

Transactions
Business Services Sector

M&A Insights

Analysis & opinions on UK M&A activity

2008



Welcome



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Welcome to this edition of **Business Services Insights**, a review of M&A activity and key trends within the Business Services sector by PricewaterhouseCoopers. The report highlights some of the deals and developments that occurred in 2007 and the first half of 2008.

Business Services is a dynamic and buoyant industry sector. It is the largest constituent of the FTSE main market (excluding investment companies) with 78 companies and comprises 12% of the listed population. On the AIM market, Business Services has 88 companies represented and comprises 14% of the population making it one of the largest sectors alongside mining, oil & gas and financial companies.

Although there are areas of overlap, we define Business Services as broadly comprising five key sub-sectors: Transport, Distribution and Logistics (TDL); Facilities Management and Services (FM); Professional Advisory (PA); Human Capital Management (HCM); and Business Process Outsourcing (BPO).

For the first half of 2008, PwC Corporate Finance is ranked number one by volume in the mergermarket Deal Drivers rankings, completing 20 deals.

Over the last five years PwC Corporate Finance has advised on more than 100 Business Services deals with a combined value in excess of £7bn. Recent deals include the £1.7bn take

private of Biffa Waste; the £113m sale of Alpha Plus Schools Group; the acquisition of Foster + Partners by 3i; and the merger of Eddie Stobart Group with Westbury Property Fund Ltd. Our Transaction Services practice has provided due-diligence services on over 250 business services deals in the last five years. Recent transactions include the sale of Safety-Kleen to Warburg Pincus, the sale of TMF to Doughty Hanson and the acquisition of Domestic & General by Advent International.

PricewaterhouseCoopers audits 46% of the FTSE Business Services companies, the highest coverage of any sector.

Business Services is a key sector for PricewaterhouseCoopers and we maintain ongoing relationships with the key participants in this sector. We hope that this publication will help to facilitate this and we welcome your thoughts and comments. If you would like any further information or would like to discuss any of the issues raised, please do not hesitate to contact us.

Executive Summary

While times are clearly more challenging, Business Services remains a sector conducive to M&A activity.

Deal volume for the 12 months to June 2008 was higher than the prior year, albeit with a significant fall in the combined deal value as the lack of credit availability thwarted both strategic and financial investors at the larger end of the deal market.

Although commentators often group Business Services companies together, the sector is a broad church, with different business models and dynamics. Our segmentation seeks to address this diversity and highlight the trends and drivers which are specific to each sub-sector.

Transport, Distribution and Logistics (TDL)

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Activity is being driven by trade consolidators responding to customers' demands for greater scale and scope of activities, together with financial investors seeking predictable returns from strategic assets with infrastructure characteristics.

Facilities Management and Services (FM)

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The sector is significantly influenced by the continued focus on outsourcing in the public and private sector and growing PFI activity. It is regarded by investors as a relatively safe haven, with participants providing what can be considered "essential support services," typically on longer-term contracts or in a manner such that the service provision is deeply embedded within customers' own business activity. There is a trend toward integrated service offerings ("bundled services") from fewer suppliers and this is one of the key drivers of M&A activity.

Professional Advisory (PA)

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Consolidation has been driven by the rapid international expansion of PA firms as they seek to fill gaps in their expertise, skill-sets and geographic coverage. Increased regulation at both the UK and international level has also driven growth in the PA sector, as companies increasingly mandate testing, inspection and consulting companies to meet their compliance requirements. Many firms that have their origins as partnerships are now considering external investment and this will generate greater M&A activity.

Human Capital Management (HCM)

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Despite its cyclical nature, there is ongoing consolidation in general and specialist recruitment, both domestic and cross-border, and the recruitment sector has traditionally dominated this segment. In other segments further, new areas of M&A activity are emerging as investors seek defensible opportunities with greater visibility including private schools and regulatory-driven training.

Business Process Outsourcing (BPO)

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M&A activity is being driven by outsourcers seeking to move further up the value chain, providing more knowledge-based, analytical, higher valued-added services, alongside traditional call centre activity. Long-term contracts, high growth and cash generation have attracted the interest of both trade and financial investors. Consequently, prices of assets in the sector are expected to remain robust.

M&A Drivers

Consolidation continues despite the 'credit crunch'

Many Business Services companies operate in niche growth markets, enjoy stable cash flows often underpinned by long-term contracts and serve markets governed by increasing regulation and legislation.

