An ever-changing landscape

Waste sector annual review 2009

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Introduction

Grant Thornton UK LLP

Grant Thornton UK LLP is one of the largest accountancy and advisory firms in the UK. A leading financial and business adviser, we have over 250 partners and 4,000 staff based in 30 locations nationwide.

Recognising the importance of a sector focus, we operate through sector teams, providing industry-specific, reliable and candid solutions to the challenges facing today's businesses. Each partner-led team is staffed by sector specialists who have immense experience and know-how in their chosen field. This approach gives our clients a high quality service based on sound market understanding.

We offer a range of services to waste businesses, such as mergers and acquisitions advice, as well as fund raising, and have been successful in raising funds despite the difficult banking environment. In addition, we can provide specialised advice in a variety of areas including;

- Contract tendering
- Waste PFI schemes
- Project appraisal
- Transactional tax advice
- Money saving ideas in relation to environmental tax incentives

Introduction to the third edition

This document is the third edition in the "An ever-changing landscape" series produced by Grant Thornton's waste sector team, and builds on the M&A and market themes discussed in detail in previous editions.

As well as providing an overview of M&A trends in 2009 this new edition for the first time provides:

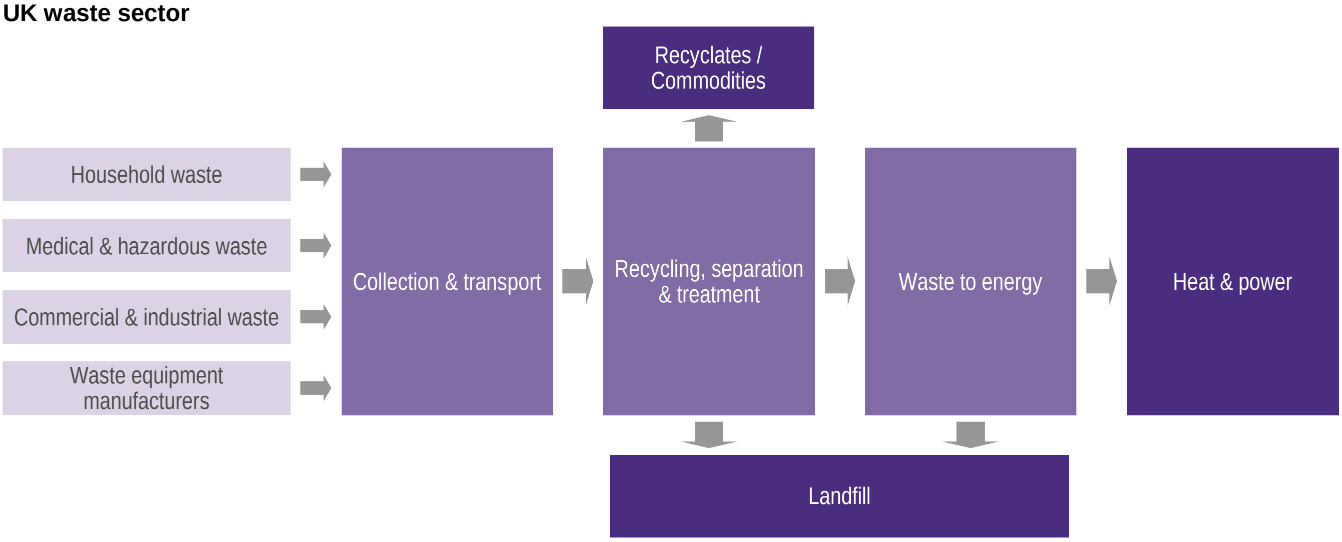
- An introduction to the international markets for waste
- Additional insight into the changing dynamics of the public sector
- Greater analysis of large and medium sized UK waste companies

We would be interested in your feedback on our report. Please contact ali.sharifi@gtuk.com or emma.grice@gtuk.com with your comments.

Structure of the waste sector

We classify the UK waste sector around a number of sub-sectors in accordance with the type of waste under management, the function being performed and the stage within the value chain of the function in question:

UK waste sector



Overview of international markets

Europe

Key features

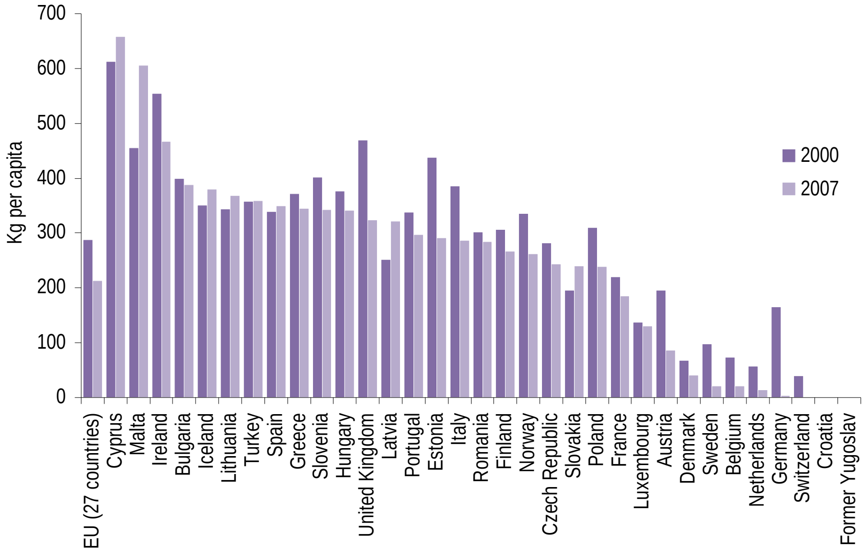
Each country in Europe has individual features which makes it difficult to talk generally about trends across the European market as a whole. But broadly speaking the European waste management market is a stable and mature market by global standards.

