

# Waste and environmental sector update

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## Sector update: Summer 2011

This second sector update of 2011 includes;

- \* A review of mergers and acquisitions activity in the waste and renewable energy sector for the second quarter of 2011
- \* Deal flash: DCC acquire Oakwood Fuels for £30m in a bid to broaden their offering into additional complementary waste streams in Britain
- \* Commentary from Grant Thornton's R&D tax team on R&D tax credits

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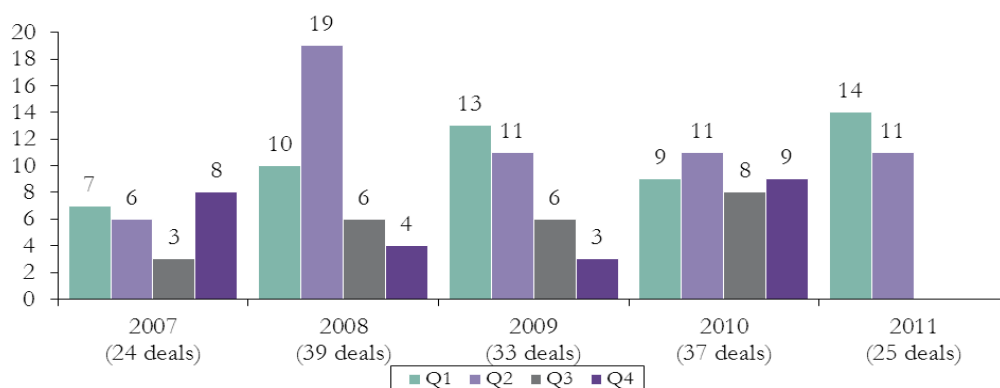
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# M&A update

## Q2 2011

All in all a very strong first half of the year for deals in our sector

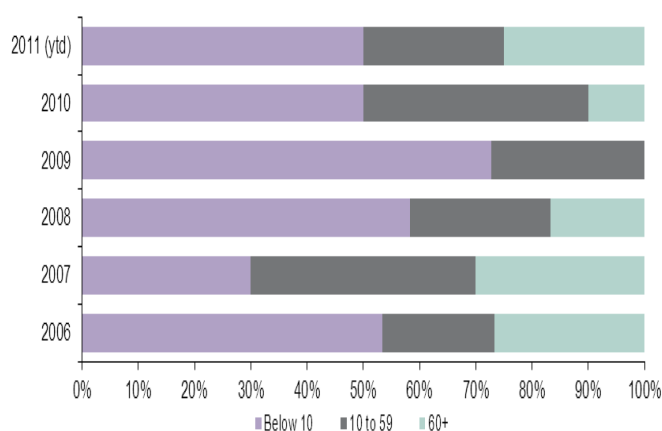
Fig 1: Deal volumes by quarter 2007 – Q2 2011\*



### M&A volumes

- Deal volumes for Q2 are consistent with the previous two years
- This builds on the strong first quarter to complete a positive first half of the year for the sector
- If deal volumes in Q3 and Q4 are comparable with 2010, the total annual deals for the year will exceed the record number seen in 2008
- In addition to deal numbers increasing in 2011, the research indicates that the size of the deals are continuing to increase– YTD disclosed deals show the highest proportion of deals over £60m since 2007
- Only 5 of the YTD waste and renewable energy deals have disclosed values, however there are still no known distressed transactions/acquisitions out of administration suggesting deal quality remains high
- Consolidation across the sector looks set to continue, with larger corporates buying up smaller competitors – for example Balfour Beatty's acquisition of Power Efficiency Limited in April 2011
- The debt markets remain difficult although this does not appear to be completely undermining MBO activity, with 3 MBO's being completed in the first half of the year.

Fig 2: Disclosed Deal values by year 2007 – 2011 YTD\*



\*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 continues to highlight the growing importance of the consultancy and energy efficiency space– this sub-sector now represents almost 30% of total deals YTD
- The continued activity in the consultancy and energy efficiency sub-sectors, perhaps indicates businesses are buying-in these capabilities as these markets remain buoyant
- 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 consolidation
- Within recycling, the market can be further split by types of materials recycled (see Fig. 5 and 6). This indicates a continuing trend towards organic waste, showing a preference towards niche/specialist sectors
- In Q1 we saw a high number of deals completing in the paper sub-sector due to the acquisitions made by PHS Datashred
- During Q2 however we saw a swing back to the deal mix seen throughout 2010 as highlighted by the charts below

