

Waste and environmental sector update

Sector update: Spring 2011

This first sector update of 2011 includes;

- * A review of mergers and acquisitions activity in the waste and renewable energy sector for the first three months of 2011
- * Commentary from Nigel Mattravers, a Director within Grant Thornton's waste and renewable energy team, regarding funding for anaerobic digestion
- * Deal flash: Avondale Environmental secure £17m additional facilities to fund MRF facility

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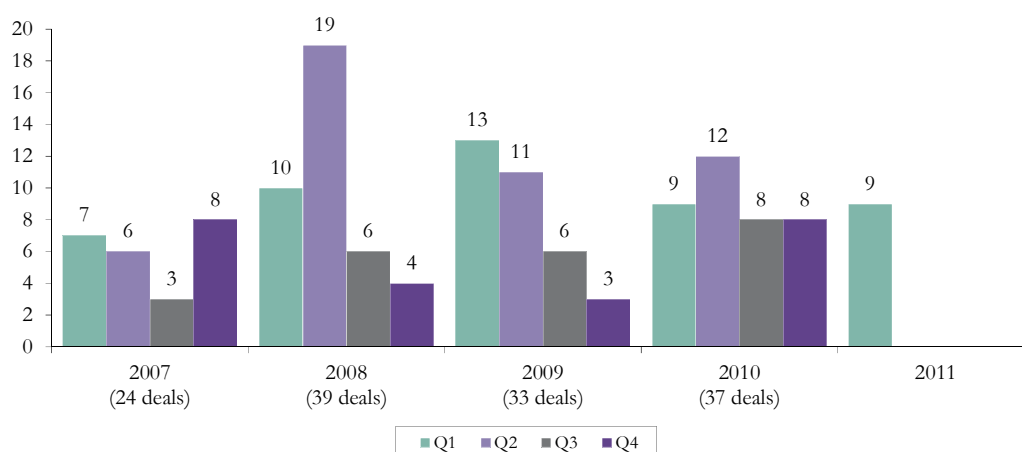
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M&A update

Q1 2011

A positive end to 2010 in terms of deal volumes, and a good start to 2011

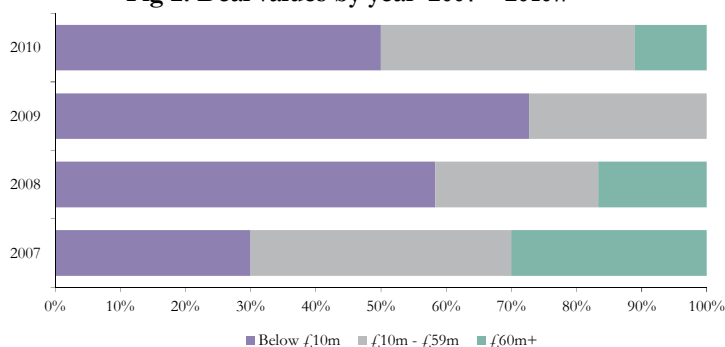
Fig 1: Deal volumes by quarter 2007 – Q1 2011#



M&A volumes

- A positive start to 2011 has seen a comparative level of completions to those seen at the start of 2010
- 2010 finished well, with an increase in deals over 2009
- In addition to deal numbers increasing in 2010, our market experience indicates that the quality of the deals is improving – there were a high number of trade and asset deals and acquisitions out of administration during 2009, and no deals in the above £60m deal range, whilst 2010 saw a return to these larger deals
- None of the Q1 2011 waste and renewable energy deals have disclosed values, however there have not been any reported distressed transactions/acquisitions out of administration
- Consolidation across the sector looks set to continue, with larger corporates buying up smaller competitors – for example Viridor's acquisition of Swinnerton Environmental in January 2011
- The debt markets remain difficult, although there have been two MBO's during Q1 2011, with the buy-out of CK Polymers Limited, with funding provided by RBS, and the buyout of Wales Environmental Limited, with funding provided by Finance Wales, and recently Avondale Environmental secured £17m from HSBC to finance their MRF facility

Fig 2: Deal values by year 2007 – 2010#



#Source: FactSet. Please note that for comparison purposes the deal volume charts above are for waste deals only.

