Waste and renewable energy

Sector update: Summer 2010

In this second sector update of 2010, we look at;

- Grant Thornton's involvement in TEG's acquisition of Simpro, a strategic acquisition designed to improve their capability and growth prospects in the waste to energy sector market
- Mergers and acquisitions activity in the waste and renewable energy sector for the first two quarters of 2010, showing positive signs with both growth in deal volumes and an increase in deal values
- An article from Mark Olpin, Country Manager for Tradebe, who talks about the hazardous waste market and how Tradebe has been prospering through the economic storm.

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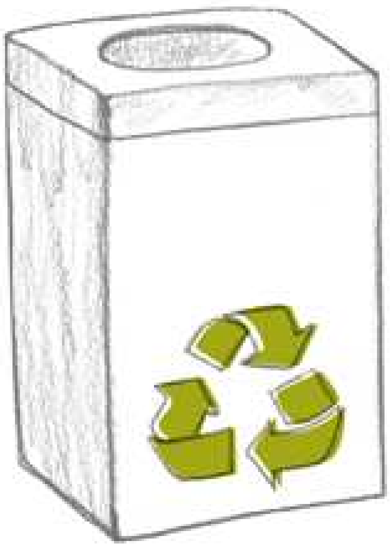


Case study

Grant Thornton advise TEG on the acquisition of Simpro

The TEG Group plc (TEG), a valued client of Grant Thornton since their flotation on AIM in 2004, is a technology based recycling company focused on the organic waste sector. TEG handles waste from a wide variety of sources including local authorities, food, beverage and catering companies and from the agricultural, water, oil and fisheries industries.

TEG has developed scalable in-vessel composting (IVC) technology, with a number of plants around the country. In a partnership agreement with a German anaerobic digestion technology company - UTS Biogas, TEG is now able to also provide anaerobic digestion (AD) solutions which are tailored to suit individual requirements and budgets.

In June 2010 TEG acquired Simpro Limited, an independent owner of six composting sites based in the Midlands. The acquisition of Simpro brings tremendous potential for further expansion using TEG's IVC and AD technology, allowing TEG to significantly enhance revenues by securing food waste contracts in the Midlands.

Other recent developments

TEG Environmental Limited, a subsidiary of TEG, concluded a contract with Essex County Council and Southend Borough Council, in March 2010, to process co-mingled food and garden waste. The contract is a framework agreement for a four year term during which TEG will bid annually for waste.

TEG Environmental Limited has also concluded a contract with May Gurney Integrated Services plc (May Gurney) to process food waste collected by May Gurney under its Bridgend Council contract. The contract commenced in June 2010 and is for an initial three year period and will generate estimated revenues of approximately £500,000-£800,000 over the contract lifetime, depending upon the rate of waste arising.

Grant Thornton provided both financial due diligence, deal structuring and tax advice to TEG.

David Grundy, Transaction Services Advisory partner at Grant Thornton said "It has been tremendously enjoyable to work with TEG as they have grown and developed since their flotation. The acquisition of Simpro and the achievement of further new contracts will enhance their expansion and revenues. We wish TEG every success as the Group continues to expand and deliver shareholder value."

"Grant Thornton provided valuable support and advice, with a clear and concise due diligence report. We would certainly retain them again for future transactions."
Mick Fishwick
Chief Executive
The TEG Group plc

The TEG Group plc

teg

Acquisition of Simpro Limited

Organic waste technology
June 2010

Grant Thornton provided due diligence, deal structuring and tax services

M&A update

Q2 2010 review

The positive trend in deal volumes has continued in Q2, with an increase in deal numbers on Q1, and on Q2 2009. Given that Q2 2009 showed a decline in deal volumes, we consider this to be a very positive sign of improvement and growth. In addition, deal values are increasing, showing a continuing move away from distressed transactions to purchase of quality businesses for higher values.

M&A volumes

- As Fig.1 indicates, quarter two has seen a further increase in deal volumes, with total deals completed at 12 against 9 in Q1
- Deals are also higher than the same quarter in 2009, and in Q2 2009 deal numbers were in decline, whilst in 2010 they look to be increasing
- As would be expected, the deal volumes are below the levels seen in Q2 2008, however we can see positive growth in deal numbers against Q2 both 2006 and 2007
- Overall deal numbers look to be on track to better both 2006 and 2007, and hopefully challenge 2008 and 2009 performance