Legislation is the key driver of growth in Europe although there is a great disparity between nations. Scandinavian and Benelux countries in particular are very advanced with regards to waste treatment and technologies. These countries have a long history of recycling and diversion from landfill, a reflection perhaps of the culture of these countries and the general public's attitude to waste and it's responsible treatment. Countries in Southern and Central/Eastern Europe still lag behind.

The following chart shows the volumes of waste produced by various European countries, and compares changes in municipal waste volumes sent to landfill between 2000 and 2007.[1]

Municipal waste landfilled (kg per capita)

Source: Eurostat



Best performing countries

Germany, Netherlands, Belgium, Sweden, Denmark and Switzerland report the lowest municipal volumes going to landfill.

Worst performing countries

Cyprus, Malta, Ireland and Bulgaria sent the most municipal waste to landfill in 2007. Cyprus and Malta also saw an increase in waste volumes between 2000 and 2007 (in direct contrast to the downward trend displayed by the majority of European countries.)

Growth prospects

Western and Northern European countries are now mature markets. Focus is beginning to switch to growth markets such as Southern and Central/Eastern Europe where legislative drivers and recycling rates are low, therefore presenting significant opportunities for growth.

Key players

The sector is dominated by a handful of pan European operators including Fomento de Construcciones y Contratas (Spain), Veolia (France) and Suez Environnement (France).

United States

Key features

Waste management is a rapidly growing market in the US. As in the UK rising environmental awareness and reduced availability of landfill are key drivers of growth.

Waste in the US is controlled by the Federal Resource Conservation and Recovery Act (RCRA).

In 2008, Americans generated about 250 million tonnes of waste and recycled and composted 83 million tonnes, equivalent to a 33.2% recycling rate[2]. (In 2008/09 the UK national household recycling rate averaged 38%.)

[1] EU country data sourced from Eurostat, see online at http://epp.eurostat.ec.europa.eu

[2] United States Environment Protection Agency, http://www.epa.gov/epawaste/index.htm

Growth prospects

Policy change since the election of President Obama is likely to drive growth. There have already been a number of New Federal policy initiatives introduced which are likely to stimulate investment in the sector.

Key players

The waste management market in the US is dominated by three major players - Waste Management Inc is the market leader in the US with a market share of c. 26%, Republic Services Inc second and Veolia is third.

Asia/Pacific & ROW

Key features

Rapid economic growth up to 2008 resulted in a surge in demand for raw materials including recyclables. Developing economies are often the destination for the Western World's recyclable materials.

The Asian market is dominated by Japan which is already a mature market for waste treatment and has a highly developed waste infrastructure. Japan is very much leading the way in technology development especially in the field of waste to energy.

> In 2010 we expect to see an increase in interest from overseas investors looking to capitalise on the high growth potential in the UK.

Most waste produced in emerging economies is still sent to landfill. There is a regional lack of waste legislation and/or poor regulation enforcement.

In countries like China domestic recovery rates are poor - and China is still heavily reliant on imports of recycled materials from the US and Europe. This is despite the introduction of China's 'Circular Economy Law' in 2009 which was designed to boost sustainable development and encourage a 'recycling economy'. In theory the law should drive growth in recycling take up - but in practice is likely to be very difficult to enforce.

Growth prospects

It is estimated that landfill sites in urban areas in China will reach maximum capacity by 2020. This is likely to drive significant growth in investment in recycling and waste to energy technologies.

Key players

European waste groups Veolia and Suez also have a significant presence in the region. Veolia has waste locations in mainland China, Hong Kong, Taiwan, Philippines, Singapore and South Korea. Suez has locations in China and Australia.

UK market

Overview

The last 12 months have been a turbulent time for the economy, and while the waste sector has not been totally immune to the fallout from the global credit crunch, it is often thought to be more resilient than most.

As we predicted at the end of 2008, we have seen continued M&A volumes as well as a growing number of distressed sales, as you would expect in this climate. We have also seen some companies restructuring and others undertaking asset disposal programmes in order to save cash - all of which we will analyse in forthcoming sections.

Despite the unsettled market conditions, the key drivers of growth in the waste sector have ensured that the sector continued to move forward in 2009, while the long-term nature of contracts in the waste sector has ensured some stability.

A brief overview of the key drivers are provided below.

Key drivers

Key drivers of growth in the market continue to be legislative and regulatory:

Changing perceptions of waste

Waste is increasingly being thought of as a 'resource' to be harnessed rather than as 'rubbish' to be disposed of. Growing concern over environmental issues as well as financial and legislative drivers such as increasing landfill tax are driving both technology development e.g. investment in technology that can harness energy from waste, as well as encouraging different methods of sorting and treating waste. A key concern over the medium to long-term will be to harness the value of the waste we produce.

Renewable Energy strategy

In the summer of 2009 the UK signed up to the EU Renewable Energy Directive. The UK has set a number of targets which are the most ambitious of any EU member state and includes a commitment to achieve a target of 15 percent of energy from renewables by 2020 (which is a seven fold increase based on 2008 levels).

Clearly this is an ambitious target and one which creates significant opportunities for investors and corporates alike operating in the sector. The DECC estimates that achieving the targets could provide "£100 billion worth of investment opportunities."[1]

In order to help achieve the targets the DECC has pledged that it will support the sector in a number of ways, by removing barriers and extending financial incentives to encourage investment.

Feed in Tariff and Renewable Heat Incentive Schemes

In February DECC announced the introduction of the following incentives which will come into effect from April 2010 and April 2011 respectively:[2]

Under the Feed in Tariff (FIT) scheme, Anaerobic Digestion (AD) operators will receive between nine and 11.5 pence per kilowatt hour:

- 11.5 p/kWh over 20 years for schemes <500 kW
- 9.0 p/kWh over 20 years for schemes >500 kW

Under the Renewable Heat Incentive (RHI) scheme the levels for AD are:

- 5.5 p/kWh over 10 years for small installations (<45 kW) and medium size installations (45kW-200kW)

However there is still much uncertainty around what FITs will mean for Anaerobic Digestion. The Renewable Obligation Certificate (ROC) scheme is currently the main scheme for electricity produced from renewable sources in the UK. However, FITs cannot be earned as well as ROCs, which means that the incentives for AD are potentially not as attractive as may have been originally thought.

