the majority coming from its operations in the Benelux. Shanks is once again the only UK pure-play waste management company listed on the London Stock Exchange main market following Biffa’s de-listing earlier this year. In August we saw speculation surrounding a takeover and many analysts believe it won’t be long before serious bids are tabled. In the meantime Shanks’ strategy is set on landfill diversion, and it has recently signed a new partnership with US incinerator firm, Wheelabrator Technologies in order to offer councils mass burn technology. The company has made it through to the shortlist of four

bidders for the Merseyside Resource and Recovery PFI contract worth up to £3bn.

Mergers & Acquisitions

MUCH OF the merger and acquisition activity this year has been driven by companies looking to expand their regional networks. The recent rise in oil prices and the subsequent impact on virgin plastic prices has also generated interest in plastics recycling businesses. Figure 3 shows some of the trade and private equity transactions during the last 12 months.

Viridor acquired Grosvenor Waste Management (£80m) in order to develop its regional footprint and Shore Recycling (£23m), which helped it to increase its recycling activities – now at 14 percent of its profits. Cory and WRG did not make any acquisitions, whilst Veolia and Sita both made small acquisitions increasing UK coverage and developing their respective national recycling networks. Shanks acquired Foronex Group (£18m), a Flemish waste wood handling and biomass generation business; and Wastecom Limited (£11m), an advanced recycling centre based in the East Midlands.

The deal of the year, for pricing and funding reasons, has to be Montagu’s public-to-private of Biffa. The entry multiple of 9.7x FY08 EBITDA appears to be high but not in comparison to other large waste industry transactions. The level of debt leveraged into the business was high at circa 6x FY08 EBITDA, which given the current funding environment would be very difficult, if not impossible, to achieve now.

Three acquisitive businesses active in 2008 have been May Gurney, the specialist public and regulated sector service company, Reconomy and Greenstar, the Irish consolidator.

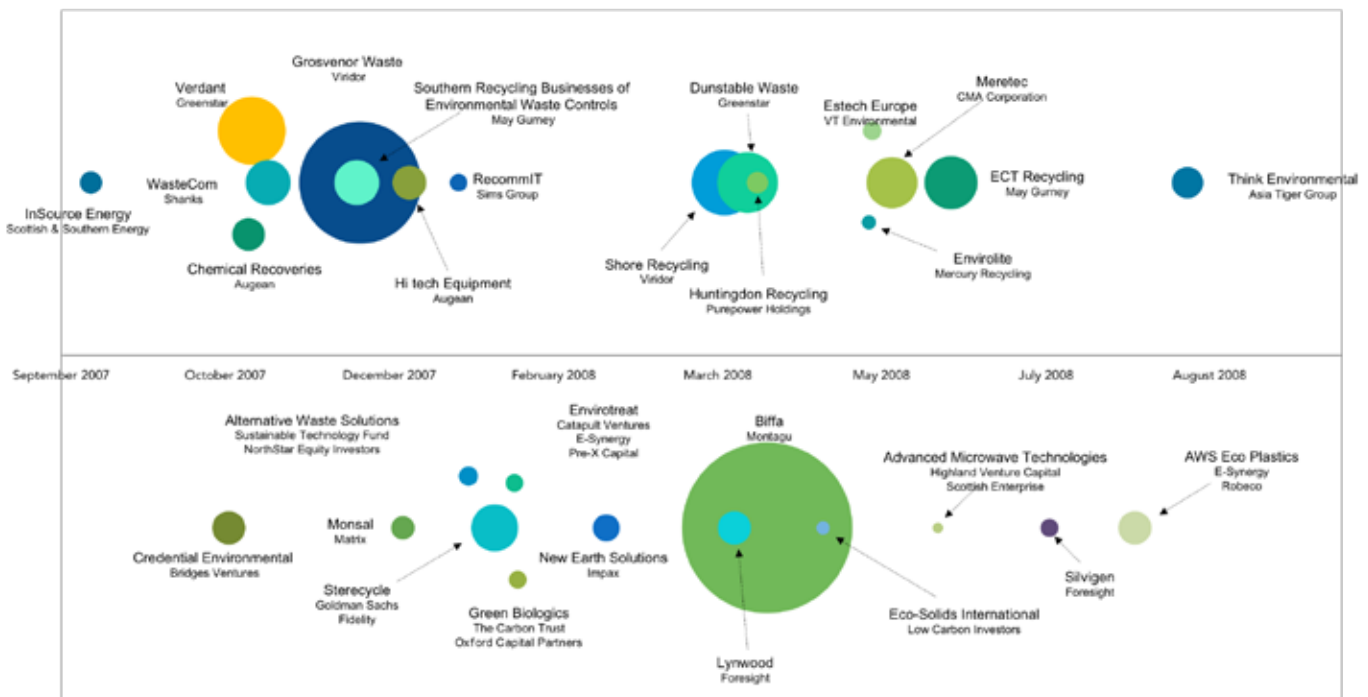


Figure 3: merger and acquisition activity over the last 12 months. Trade deals illustrated on top and private equity deals below

May Gurney continued local authority contract expansion through the acquisition of ECT Recycling (£15m) and the Waste Recycling Centre business of Environmental Waste Controls (£11m). Reconomy, which already owns Wastefile and Critical Resource, acquired Alibone Recycling and Anglia Recycling. Greenstar expanded its collection business with the acquisition of Dunstable and the Sevenoaks-based Verdant Group, outbidding both private equity and trade buyers along the way.

The waste sector has also seen an influx of development capital, illustrating the confidence that financial institutions have in the growth potential for the industry. The sector's "green" credentials also appeal to an ever-increasing number of private equity funds, which have a mandate to invest along themes of sustainability. The Government's recent support of anaerobic digestion solutions for food and green waste has led to interest in this area.

Matrix Private Equity recently invested in Monsal, a specialist in anaerobic digestion technology. Matrix invested £3m to enable Monsal to focus on solid organic

waste, culminating in the recent signing of a strategic partnership with Inter Engineering of Germany, a biowaste separation technology supplier. Monsal is now offering a one-stop-shop for biowaste separation, digestion and renewable energy production.

Whilst smaller investments will continue to be made within the industry, we expect that until there is significant change to the way that local authorities procure their waste services, eg a move towards merchant facilities, scale will be important in the industry. With over £10bn of investment required in incineration, recycling and other EfW plants over the next 10 years, we expect that major acquisitions will be on the agenda during the coming 12 months. **CIWM**

Catalyst Corporate Finance is one of the UK's leading corporate finance advisory firms and winner of the 2008 BVCA/Real Deals award for Financial Advice of the Year

Catalyst has recently published a report which provides information on the Top 100 waste firms and can be obtained by contacting Mark Wilson on +44 (0)121 654 5000 or by email at markwilson@catalystcf.co.uk



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