Fig 1: Deal numbers by quarter 2006 - 2010

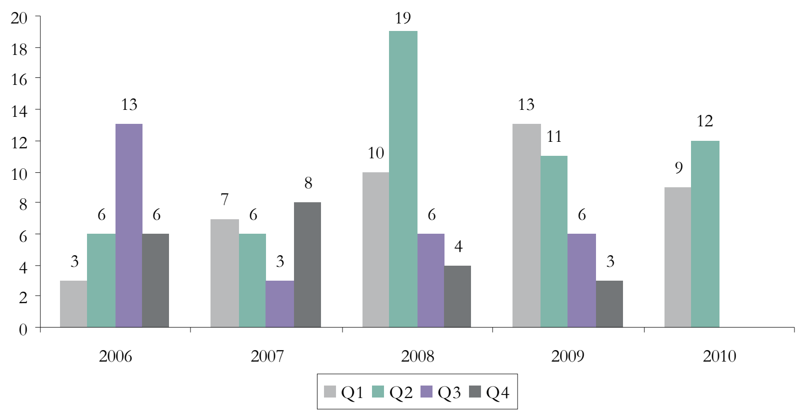


Fig 2: Deal numbers 2006 – Q2 2010

Quarter highlights:

- The major deal of the quarter was the acquisition by Biffa of Greenstar. The £135m transaction will cement Biffa's position as a leading integrated collection, recycling, resource recovery and energy-from-waste provider in the UK
- Mark Keough, CEO of Biffa, commented in the firm's press release that the acquisition "significantly accelerates Biffa's strategic plans to transition to a recycling and energy-from-waste focused integrated waste management company."

M&A update

Sector trends

- Fig.3 illustrates the concentration of deal volumes in the recycling and hazardous waste sectors, with the fragmented market in this subsector and the regulatory environment still providing a significant number of opportunities
- As Fig.4 illustrates, at the same point in 2009, the deal volumes were spread across a variety of sectors, whereas 2010 shows a move away from waste to energy, medical waste and landfill deals. Medical waste and landfill in particular have developed into mature markets, with limited growth opportunities, which may be driving this decline in volumes. In addition, reduced deal volumes in waste to energy could be linked to uncertainities relating to the regulatory environment in relation to grandfathering rights
- As outlined above, Fig.5 below indicates that deal values have experienced a recovery following the lower levels in 2009
- 2009 saw a significant proportion of deals in the sub-£10m category, mostly driven by acquisitions of distressed businesses out of administration
- 2010 has seen a return to deals involving quality businesses, and to higher deal values, with individual deals taking place in both Q1 and Q2 at values in excess of £60m