DECC is currently consulting on certain changes to the ROC scheme. The changes will come into effect on 1 April 2010. Until then the full impact of the changes cannot be guaranteed.

National strategies for waste

Each region of the UK has set performance targets for the recycling and composting of household waste. Each country has slightly different targets and timelines, see the table below for further details:[3]

Country	Recycling and composting targets
England	40% by 2010 45% by 2015 50% by 2020
Wales	40% by 2010 70% by 2025 (suggested revised target)
Scotland	40% by 2010 50% by 2013 60% by 2020 70% by 2025
Northern Ireland	35% by 2010 40% 2015 45% 2020

1 Department of Energy and Climate Change (DECC), online at http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/energy_mix/renewable/res/res.aspx
2 Department of Energy and Climate Change (DECC), online at http://www.decc.gov.uk/en/content/cms/news/pn10_010/pn10_010.aspx
3 LARAC - see online at www.larac.org.uk/uk_waste_management.htm

The Landfill Directive

Places emphasis on minimising municipal waste sent to landfill. The UK targets are to reduce the volume of biodegradable municipal waste sent to landfill from:

- 75% of 1995 levels in 2009/10
- to 50% by 2012/13
- and to 35% by 2020

Landfill pre-treatment requirements

Since October 2007 the Landfill Directive has required the treatment of all non-hazardous waste (including commercial and industrial) before it is sent to landfill. Treatment must either reduce the volume of waste being sent to landfill, make it easier to handle, recover or recycle. Sorting by a Materials Recycling Facility (MRF) can form part of the pre-treatment process.

Landfill tax escalator

Tax on waste sent to landfill will increase £8 per tonne annually until at least 2013.

Landfill bans

The Government is presently considering banning certain materials from landfills in a similar fashion to some other EU countries. If such bans are brought into place, and it is considered likely, much more industrial and commercial (I&C) waste will need to be collected, sorted and recycled.

Legislation update

This year there have been a number of interesting updates that will impact on the waste sector:

Battery regulations

Whilst our European neighbours are more advanced, very few consumer-bought and non-lead acid waste batteries are currently recycled in the UK. Letsrecycle.com estimates that of the 25,000 tonnes of waste household and industrial batteries generated in the UK each year, just 1,000 tonnes is currently recycled.[1]

However, this situation is starting to change as the UK begins to revise it's existing policies dealing with battery waste and begins to move towards the adoption of the European Battery Directive.

The new battery regulations for the UK sets targets for the collection and recycling of portable batteries as well as makes mandatory the collection of industrial batteries. The changes will mean:

- Responsibility is placed on the producers of batteries for their recovery from the waste stream
- Target of 25% of portable batteries to be collected, to be achieved by September 2012
- Reprocessing targets for collected batteries must be achieved from 2010
- Producers of batteries must sign up to one of several battery compliance schemes. These are run by a number of waste operators and these arrangements are due to formally come into effect in January 2010

Revised WEEE regulations

In November 2009 the Department for Business, Information and Skills published revised WEEE regulations. The revised regulations allow the compliance schemes to be more effectively monitored and will improve the reporting of WEEE recycling levels against set targets. The proposed changes will come into effect from 1 January 2010.

Redefining industrial/commercial waste

DEFRA is currently reviewing its interpretation of Article 11 of the revised Waste Framework Directive with a view to including I&C waste within the definition of municipal waste. This would bring the UK in line with other European Union countries that include some I&C waste in the category of municipal waste.

There are currently no targets for dealing with I&C waste (as there are for household waste) although this may change in the future.

DEFRA also recently published a plan, in October 2009, that sets out how it plans to tackle the issue of I&C waste.[2]

[1] http://www.letsrecycle.com/legislation/batteries/
[2] DEFRA, see online at www.defra.gov.uk/environment/waste/topics/documents/commercial-industrial-waste-aims-actions-091013.pdf

Materials prices

The last 12 months have seen a turbulent time in the materials markets, with metals and plastics in particular seeing a high degree of volatility, as the charts opposite illustrate.[1]

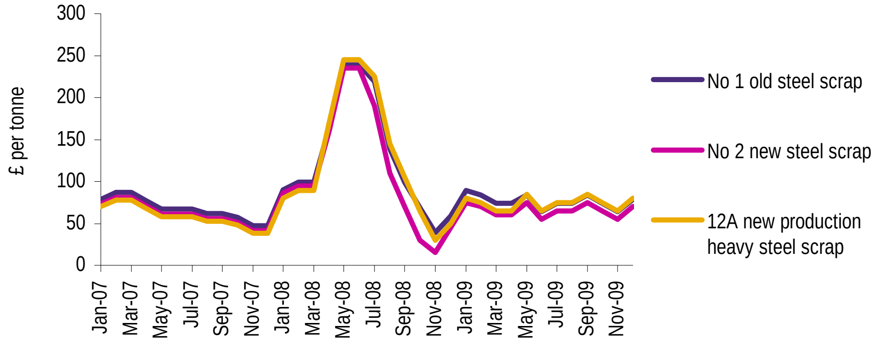
Ferrous scrap metal prices rose to record highs in the summer of 2008, stimulating growth in M&A in the metal recycling sector of the market. Prices subsequently crashed to all time lows in November 2008.

Paper and glass are well established markets in the UK, whereas plastics recycling is a relatively new market. The recovered glass market in the UK has been the most stable of all the recovered materials over the last two years, whereas paper and plastic have seen similar volatility to that experienced by the scrap metal market.

Some stability appears to have now returned to material prices in recent months.