M&A update

Sector trends

- Our sector review includes deals in the consultancy and energy efficiency space for the first time – an indication of the growing importance of these sectors within the waste and environmental space
- Fig.3 illustrates the continuing concentration of deal volumes in the recycling, hazardous waste and waste management sectors, being areas that tend to be made up of a large number of smaller-businesses, providing opportunities for businesses to grow by acquiring these smaller competitors
- In addition, there continues to be activity in the Consultancy and Energy efficiency sub-sectors, perhaps indicating businesses are buying-in these capabilities as these markets remain buoyant
- Since 2009 there has been a reduction in deals occurring in the waste to energy sub-sector, which we believe reflects uncertainties surrounding regulation, in addition to many financiers remaining unconvinced about the technologies
- Within recycling, the market can be further split by types of materials recycled (see Fig. 5 and 6). This indicates a trend towards organic waste, showing a preference towards niche/specialist sectors
- During Q1 2011, paper deals have been boosted by various PHS Datashred acquisitions

Fig 3. No. of deals by sub-sector Q1 2011

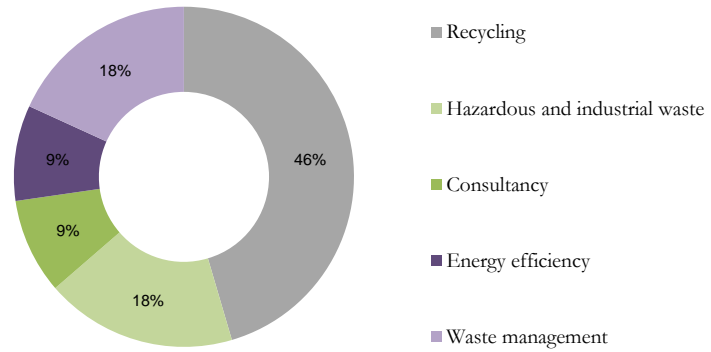


Fig.4. No. of deals by sub-sector Q1 – Q4 2010

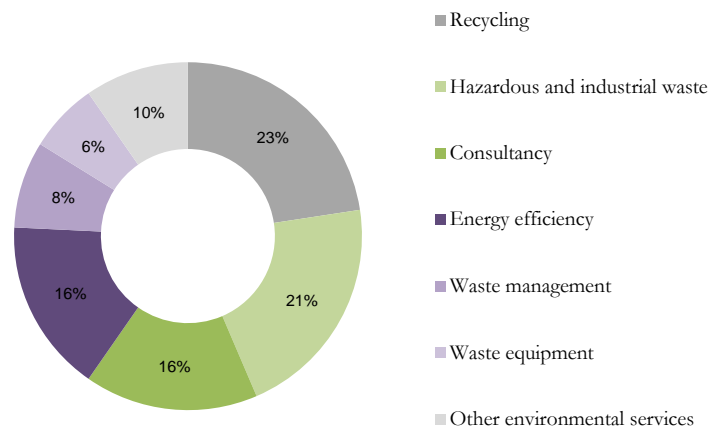


Fig.5. No. of recycling deals by sub-sector Q1 2011

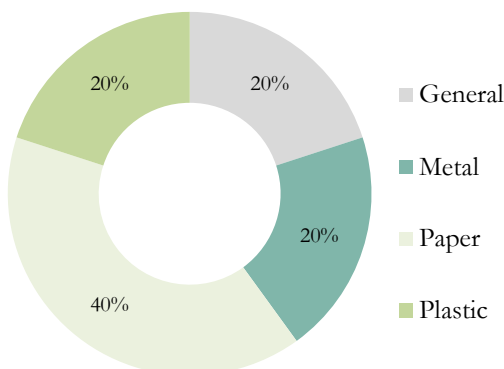
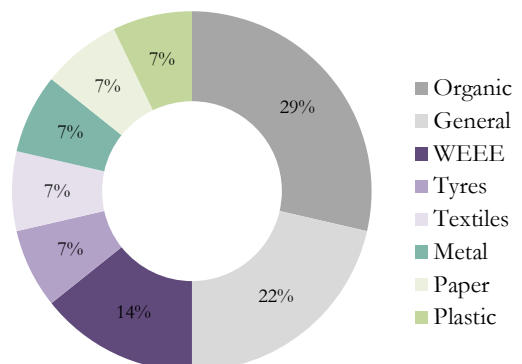