These key characteristics have helped protect much of the sector from the economic downturn in the past year and maintained M&A momentum, even though the difficulties of Rentokil and Johnson Service Group have dominated the headlines.

The 'credit crunch' has made life challenging for acquirers contemplating major strategic moves but with Business Services dominated by medium-sized companies and mid-size transactions in the UK, credit availability has had less impact than in other sectors. Business Services has also remained popular with private equity (PE) investors, many of whom have been executing buy-and-build strategies in the mid-market.

With both strategic and financial investors maintaining their focus on the sector, there has been limited downward pressure on prices of assets, despite the worsening economic environment. As the majority of Business Services companies operate on Business to Business ("B2B") models, the sector has been arguably better protected from the trials facing more consumer or financial services reliant sectors.



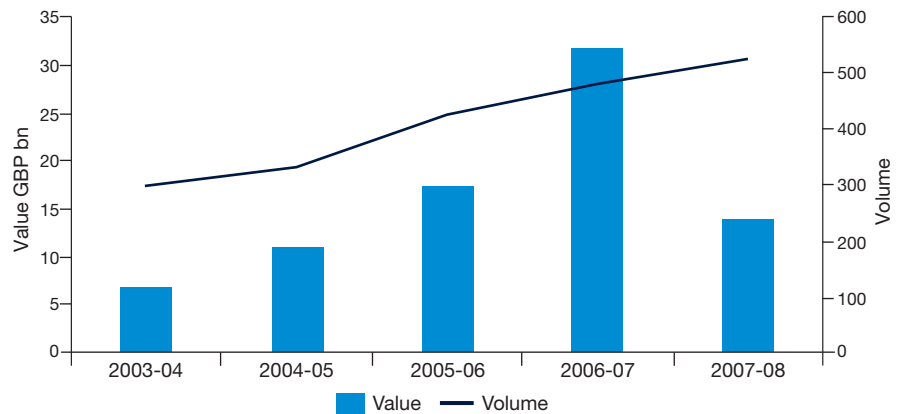
Deal Statistics

M&A volumes hit a five year high

M&A activity in the UK Business Services sector measured by volume held up remarkably well in the 12 months to 30 June 2008, despite the deepening economic gloom and continuing crisis in the credit markets.

Deal volumes in the sector reached a five year high with 522 transactions recorded between 1 July 2007 and 30 June 2008, compared with 480 in 2006/7.

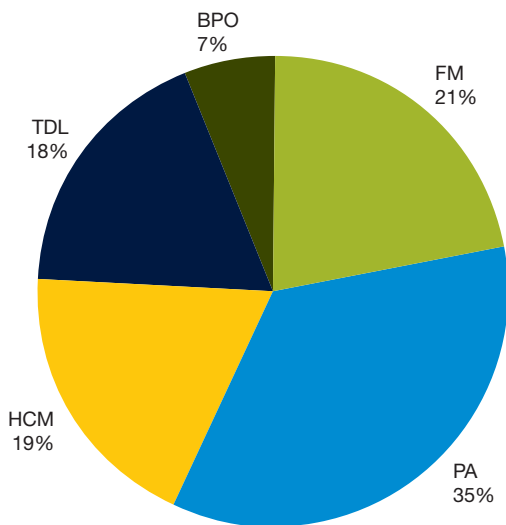
Business Services Value and Volume 2003-2008



Source: Dealogic, mergermarket

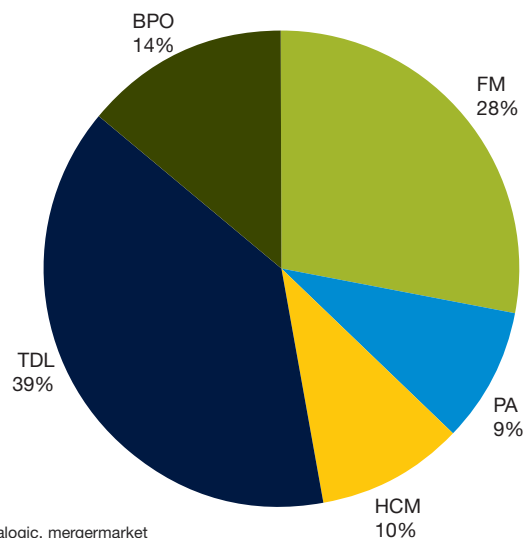
At £13.8 billion, the total value of transactions in 2007/8 was down dramatically on the same period in 2006/7 when deals worth £31.5 billion were recorded but is still a respectable total and outstrips the value of deals recorded in both 2003/4 and 2004/5.