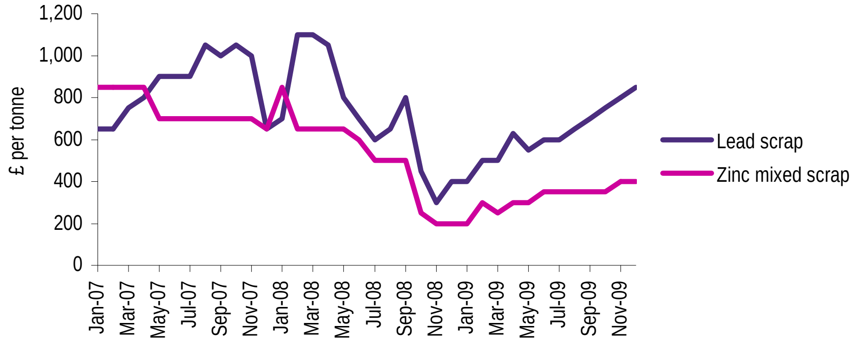
Ferrous scrap metal prices 2007-09

Source: Letsrecycle.com



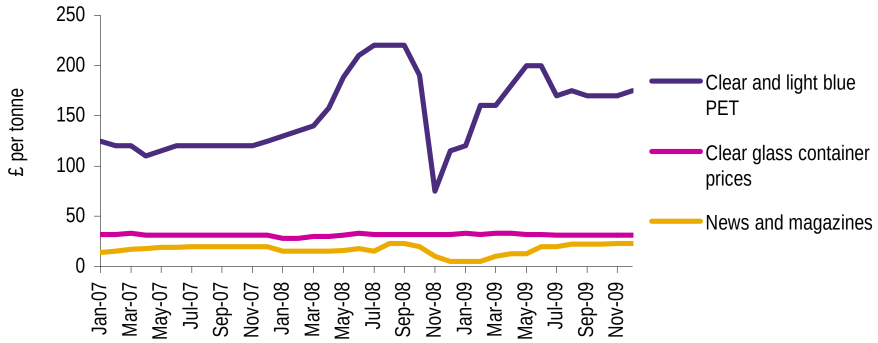
Non ferrous scrap metal prices 2007-09

Source: Letsrecycle.com



Recovered paper, plastic and glass prices 2007-09

Source: Letsrecycle.com



1 Pricing information sourced from Letsrecycle.com, see online at http://www.letsrecycle.com/prices/

Public sector in detail

Local authority recycling performance

Each region of the UK has an ambitious timetable of recycling targets to achieve. As part of this drive, Local Authorities are encouraged to not only meet but exceed these targets, and pressure is being brought on them to achieve higher levels of recycling.

None of the individual regions within the UK have met their 2010 targets yet, although all appear to be on track to meet them.

The following sections show the rates of recycling that were achieved in 2008/09 and corresponding figures for the previous year.[1]

Country	Recycling and composting rate achieved in 2007/08 %	Recycling and composting rate achieved in 2008/09 %	% change
England	34.5	37.6	**3.1**
Wales	32.3	36.3	**4.0**
Scotland	31.7	34.3	**2.6**
Northern Ireland	31.9	34.4	**2.5**

Best performing Local Authorities - England

In terms of meeting the Waste Strategy for England 2007 targets, of the 354 Collection and Unitary authorities in England:

- 106 out of 354 (30%) are already meeting the 2010 target of 40%
- 61 out of 354 (17%) are already meeting the 2015 target of 45%
- 22 out of 354 (6%) are already meeting the 2020 target of 50%

The following table presents the best performing in terms of household waste recycling/reuse and composting between the years 2007/08 and 2008/09. Analysis has been produced based on data submitted by Local Authorities to WasteDataFlow.[2]

All of the best performing authorities come from the Midlands, South West or Eastern regions. The 10 best performing authorities are listed in the table below.

Staffordshire Moorlands District Council is the best performing of all the local authorities in England, and currently recycles 62% of it's household waste.

As the table shows, all of these local authorities are already well ahead of the Waste Strategy for England's 50% household waste target for 2020.

Local Authority	GOR	Type	Household recycling / composting rate 2007-08 (%)	Household recycling / composting rate 2008-09 (%)	% change
Staffordshire Moorlands District Council	W Midlands	Collection	52.9	61.6	**8.7**
Cotswold District Council	S West	Collection	43.3	60.8	**17.5**
East Lindsey District Council	E Midlands	Collection	58.4	59.5	**1.1**
South Hams District Council	S West	Collection	57.1	57.9	**0.8**
South Shropshire District Council	W Midlands	Collection	52.1	57.5	**5.4**
Teignbridge District Council	S West	Collection	55.6	57.4	**1.8**
Huntingdonshire District Council	Eastern	Collection	55.1	57.2	**2.1**
Waveney District Council	Eastern	Collection	51.6	55.9	**4.3**
North Kesteven District Council	E Midlands	Collection	55.9	55.7	**(0.2)**
Uttlesford District Council	Eastern	Collection	54.5	53.7	**(0.8)**

Source: WasteDataFlow

1 Recycling rates sourced from the Statistical Directorate of the Welsh Assembly Government, Northern Ireland Environment Agency, Environment Statistics Service of DEFRA and the Scottish Environment Protection Agency.

2 WasteDataFlow is a web-based system for quarterly reporting on municipal waste data by local authorities to central government.

Best performing Local Authorities - Wales

The majority of the top 10 authorities in Wales have already reached the 40% national target for 2010, although Anglesey, Powys, Carmarthenshire and Rhondda Cynon Taff have a short way to go.

Local Authority	Household recycling/ composting rate 2007-08 (%)	Household recycling/ composting rate 2008-09 (%)	% change
Conwy	40.2	44.3	**4.1**
Torfaen	38.2	42.4	**4.3**
Ceredigion	45.2	41.6	**(3.6)**
Wrexham	42.3	41.4	**(0.9)**
Flintshire	36.8	41.4	**4.6**
Monmouthshire	36.2	40.3	**4.0**
Isle of Anglesey	32.2	39.8	**7.6**
Powys	35.0	39.0	**4.0**
Carmarthenshire	25.7	37.6	**11.9**
Rhondda Cynon Taff	30.8	37.5	**6.8**

Source: StatsWales

Best performing Local Authorities - Scotland

Clackmannanshire is the best performing Local Authority in Scotland in 2009 recycling 44.9% of it's waste, an increase of 2.7% on the previous year. Nearly all the top 10 best performing authorities are meeting, or ahead of, the 40% target for 2010. North Lanarkshire, East Lothian and East Renfrewshire are within 2% of the target.