Fig 3. No. of deals by sub-sector Q1-Q2 2011

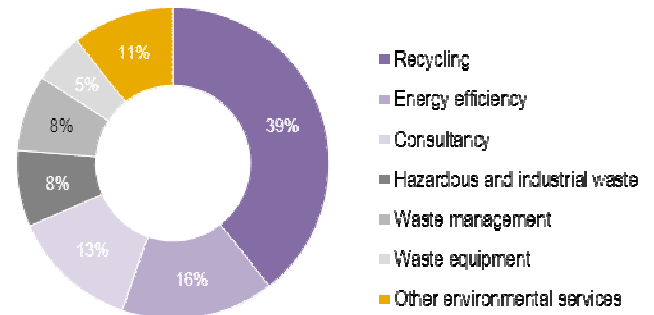


Fig.4. No. of deals by sub-sector Q1 – Q4 2010

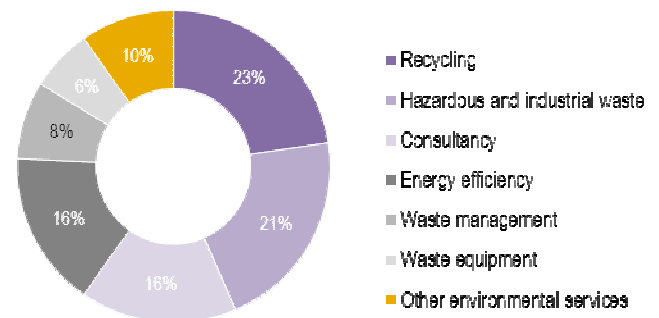


Fig.5. No. of recycling deals by sub-sector Q1- Q2 2011

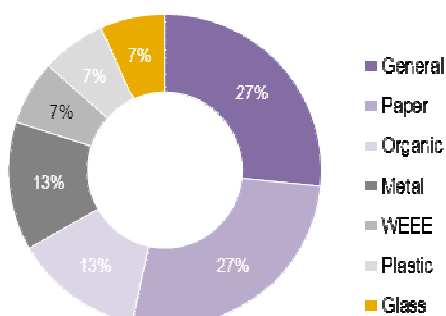
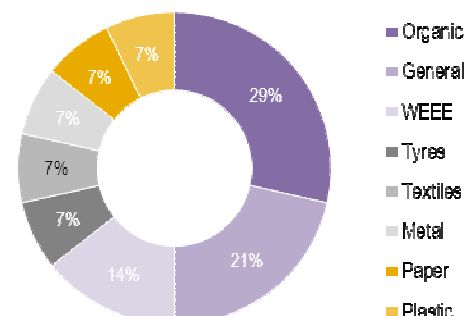


Fig.6. No. of recycling deals by sub-sector Q1 – Q4 2010



# \*\*\*Deal Flash\*\*\*

## DCC PLC's £30m acquisition of Oakwood Fuels, supported by Grant Thornton Corporate Finance

Oakwood Fuels, based in Nottinghamshire, has been sold in a deal worth up to £30m. The company, which collects waste lubricant oil and hazardous waste from businesses, was purchased by DCC Environmental Britain, based in Ireland. Steve Tooley, managing director of Oakwood Fuels, said the move would support the company's rapid expansion plans.

DCC is a sales, marketing, distribution and business support services group. The company completed the acquisition on behalf of its subsidiary, DCC Environmental Britain.

Bilthorpe-based Oakwood collects refuse from businesses in a variety of sectors and converts the waste oil to processed fuel oil (PFO).

The PFO is then sold to customers for use in a variety of applications including road surfacing operations, aggregate drying, industrial and agricultural drying, power stations, large boilers and furnaces.

Oakwood Fuels was bought for an initial cash consideration of £9.6m on a debt-free, cash-free basis.

Further cash consideration of up to £20m will be paid over the next three financial years to 31 March 2014.

Oakwood, which employs 105 people in Nottinghamshire, recoded adjusted operating profit of £2.2m for the year ending 30 September 2010, on revenue of £9.3m.

Grant Thornton Corporate Finance advised on this transaction.

"The acquisition of Oakwood will broaden DCC Environmental's service offering into additional complementary waste streams in Britain and capitalise on the trend towards more sustainable waste management and in particular increased waste recovery and recycling. The acquisition will also enable DCC Environmental's existing British businesses to offer new services to their customers and the enlarged business to leverage an expanded customer list."

**Tommy Breen,**  
Chief Executive, DCC plc

"The evolution of Oakwood in becoming a fuel manufacturer has propelled the business into new markets. The decision to sell the business and become part of a larger group will support Oakwood's rapid expansion plans whilst DCC's own environmental arm will benefit from the technological expertise in the waste processing sector."

**Steve Tooley**  
Managing Director, Oakwood Fuels

# Changes to Research and Development (R&D) tax relief

R&D tax relief is a great opportunity relevant for innovative companies in the waste and environmental sector. The Government have recently published proposed changes to the R&D tax relief schemes, and set out below are some of the opportunities arising from these.

## Definition of R&D for tax purposes

There are two key criteria a project must meet to qualify as R&D for tax purposes:

- the project must be seeking to resolve scientific or technological **uncertainties**, and
- the project must be seeking to make scientific or technological **advancements**.

## Subcontracted R&D

The Government propose to increase the scope of R&D claims to include routine work undertaken in support of another company's R&D activities.

Under the proposed changes, the eligible R&D claimant will be the subcontractor, so if your company plays any part in an innovative project, even if that part is routine when taken in isolation, this could be a significant opportunity for you.

Think about any work that you do for other companies. Will your work play a part in helping them to resolve technological uncertainties? If so, this opportunity is likely to be relevant to you.

## Agency workers

Companies using agency workers may have found it difficult to claim for these costs in the past, as the current rules are very restrictive in terms of what can be claimed. The proposed change seeks to widen the definition of qualifying agency workers.

## Qualifying indirect activities (QIAs)

An R&D claim can include costs not only for those people undertaking R&D themselves, but also for those that support them (eg administration and maintenance activities). The Government is considering removing these costs, so this could be your last chance to make a claim which includes them.

If you do not currently include such activities within your claim it would make sense to review things as we regularly increase R&D claims by 10% or more by including this qualifying area of costs.

## Other developments

The Government are also considering 'above the line' tax reporting which would effectively include R&D tax relief within profit before tax. This also raises the possibility of payable R&D tax credits for large companies making tax losses.

A pilot scheme for a formal system of voluntary advance assurance in respect of R&D claims for smaller companies and start-ups is to commence this Autumn. This will provide greater certainty for self assessment.

## Value of R&D tax relief

(based on £100k qualifying spend on R&D)

	Potential cash saving
Small or medium enterprises (SMEs)	£26,000
Large companies	£7,800

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