Number of Transactions by Sector 2007-08



Source: Dealogic, mergermarket

Value of Transactions by Sector 2007-08



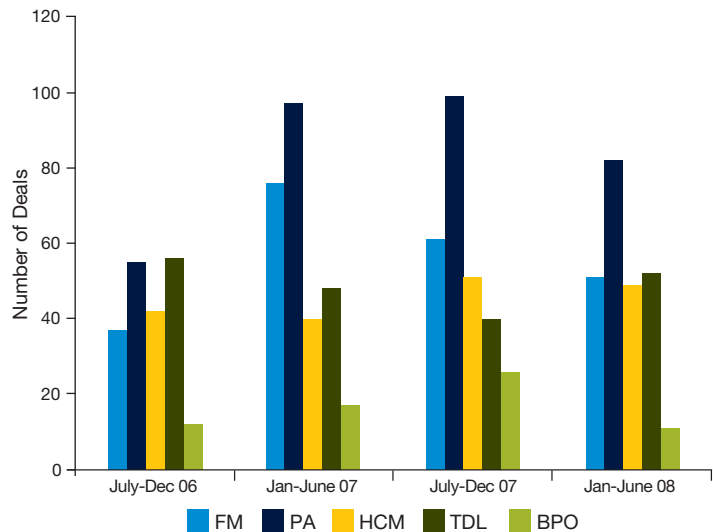
Source: Dealogic, mergermarket

The most active Business Services sub-sector in 2007/8 was PA with 181 deals seen between 1 July 2007 and 30 June 2008, followed by FM with 112. The only sub-sector to record substantially fewer deals in 2007/8 compared with the previous 12 months was TDL with 91 UK transactions completed between 1 July 2007 and 30 June 2008 compared with 104 in 2006/7.

Total deal values were down across all five sub-sectors in the year to 30 June 2008, however, reflecting the impact of debt-raising difficulties for mega-deals and a general reluctance among buyers to commit to major strategic moves. During 2007/8 seven transactions valued at more than £500 million each were recorded in the UK Business Services sector. The largest of these was the £1.7 billion LBO of Biffa. In 2006/7 ten £500 million-plus deals were recorded, led by the £13.7 billion BAA takeover.

Splitting the data into six month blocks reveals that deal flow in the Business Services sector was at its most buoyant in the first half of 2007 with 278 deals totalling £5.1 billion recorded. The next six months were also busy with 275 deals totalling £5.5 billion. There was a slight fall-off in deal volumes between 1 January 2008 and 30 June 2008 to 242 completions, but the total value of these deals bounced back to £8.3 billion.

Sub-sector deal volume by quarter



Source: Dealogic, mergermarket

This deal data paints a robust picture of the Business Services sector in terms of M&A activity. Although there have been some distress sales generally the credit crunch does not appear to have reduced deal volumes. This is due to the large weighting towards mid-market sized companies and hence transactions. With major strategic moves largely on hold, smaller in-fills and bolt-ons will remain the order of the day with the mid-market capturing a large proportion of deal activity.

Looking Ahead

Defaults and distress sales fuel deal flow

There is a downside scenario in which the credit crunch increasingly impacts the real economy with job losses, a falling housing market, and full-blown recession. However, B2B models should be less impacted than those with direct exposure to the consumer.

An increase in corporate defaults is beginning to be seen, with distress sales starting to fuel deal flow. Some business services providers, even those supplying 'essential services', could see their contracts pared back while those dependent on a limited number of customers – and particularly if those customers are struggling – will inevitably see margins squeezed.

However, because many segments of the Business Services sector are relatively immune from consumer spending, trading and valuations should remain broadly robust. Indeed, many potential acquirors report little change in vendor price expectations, making it harder to conclude transactions.