Local Authority	MSW recycling / composting rate 2007-08 (%)	MSW recycling / composting rate 2008-09 (%)	% change
Clackmannanshire	42.2	44.9	**2.7**
Moray	44.0	43.9	**(0.1)**
Fife	39.1	43.0	**3.9**
East Ayrshire	41.8	42.1	**0.3**
West Lothian	34.2	41.8	**7.6**
Stirling	38.7	41.5	**2.8**
South Ayrshire	43.1	41.3	**(1.8)**
Falkirk	36.0	40.8	**4.8**
North Lanarkshire	31.8	38.7	**6.9**
East Lothian	35.4	38.4	**3.0**
East Renfrewshire	35.0	38.4	**3.4**

Source: SEPA

Best performing Local Authorities - Northern Ireland

All of the top 10 Local Authorities in Northern Ireland have already met the national target of 35% recycling by 2010. The top five are already ahead of the 40% by 2015 target.

Local Authority	Household recycling/ composting rate 2007-08 (%)	Household recycling/ composting rate 2008-09 (%)	% change
Antrim Borough Council	48.7	48.3	**(0.4)**
Banbridge District Council	45.7	47.9	**2.2**
Magherafelt District Council	38.1	42.1	**4.0**
Larne Borough Council	37.4	40.5	**3.1**
North Down Borough Council	38.1	40.4	**2.3**
Cookstown District Council	36.3	39.0	**2.7**
Coleraine Borough Council	29.9	38.4	**8.6**
Omagh District Council	38.1	38.1	**0.0**
Castlereagh Borough Council	37.7	38.1	**0.4**
Armagh City & District Council	37.3	36.3	**(1.0)**

Source: Northern Ireland Environment Agency

Companies with strong local authority relationships and long term contracts, resulting in strong visibility over future revenues, will attract higher valuations.

Private sector in detail

Structure of the UK waste sector

The UK waste management market is characterised by a highly fragmented industry structure.

For some years now the sector has been dominated by a handful of major players who are focussed on providing integrated waste management services. These are sometimes known as the 'Seven Sisters'.

A number of the major players are part of large UK and European waste and utility groups (Veolia, Sita, WRG, Viridor), and a number of others are owned by Private Equity or investment consortia (Biffa, Cory). Shanks currently remains the only UK publicly quoted company in the top seven. (See following sections for further detailed information on each company.)

There are also a number of sizeable companies involved in recycling such as European Metal Recycling (metal), DS Smith (paper) and Sims (metal) who although they are very much part of the waste/recycling landscape in the UK, have not been covered in detail in this report.

In total there are approximately 4,000 companies in the UK whose primary activity is waste management or recycling.[1] The vast majority of these have a turnover level of less than £20 million. There are many more who are involved in recycling or waste, but not as their primary function.

We estimate that there are approximately 200 companies who, based on their published financials, form the 'mid' and 'major player' tiers. (Based on minimum disclosed turnover levels of £20 million).

A short list of companies in the 'mid tier' has been produced for detailed analysis. The results of this analysis can be found on page 13.

'Major player' company trends

The largest waste management company in the UK is Veolia, and by some margin (turnover this year was £1.2 billion compared to it's nearest rival Biffa's £788 million.) Veolia is owned by French group Veolia Environnement.

Behind Veolia is Biffa, who in 2008 was acquired by a consortium of investors, including Montagu Private Equity and Global Infrastructure Partners. In third place is Sita, also owned by a French group, Suez Environnement.

Shanks Group, Waste Recycling Group (owned by Spanish FCC) and Viridor complete the top six, all of whom achieved turnover in excess of £500 million in the latest accounts. Cory Environmental sits at number seven.

M&A activity has been scaled back this year in response to economic conditions. Only Viridor and Sita out of the top seven companies have made any acquisitions this year. A number of others have undertaken some form of restructuring to cut costs. In particular Veolia has been going through an asset disposal programme, and earlier this year sold it's Irish recycling operations to Greenstar. Shanks also sold it's Swansea based waste and recycling collection business to Sita this year for £2 million. The divestment is part of a wider strategic plan by Shanks to focus on other regions in the UK.

Investment in energy from waste has continued apace again this year with nearly all the key players committing to, or making investment in the sector. This year Biffa signed an agreement with Ros Roca Envirotec to supply AD technology for its plants in the UK. Shanks has four AD plants coming online in the next 12 months, and Viridor has announced plans to triple the amount of energy waste it generates from its plants. Sita this year announced they had signed an agreement with Cyclamax for the development of six gasification and recycling-led resource parks across the UK.

Further details of the financial and strategic developments of the 'Top 7' can be found in the following table.[2]

[1] Based on analysis of companies from FAME a database owned by Bureau van Dijk. Companies are 'active' companies with registered offices in the UK and with primary SIC codes that are either 'Recycling' or 'Collection and treatment of other waste'.

[2] All financial information sourced from company financial accounts.
Please note:
Biffa - 2008 financials are for Biffa Limited. Also note that the 2009 figures represent a 17 month period and EBITDA and EBIT exclude exceptional costs of £12.5 million. The 2008 figures exclude exceptional costs of £22.6 million.
Veolia - turnover is after share of Joint Venture turnover (c. £30k).
Shanks - EBIT excludes exceptional costs (£2 million in 2009) and profit on property disposals (£3.3 million in 2009 and £1.9 million in 2008).