Fig 3: No. of deals by sub-sector - Q1 & Q2 2010

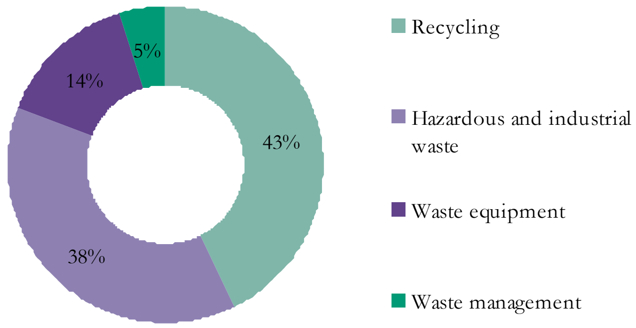


Fig.4: No. of deals by sub-sector Q1 & Q2 2009

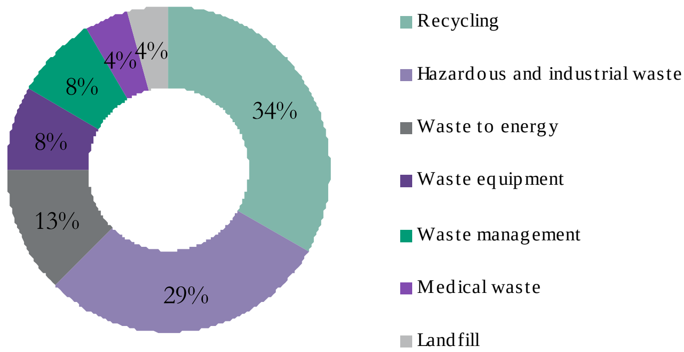
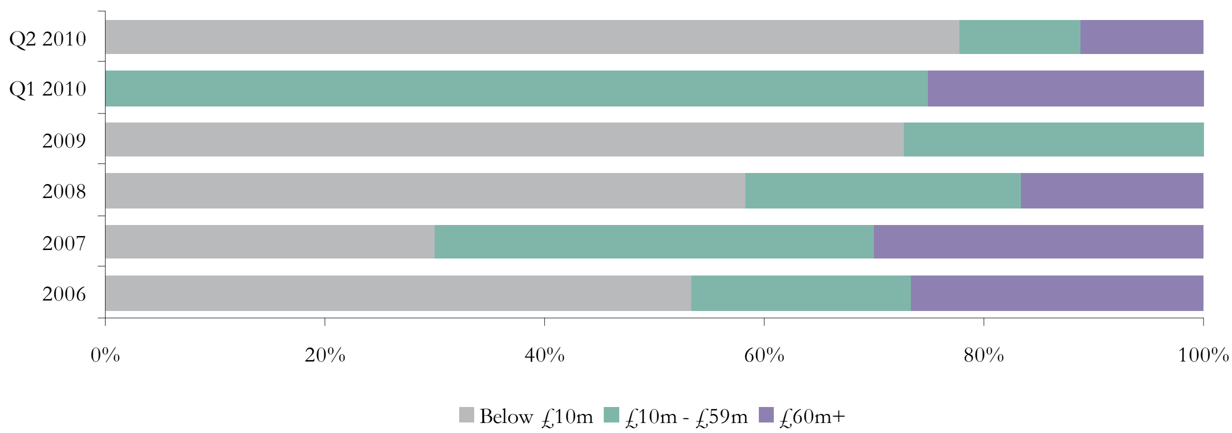


Fig 5: Deal values 2006 – YTD 2010



Is the future non-toxic for the hazardous waste sector?

Mark Olpin, UK manager of Tradebe, writes about his experiences with the business and the outlook for the hazardous waste sector.

Tradebe is a privately owned Spanish based environmental services group specialising in the recycling and treatment of hazardous waste with worldwide turnover of €220m and approximately 1,000 employees. Market leader in Spain Tradebe has continued its growth through internationalisation into the US and UK markets via acquisition and organic means.

Tradebe's UK journey began back in February 2003 with the acquisition of Willacy Oil Services, a specialist company involved in the recovery of oil and tank cleaning services for refineries around the world. Subsequent acquisitions in October 2007 (United Utilities Hazardous Waste Division), February 2008 (Ex Safety Kleen Solvent Blending Site) and July 2009 (Pyros Hazardous Waste Incinerator) has seen rapid growth for Tradebe here in the UK. The combination of these sites and the technologies available now means that Tradebe can offer a UK wide service to its customers, encompassing the total range of hazardous wastes from small packages to bulk volumes, acids to alkalis, organic and inorganic and even low level radio-actives.

Tradebe has continued to invest in a number of new technologies for the UK market such as thermal desorption and has further plans to develop a waste-to-energy facility for hazardous waste. 2010 revenues in the UK are expected to exceed £38m from, treating, recovering, recycling or disposing of over 270,000 tonnes of liquid waste and over 250,000 drums. Tradebe employs more than 200 people over its 8 UK sites.

On the other side of the Atlantic Tradebe is also developing its operations with the acquisition of an Oil Services business in New Orleans in 2007 and a hazardous waste treatment company in Chicago in 2008, to complement the existing operations in New Jersey and Houston. The US operations now employ over 400 staff with annual sales of $75m.

The businesses acquired by Tradebe in the UK have been very different coming from a large public utility, family ownership and private equity sources; therefore there has been significant effort in integrating these organisations on operational, financial and cultural levels. This rapid growth has also meant we are seen as a relatively new entrant in the market and therefore more work needs to be done on raising the profile of the company and our brand awareness. We are well known by our competitors, less so by our customers!

In many cases the hazardous waste market is a barometer for the economy as a whole and Tradebe has not been immune to the difficult climate in recent years. However the introduction of the new technologies and improved processes that attract new waste streams and the synergies and internalisation from the acquired businesses has meant that Tradebe has still been able to grow year on year both in terms of sales and earnings. In fact over the last few months many of the sites have reported record trading months as the economy seems at last to be staggering into a recovery.

Tradebe remain confident with the outlook and see a number of opportunities within the UK. Our much larger waste management colleagues seem to be concentrating and investing more on the "big ticket" P.F.I. projects and the commercial and industrial markets, making the smaller hazardous waste sector much more of a niche offering for organisations such as Tradebe to capitalise on. And whilst the larger operator casts his eye elsewhere, there remain a number of smaller companies within the hazardous waste sector providing opportunities for further consolidation. Additionally, the ever changing regulatory framework creates opportunities as the new legislation raises the bar on environmental compliance, best available techniques and diversion from landfill, which is an ideal scenario for a technology led group such as Tradebe.

So times so far have been good, and hopefully can only get better.

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