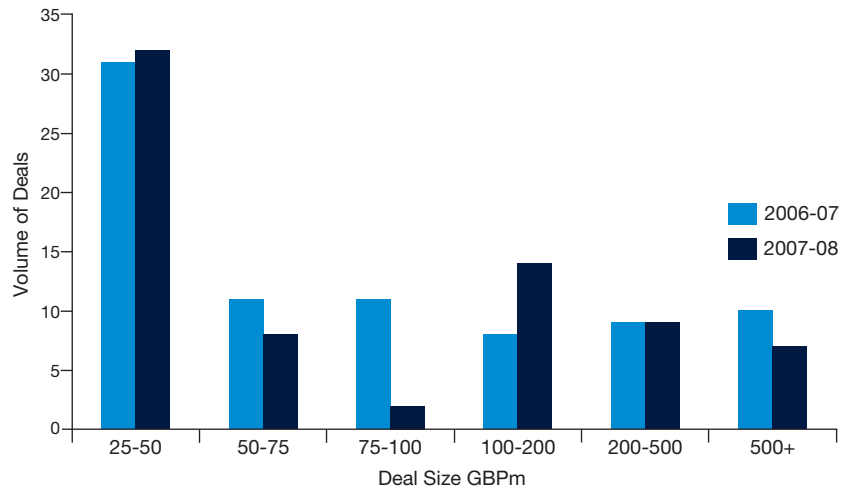
PE capital will continue to target the sector although many fund managers report fewer live deals in the pipeline than 12 months ago and the larger deals will certainly not return for some time.

On the debt-funding front, despite all the doom and gloom, many UK banks remain genuinely receptive to new business although they are highly selective and deals are taking longer to turn around. Further, with the syndication market closed, where the debt requirement exceeds £20-25 million, a 'club' of bankers is required which inevitably impacts deal timetables.



Deal volume analysed by size indicates that Business Services is a predominantly mid-market sector with the majority of deals below £250m. The current difficulties in raising debt finance for deals of £200m+ are likely to persist in the short term.

Volume of Deals Analysed by Size



Source: Dealogic, mergermarket

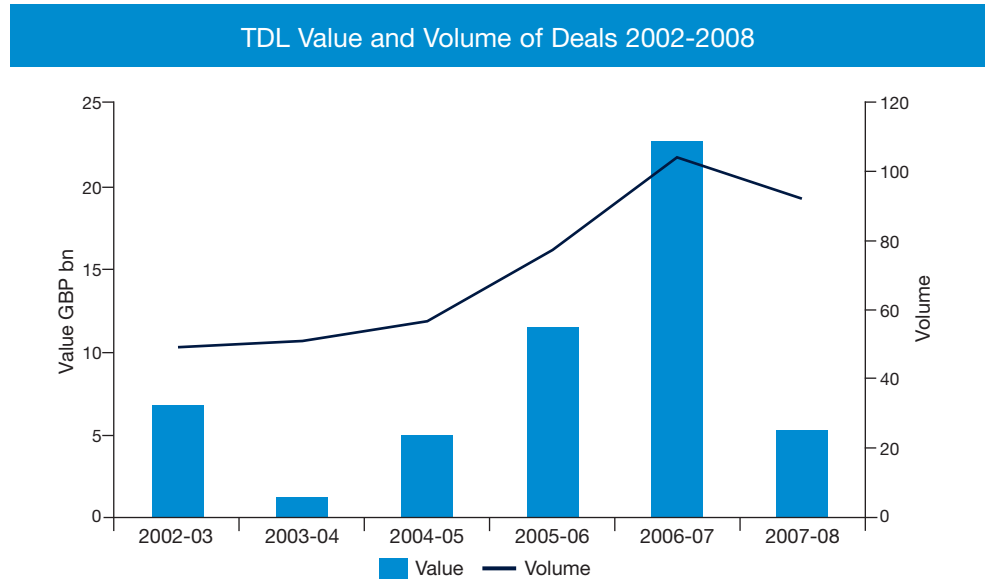


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Transport, Distribution and Logistics

Ongoing appeal to both financial and trade investors

Consolidation is ongoing within the TDL sector driven by customer demands for increasing choice and flexibility in terms of both national and international delivery solutions and the trend towards establishing 'multimodal' transport and logistics services.



In addition, with ongoing pressure from customers seeking greater supply chain efficiencies and economies of scale, TDL providers need to achieve a certain density of operations to improve service and procurement power.