Rank	Company	Ownership	Strategy and developments	Year end	Turnover latest year (£m)	Turnover % change on previous year	EBIT latest year (£m)	EBIT % change on previous year	EBITDA latest year (£m)	EBITDA % change on previous year
1	Veolia Environmental Services (UK) PLC	Owned by Veolia (France)	• Underwent cost saving and asset disposal programme in 2009 • Sold Irish recycling operations to Greenstar in October in a deal reportedly worth €50 million	31/12/08	1,231.7	10.6	121.2	14.9	229.5	11.4
2	Biffa Group Limited	Private Equity backed. Acquired by a consortium of investors including Montagu, GIP and Uberior Co-Investments in 2008	• Biffa announced they were diversifying into energy from waste this year • Investment in MRF, AD and gasification projects • In June contracted with Spanish company Ros Roca Envirotec to supply anaerobic digestion technology for several biogas plants in the UK	31/03/09	788.4	1.5	71.0	(30.5)	174.8	4.6
3	Sita Holdings UK Limited	Owned by Suez (France)	• Recently acquired a £2 million commercial waste and recycling collection business in Swansea from Shanks in a bid to strengthen its presence in South Wales • In September Sita announced they had signed a partnership agreement with Cyclamax for the development of six gasification and recycling-led resource parks across the UK	31/12/08	716.7	4.4	33.7	6.7	93.5	3.8
4	Shanks Group PLC	Publicly quoted	• Received a takeover offer from Carlyle in December 2009 • Unveiled plans to sell stakes in two of its PFI contracts for c. £30 million • In 2009 divested Swansea based business to Sita and a 50% stake in Avondale Environmental to Landmedia • Reportedly to focus their operations in three strategic regions: Scotland, East Midlands and the Northern Home Counties • Has four AD and two recycling plants coming on line within the next 12 months	31/03/09	696.5	23.6	62.6	17.2	117.8	25.1
5	Waste Recycling Group Limited	Owned by FCC (Spain)	• FCC announced they were investing in renewable energy in the Spanish market to 'insulate' themselves against the economic slump • In April WRG opened a £140 million EfW plant in Kent	31/12/08	524.4	1.0	7.6	(88.1)	79.6	(41.2)
6	Viridor Limited	Owned by Pennon (publicly quoted in the UK)	• Has made a number of acquisitions this year including Waste Management Ltd (paper collection and recycling) and Intercontinental Recycling (plastics recycling) • Earlier this year won £3.8 billion 25-year waste PFI contract with Greater Manchester Waste Disposal Authority • In November announced plans to triple the amount of energy it generates from waste as part of plans to develop EfW and AD facilities	31/03/09	522.7	14.9	64.3	13.2	107.9	6.8
7	Cory Environmental Holdings Limited	Acquired by ABN AMRO, GIP, Finpro SGPS and Santander Private Equity in 2007	• Won a seven year contract for the treatment and disposal of waste in North Somerset which could be worth up to £80 million	31/12/08	201.5	6.6	31.0	29.7	54.0	21.6

Source: Company financial accounts, company press and announcements

'Mid tier' company trends

The following table provides an analysis of UK companies in the waste and recycling sector that form the 'mid tier'. These are companies that fall within the turnover range £20 million and £125 million in their latest published accounts.[1]

For the purpose of this analysis we have excluded companies that are subsidiaries of other companies in the list as well as subsidiaries of the major players.

On average the mid-tier saw an increase in combined turnover (10%) and gross profit (13%) year on year. However EBIT and EBITDA values fell when compared to last reported year (7% and 1% respectively).

Companies in the highly specialist areas of hazardous waste and energy from waste sub-sectors have on average been the best performers. Companies operating in these areas have on average seen the largest increase in turnover, EBIT, EBITDA and gross profit levels when compared to last reported year.

Underperforming sectors compared to last year are recycling and industrial and commercial waste companies, who on average have seen a steep decline in profit levels, in particular EBIT and EBITDA. This is not surprising given the effects of the recession on industrial and construction outputs, as well as the resulting effect on recycled materials prices.

	Average turnover £m	Turnover %change yoy	Average gross profit £m	Gross profit % change yoy	Average EBIT £m	EBIT % change yoy	Average EBITDA £m	EBITDA % change yoy
Integrated waste	53.3	11.6	11.3	2.2	1.5	(25.8)	4.9	(4.5)
Industrial and commercial	41.3	9.8	8.9	4.3	1.4	(31.6)	3.1	(22.7)
Hazardous waste	38.5	23.8	12.4	27.4	3.2	26.4	6.0	18.4
Recycling	44.2	6.6	7.4	(3.3)	2.3	(9.4)	3.0	(8.3)
Energy from waste	30.6	7.6	10.1	71.0	4.1	5.1	10.6	3.3
Waste equipment	39.3	3.3	9.5	(4.5)	2.5	(17.3)	4.0	(6.2)
Sector average	**41.2**	**10.1**	**9.9**	**12.9**	**2.5**	**(6.5)**	**5.3**	**(1.3)**

Source: FAME

[1] Average financial information is based on the latest financial year. Percentage change calculations are based on corresponding previous year information. All data is taken from FAME a company financial information database owned by Bureau van Dijk.

