

Waste sector: M&A update

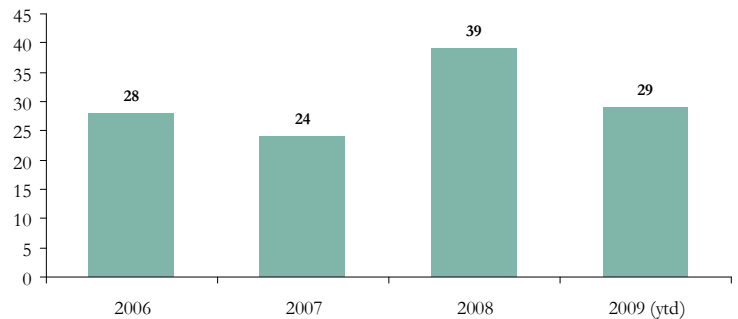
Autumn 2009

M&A activity continues in 2009 with 29 deals completed in the sector in the year to date. Despite a reduction in volume in Q3 it is expected that full year volumes are still on track to equal 2008 figures. Consolidation in the recycling sector continues to drive acquisition activity in 2009 with increases in the number of organic and plastic waste recycling deals compared with last year. Corporates keen to capitalise on increased government support and investment in the sector are driving this growth.

Deal highlights:

- **Viridor** - completed three deals in the last three months. Recent acquisitions of Intercontinental Recycling and Waste Management Ltd complement Viridor's recycling operations and will bolster the company's presence in the North West following their award of the Greater Manchester PFI contract.
- **Metals recycling** - despite the fall in commodity prices Sims Group and EMR have both made acquisitions in 2009. On 23 September EMR announced the acquisition of Sunderland Metal Company.
- **Private equity** - the majority of deals 2009 to date have involved corporates acquiring corporates, although we are still seeing interest from the private equity community. Spirit Capital in 2009 backed Adler & Allan's acquisition of Oil Spill Response Ltd and East Asia Response Ltd in March, as well as Steminc's acquisition of ITS Drilling Services Ltd in January.

Fig.1 M&A deals 2006 – Sept 2009



M&A trends:

- Consolidation in the sector is continuing although deal volumes dipped in Q3 of 2009.
- The proportion of larger deals has fallen with the majority of deals being completed taking place at the lower end of the value scale.
- Recycling continues to account for the majority of deals being completed in 2009, with organic and plastic overtaking Waste Electrical & Electronic Equipment (WEEE) and Metal as the most sought after material type. (See Fig.4 overleaf).

Fig.2 Deals by sub-sector Jan – Sept 2009

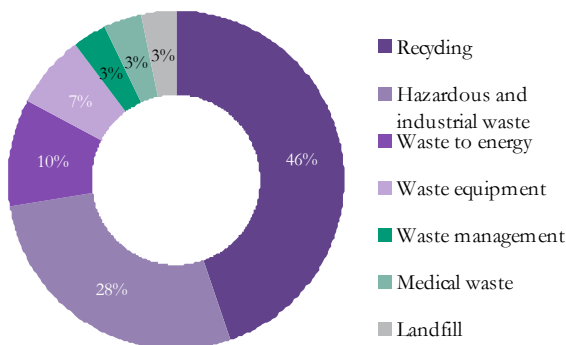
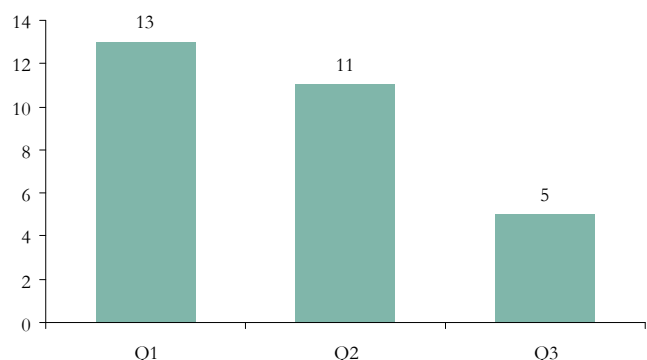


Fig.3 Number of waste sector deals Q1 – Q3 2009



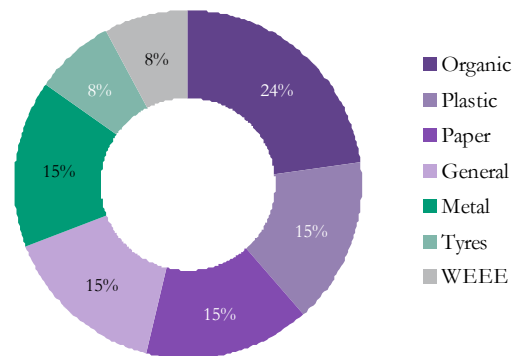
Organic waste - update

In the last year we have seen increased interest in the organic waste sub-sector, compared with other types of materials recycling, resulting in the rising number of acquisitions in the sector. Growth has been driven by a combination of legislative change as well as the introduction of attractive financial incentives designed to encourage investment in new technologies for the treatment of organic waste. Ambitious targets have been set for the UK and the drive to achieve them will ensure continued growth in the sector over the medium to long term.