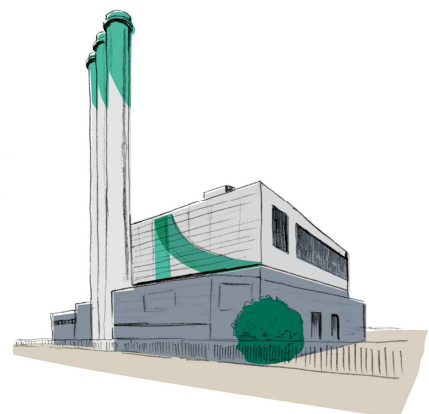
Fig.6. No. of recycling deals by sub-sector Q1 – Q4 2010



Funding Anaerobic Digestion

Nigel Mattravers, Director and Waste specialist within Government and Infrastructure Advisory at Grant Thornton UK LLP comments on funding for anaerobic digestion projects

- Anaerobic digestion (AD) is a technology which is seen by all UK governments as a technology to be encouraged as a means of treating organic waste and generating renewable energy
- The principle support comes from governments in the form of Feed-in-Tariffs, Renewable Obligation Certificates and in the future, Renewable Heat Incentives; these are all financial incentives which are quantified and earned at the end of the process, when the plant becomes operational
- We are now seeing more AD plants coming on stream and a lot more in planning but with these incentives we would have expected to see a lot more plants being delivered
- There are three essential items that must all be addressed before any incentives can be earned, these are:
 - feedstock
 - technology
 - end markets
- The feedstock is the source of energy for the AD plants and unlike solar and wind schemes, where the energy is free, long term supply contracts for the energy to feed the AD plants are required. Key questions for investors include:
 - How are these contracts to be secured? Are they available for the length of the funding period of the project?
 - How about the technology? Does it suit the feedstock? Is it proven? Who is going to build it and provide the guarantees that it will work?
 - For the end markets - where is the digestate to go? How will the biogas be used? How sensitive is the output to the feedstock?
- Unless all these issues are answered then funding of AD schemes is going to be difficult regardless of what incentives are in place



Deal Flash

£17m green light for Avondale, supported by Grant Thornton

Avondale Environmental is set to create one of Europe's leading waste recycling centres following a £17m funding package put together in Manchester, led by HSBC Corporate Banking.

The landfill operator is developing its existing site at Falkirk, near junction 4 of the M9 motorway, into a leading edge recycling facility. It will process some 200,000 tonnes of household and commercial rubbish, vastly reducing the amount going into landfill.

The Manchester office of HSBC provided the funding from their corporate and asset finance teams and the Manchester office of Grant Thornton advised Avondale throughout the funding process.

Avondale has a range of public and private sector contracts in Central and Northern Scotland and it is intended that this new facility will facilitate improved recycling rates for both domestic and commercial waste in the region.

"We've nurtured our plans over a number of years, including taking the scheme through planning, so we're obviously delighted to have reached this significant milestone."

Derek Cooper
Director, Avondale Environmental

"We are delighted to support our long standing customer with a package which will drive the next phase of its growth. The move highlights our support for the business' investment in environmental innovation, and our confidence in the management team's ability to deliver."

Steve Sherratt
Senior Corporate Banking
Manager, HSBC NorthWest

"This is an excellent result, we're really pleased to see the project progress; it will keep the business at the forefront of a dynamic waste management industry in the UK."

**Andrew Stubbs, Associate
Director, Grant Thornton**



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