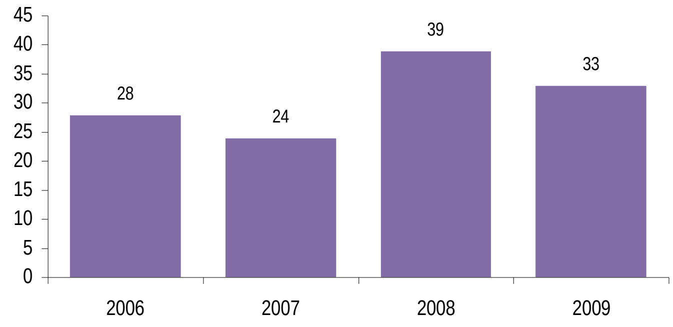
M&A in 2009

Deal value and volume

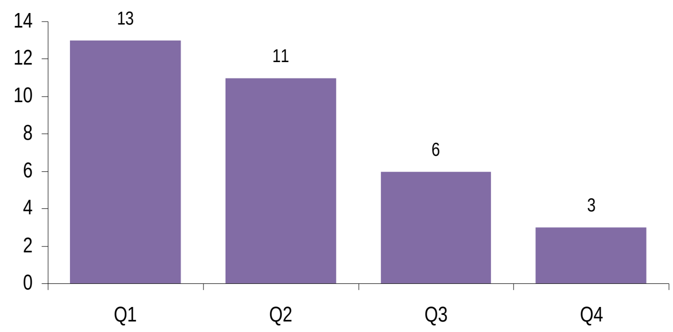
As would be expected in the current climate there have been fewer deals completed this year compared to last year, although volumes have remained relatively strong compared with pre- 2008 levels. A significant component of this is the prevalence of accelerated or distressed transactions. It should also be noted that there have been proportionally less of the large deals that we saw in 2008, the majority of deals in 2009 have been at the smaller end of the scale.

It is easy to see from the following chart where volumes have fallen away this year. The first half of the year started strongly and initially it was thought that M&A volumes were on track to meet, if not exceed, that of 2008. Declining volumes in quarters three and four resulted in the figures for the full year falling short of the 2008 total.

Number of waste sector deals 2006-09



Number of waste sector deals Q1-4 2009



Deals by sub-sector

Recycling deal volumes this year remain high, with 43% of the deals completing in 2009 coming from this segment of the market. Interest in specialist areas such as hazardous waste also remains high. Growth areas such as waste to energy are also seeing an increase in deals compared to last year.

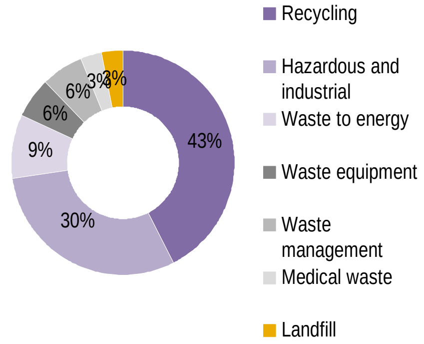
Recycling deals by type

Recycling deal volumes by type shows the biggest difference compared to last year. In 2008 recycling deals were very much driven by high commodity prices and a desire to consolidate a fragmented market. This year, as we predicted at the end of 2008, we have seen growth in the area of organic waste. Along with generalist recyclers organic waste deals this year have accounted for the majority of deals by volume.

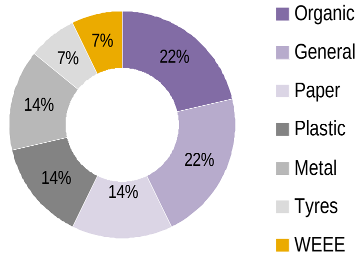
Deals by country of acquirer

The number of acquirers from overseas has declined as a proportion of total deals compared to last year, a reflection of acquisition plans being scaled back, by some of the multi-national players, as a result of the global economic recession.

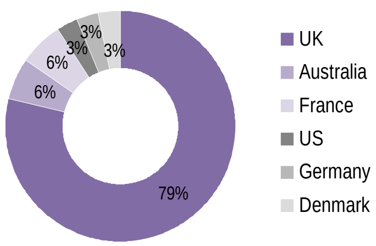
Number of deals by subsector 2009



Number of recycling deals by type 2009



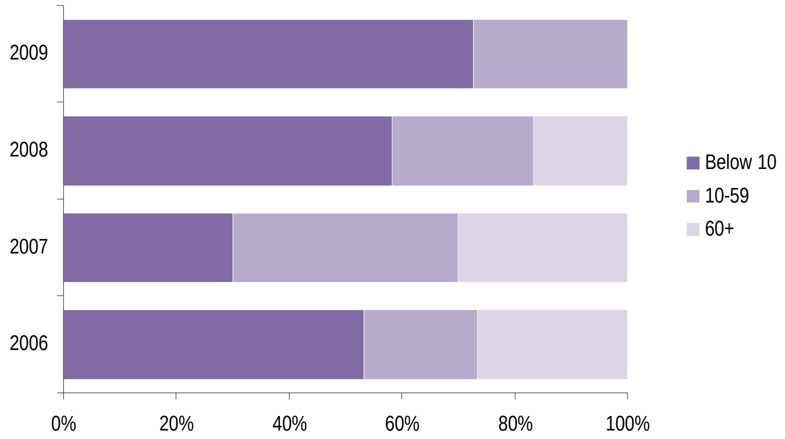
Number of deals by country of acquirer 2009



Deals by value range

This year we have seen far fewer of the 'large deals' and have not seen any valued more than £60 million, which is not surprising given the current state of the market and availability of debt funding for highly leveraged M&A. The 'mid tier' deals in the range £10-59 million have held up well compared to last year. However, the majority of deals this year had undisclosed values.

Disclosed deal segmentation by value (£m)



Strong legislative pressures will continue to generate interest in the sector and drive value over the coming year. At the same time, the ability of companies to move along the value chain, from commodity recycling to energy from waste for example, will continue to be a key differentiator for companies in the waste sector.