Integrating all modes of industrial logistics

TDL Top 10 Deals – Announced Deals 1 July 2007 – 30 June 2008			
Date	Value (£m)	Target	Acquiror
10-Sep-07	1,400	Brake Bros Ltd	Bain Capital Partners LLC
30-Apr-08	565	Safety-Kleen Europe Ltd	Warburg Pincus LLC
11-Aug-08	515	Global Ship Lease Inc (66%)*	Marathon Acquisition Corp
19-Sep-07	420	Birmingham Airport Holdings Ltd (48.25%)*	Airport Group Investments Ltd
13-Jun-08	350	Freightliner Group Ltd	Arcapita Bank BSCc
14-Dec-07	294	Christian Salvesen plc	Groupe Norbert Dentressangle SA
13-Nov-07	280	English Welsh & Scottish Railway Ltd	Deutsche Bahn AG
11-Jan-08	200	Forth Ports plc (19.6%)*	Babcock & Brown Ltd
13-Jun-07	180	TDG plc (78%) (Bid No 1)	Laxey Partners Ltd
15-Aug-07	138	Eddie Stobart Group Ltd	Westbury Property Fund

Note: Values shown are enterprise value unless asterisked. Asterisk indicates equity value. Includes announced deals only and where the target is a UK company. Source: Dealogic, mergermarket.

Consolidation facilitated by PE houses remains a feature as evidenced by Bain Capital's £1.4 billion secondary buyout of Brake Brothers, one of Europe's biggest food services companies, from fellow US PE firm Clayton Dubilier & Rice last year followed by the recent acquisition of Woodward Foodservice to this platform.

Infrastructure Funds and Equity Funds originating from the Middle East continue to target opportunities in TDL. Freightliner Group was acquired for £350 million this year by Arcapita, an international investment firm based in Bahrain, from 3i and Electra Private Equity. During 3i and Electra's ownership, Freightliner expanded its activities to include bulk freight. Airport Group Investments (a pension-fund backed consortium) acquired a minority stake in Birmingham International Airport for £420 million.

Another major TDL deal was the £565 million tertiary buyout of Safety-Kleen Europe, the parts cleaning and waste recycling group, from CCMP Capital (formerly JP Morgan Partners) by Warburg Pincus. This followed a competitive auction between at least five PE buyers attracted by Safety-Kleen's high margin, niche business which enjoys a strong position in its core markets.

DCC and Wincanton are also active in the waste logistics area as are large port operators such as Forth Ports in which Babcock & Brown, the Australian Banking Group, recently invested £200 million for a minority interest. Forth Ports has itself recently acquired the Nordic Group which comprises a port terminal operation, paper recycling business and data management and storage business for £46 million.

The £294 million public takeover of Christian Salvesen at the end of last year by the French operator Groupe Norbert Dentressangle was driven by a desire for geographic density, synergy and access to customer relationships. Groupe Norbert Dentressangle is a leading transportation and logistics services company in continental Europe.

Also in the UK public market, this year saw the £180 million takeover of TDG which runs supermarket group J. Sainsbury's supply chain – by the 'active shareholders' Laxey Partners. Laxey was keen to gain control of TDG's real-estate assets, for which there were several rival bidders including Wincanton (which transports goods for Tesco).

A notable deal in terms of pan-European expansion last year was the £280 million takeover of English Welsh & Scottish Railway (EWS) by Germany's state-owned railway company Deutsche Bahn. The deal has also given the German group control of EWS's French business, Euro Cargo Rail, and came at a time when Deutsche Bahn was also buying a Spanish business, and will allow a European-wide rail logistics business to be created.

The need for size and the integration of all modes of industrial logistics was behind the recent £138 million reverse takeover of Westbury Property Fund by the road haulage group Eddie Stobart. The business – now known as Stobart Group – has not only achieved a listing on the London Stock Exchange but, in creating a property-backed group which includes transport infrastructure assets, will link road transport with rail, ports and waterways and, in time, air freight.

Stobart has since acquired the chilled and ambient goods operations of Innovate Logistics from its administrators to further enhance its specialist fleet capabilities. It is now looking to invest further in rail and airport infrastructure.

A highly acquisitive consolidator in the specialist distribution sector is Bunzl which recently bought the vending business Coffee Point Group. Although this is a niche business, it is synergistic and taps into Bunzl's existing specialist distribution and logistics infrastructure and has confirmed Bunzl as the largest operator in the UK vending market. Acquisitions are a key component of Bunzl's strategy and the group typically completes >10 bolt-ons a year across the globe.