Key drivers:

- **Landfill Directive** - the UK has set a target of reducing the amount of biodegradable waste sent to landfill (by 65% of 1995 levels) by 2020. We may even see a total ban on all food waste sent to landfill in the near future.
- **Landfill tax** - set to increase by an 'escalator' of £8 per year until 2013.
- **EU Renewable Energy Directive** - this summer the UK signed up to the Directive and set a number of targets that are the most ambitious of any EU member state.
- **Financial incentives** - to ensure the UK meets the above targets significant investment will need to be made available to companies implementing new and emerging technologies which will deal with organic waste. In the 2009 budget the Chancellor announced £10m of funding to support Anaerobic Digestion (AD) and in-vessel composting (IVC) projects. Some sources suggest that as much as £1bn will need to be invested to ensure the necessary infrastructure is in place.
- **Double ROCs** - under the ROC (renewable obligation certificate) scheme plants using certain technologies such as AD to produce renewable energy receive incentives worth double that of plants using other energy sources.
- **Government support** - in February 2009 Environment Minister Jane Kennedy launched 'Anaerobic Digestion - Shared Goals' which details how the government plans to work with stakeholders to break down barriers to entry and encourage take-up of AD technology.

Fig.4 Recycling deals by type Jan – Sept 2009



Key players:

- Companies innovating in the organic/food waste treatment space are typically smaller operators who have been quicker to adapt to opportunities than the larger integrated players.
- In July **Whites Renewable Energy** received planning permission to build a £20 million AD plant in Selby. The plant is reportedly the largest of its kind to be built in the UK and will be able to treat all forms of packaged food waste.
- In June German recycler **Saria Bio-Industries** announced the launch of "ReFood" a joint venture with UK food waste recycler **PDM Group** to explore innovative ways to treat food waste using AD technology. PDM processes food waste for retailers such as Tesco and Sainsbury's.
- **Sevenside Recycling** and **Shanks** announced in June they had won a waste management contract with Marks & Spencer. As part of the contract they plan to divert M&S's waste food from landfill and treat it using Shanks's 'Orgaworld' technology. 'Orgaworld' is established in the Netherlands and Canada but the proposed AD plant in Scotland is the first of its kind for Shanks in the UK.

Current issues in waste

Grant Thornton involvement prevents EFW project going to waste...

Background

A skip hire and waste management business had embarked on a project to develop an energy recovery facility to generate electricity from its construction and demolition waste. The bank had exposure of c.£14 million in the business to back this project, however various issues with contractors, suppliers and the technology led to a number of delays in commissioning and rising costs.

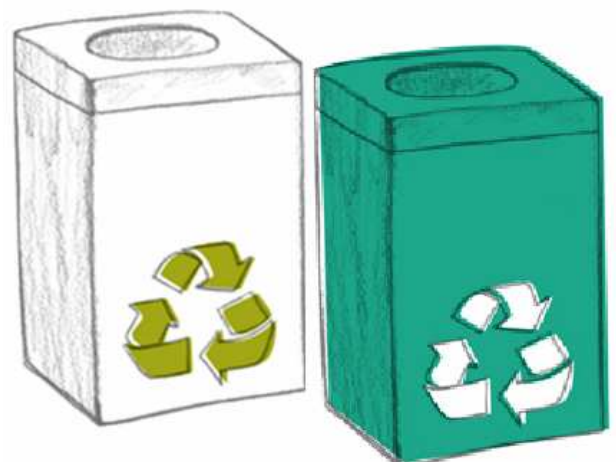
Concerned about the viability of the project, given the rising costs and keen to evaluate the options to ensure the best outcome, the bank engaged Grant Thornton to perform a review of the business and the project and complete an options appraisal.

The report covered a range of areas, including;

- Management and staff
- Market
- Current financial position
- Funding requirements
- Forecast trading and sensitivities

Outcome

We evaluated the project, assessed the business and advised the bank as to the various courses of action and the risk profile of each. The report reassured the bank that the scheme was feasible and they agreed to continue funding the project, on the basis that this would provide the best outcome for all stakeholders.



Current issues in waste

Are you ready for the 2010 VAT changes?

A number of important changes to the EU VAT system will take effect from 1 January 2010 and beyond. Planning for them now will avoid costly and time consuming problems later....

Who does this effect?

Any business involved in:

- Supplying or receiving cross-border services
- Reclaiming VAT incurred in other EU member states

What are the changes?

- The general place of supply rule for services in 'business to business' transactions will be where the recipient is established (some general exceptions will apply)
- A new electronic automated process for the recovery of VAT incurred in other EU member states will be available
- Businesses involved in selling services across borders may need submit EC sales lists as well as recording the information on their VAT return
- VAT registered businesses may pay VAT through their VAT return on services brought in from suppliers within as well as outside the EU

Why should businesses take action now?

- The new rules will affect businesses in a number of ways and the time remaining to react to the changes is relatively short
- Changes to existing IT systems and procedures will require time to implement
- Applying the wrong VAT treatment could result in increased administrative costs and require the issue of credit notes, refunds of VAT to customers and disclosures to HMRC which could result in the issue of penalties
- Where foreign VAT is incorrectly charged by an overseas supplier, the recovery must be sought from the supplier not the overseas tax authority – it is therefore important for staff to be familiar with the new rules

Who should I contact for assistance?

Grant Thornton has a national VAT practice with specialists in each of our offices throughout the UK. If you would like any further information on this, or any other aspect of VAT, please contact:



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