Our thoughts for 2010

2008

Key themes for 2008

- In 2008 the UK waste sector was characterised by significant consolidation as well as an increase in interest from the private equity community
- A number of large deals in 2008 stood out, including the takeover of Biffa by a consortium including Montagu Private Equity and GIP, as well as the takeover of Safety-Kleen by Warburg Pincus
- Growth in recycling deals was driven by high recyclate prices in the first half of the year, with metals recycling a particular focus
- The crash in commodity prices in the summer of 2008 significantly changed the landscape in the second half of the year with some of the major integrated waste players struggling to integrate recently acquired commodity based businesses

2009

Key themes for 2009

- At the end of 2008 we predicted that strong M&A annual volumes would continue in 2009, but given the onset of recession, there would be a growth in distressed asset sales
- We also correctly predicted that transactions were likely to be smaller strategic deals until the limited availability of debt funding eased. As the deals summary shows there were no disclosed deals above £60m in 2009
- We predicted that commodity prices would be unlikely to return to previous levels and that we would therefore see increasing levels of investment by the private sector in alternative recycling sub-sectors. As previous sections show there has been a significant uplift in organic waste for example, at the expense of metals

2010

Key themes for 2010

- We predict that the tentative recovery in the global economy will encourage growth in demand for recycled materials
- Ambitious EU and UK targets for renewable energy, and financial incentives including Feed in Tariffs (FITs) and Renewable Heat Incentive (RHI), are likely to stimulate increased investment in alternative treatment technologies over the next 12 months
- We also expect to see an increase in interest from overseas investors looking to capitalise on the high growth potential in the UK

Medium to long-term trends

Key themes for medium to long-term

- Long term prospects for the sector are good due to strong legislative pressures
- UK legislation is very much focussed on dealing with household waste. In the medium term we can expect a shift in legislative focus from household waste to industrial and commercial waste
- This is likely to result in increased investment from the private sector in facilities that deal with this much overlooked waste stream, as well as growth in industrial and commercial waste M&A

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Grant Thornton

Appendices

UK Waste Sector M&A transactions 2009

Date completed	Target name	Target business description	Acquirer name	Deal value (£m)
Jan-09	Shanks' Swansea based waste collection business	Commercial waste and recycling collection	SITA UK Ltd	2
Jan-09	Harcostar Drums Ltd	Plastic drums manufacturer	Straight plc	0.4
Jan-09	Sapphire Energy Recovery	Tyre recycling joint venture between Michelin and Lafarge	Lafarge Cement UK	n.d.
Jan-09	ITS Drilling Services Ltd	Mud recovery and clean up equipment rental services	Steminic Ltd (backed by Aberdeen Asset Managers)	1
Feb-09	Sharpness Dock in-vessel composting (IVC) facility of Bioganix	Composting facility	New Earth Solutions	n.d.
Feb-09	Almac Ltd	Supplies and services Vecoplan equipment	Vecoplan AG	n.d.
Feb-09	All Metal Recovery Limited	Metal recycling services	Sims Metal Management Limited	n.d.
Feb-09	Parham in-vessel composting site in Suffolk - formerly of Bioganix	Composting facility	Countrystyle Group	n.d.
Mar-09	Merritt Plastics Ltd	Plastic window frames recycling services	Eurocell Profiles Ltd	n.d.
Mar-09	Geneco Ltd	Waste to energy producer	Wessex Water Enterprises Ltd	n.d.
Mar-09	GeoMelt business of AMEC Plc	Treatment of contaminated waste and soil	IMPACT Services Inc	n.d.
Mar-09	UK port and harbour response businesses of Oil Spill Response Limited and East Asia Response Limited	Oil spill clean up services	Adler & Allan	n.d.
Mar-09	CEC Ltd	Construction and engineering services of power plants, including CHP, solid waste, wind and gasification plants.	DONG Energy A/S	n.d.
Apr-09	East London Sustainable Energy Facility	Energy from waste producer	Biossence Ltd	n.d.
Apr-09	Comet Tankers Ltd	Waste management services	PIMS Group Ltd	n.d.
Apr-09	Collectable Waste Ltd	Commercial including asbestos and security waste management services.	Devon Contract Waste Ltd	n.d.
Apr-09	Clean Drains Ltd	Drain and sewer maintenance and waste management services	PIMS Group Ltd	n.d.
May-09	Global Environmental Recycling Company Ltd's assets	Household appliance recycling services	Sims Group UK Ltd	1.3
May-09	HFS Waste Management Ltd	Industrial cleaning and bulk liquid waste management services provider	Enviroco Ltd	n.d
May-09	Avondale Environmental Ltd	Landfill operator	Landmedia Ltd	27.5
May-09	Shredder Man	Waste management and disposal services, particularly waste paper	Premier Waste Management Ltd	n.d.
Jun-09	London Recycling Ltd	Waste management services	Viridor Waste Management Ltd	11
Jun-09	Banham Compost Ltd	Commercial composting services	Teg Group plc, The	3.1
Jun-09	Medical Waste Solutions Ltd	Medical waste solutions	GW Butler Ltd	n.d.
Jul-09	Intercontinental Recycling Ltd	Plastics recycling	Viridor Waste Management Ltd	8.1
Aug-09	Chester Le Street Skip Hire	Recycling services and skip hire services	JBT Waste Services Ltd	n.d.
Aug-09	UK Resource Management (UKRM)	Industrial waste services	E Harper (York) Ltd	n.d.
Aug-09	Waste Management Ltd	Paper recycling services	Viridor Waste Management Ltd	n.d.
Aug-09	E&S Environmental Services ltd	Environmental services including tank cleaning and spill services to the petroleum, retail and transport sectors.	Adler and Allan Ltd	n.d.
Sep-09	Sunderland Metal Company	Metal recycling	European Metal Recycling Ltd	n.d.
Nov-09	London Waste	SITA UK's 50% stake in London Waste	North London Waste Authority (NLWA)	n.d.
Nov-09	Dove Recycling Ltd	Commercial waste and recycling collection	TJ Waste Limited	n.d.
Nov-09	UKAEA Ltd	Nuclear decommissioning and waste management business of Atomic Energy Authority	Babcock International Group Plc	50

Disclaimer

This report is prepared using publicly available information from Zephyr, Corpfin, press reports and company announcements and therefore may not be fully comprehensive. This report should be used for information purposes only and not as a definitive guide to the UK waste sector.

Glossary of terms

AD	Anaerobic Digestion
DECC	Department for Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EfW	Energy from waste
GOR	Government office region
I&C	Industrial and commercial waste
LARAC	Local Authority Recycling Advisory Committee
MSW	Municipal solid waste
WRAP	Waste and Resources Action Programme