TDL outlook – challenge and opportunity

These are challenging times in the TDL sector, particularly for haulage and express parcel operators. Already operating on thin margins and with rising fuel costs and lower demand in the economy there will be a shakeout in the sector, with distress sales and some exits from the sector altogether.

Conversely, a growth area within the TDL sector is waste logistics with customised solutions required for recycling plastic, glass and paper, in both the commercial and municipal sectors. Final mile logistics is another interesting area. It requires innovation and investment on the back of the growth in internet-based home shopping. Parcelnet, the UK's largest courier delivery network and a leading provider of home shopping fulfilment services, recently acquired the courier business of TNT Post to add to its acquisition of the Redcats courier business in 2007. "The Times" newsgroup now offers a before 7am home delivery within the M25 area.

Facilities Management and Services

Relatively recession-proof

In any economic climate buildings must still be maintained and the raft of FM-related regulation and legislation – regarding health and safety etc – complied with.

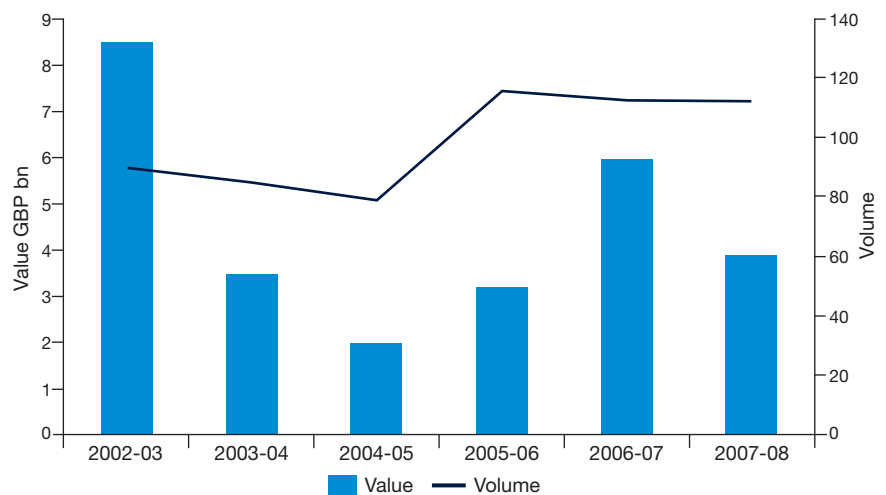
FM companies, and particularly those focussed on infrastructure and government-backed or publicly-funded schemes, are relatively recession-proof.

With the economic downturn forcing companies to re-examine their cost bases, many are being encouraged to aggregate several FM services through one supplier and graduate from single-service to multi-service contracts. Nevertheless, FM providers are dependent on the financial strength of their clients and, with strong margin pressure, the dynamics of the sector can be difficult, particularly within property-management. FM businesses in cyclical sectors impacted by capex, such as new-build and retail fit-outs, are most vulnerable.

In recent years, one of the most significant influencers on the industry has been the focus on outsourcing in the public sector. Growing PFI activity, modernisation of the NHS, improved buildings and equipment for schools and significant investment in transport infrastructure have proved a valuable source of long term, contractually underpinned revenues for a range of facilities management operators.

On the M&A front, the 'blue collar' FM sector is already quite heavily consolidated with major companies such as ISS, Mitie Group and Rentokil having built-up, through acquisition, a comprehensive range of services and geographic coverage. Although Rentokil has experienced trading difficulties, Mitie Group is reported to have set aside up to £300 million for acquisitions. It has its sights on targets in social housing, catering and niche environmental projects.

FM Value and Volume of Deals 2002-2008



Source: Dealogic, mergermarket

In the 'white collar' section of the FM market there is a trend among low margin building and construction companies to stake a claim on the top end of the value chain and boost their profitability by not only designing and building facilities but also operating them post-completion.

Demonstrating the 'design-build-operate' trend

FM Top 10 Deals – Announced Deals 1 July 2007 – 30 June 2008			
Date	Value (£m)	Target	Acquiror
07-Apr-08	1,700	Biffa plc	Montagu Private Equity Ltd; Global Infrastructure Partners
12-Feb-08	572	Alfred McAlpine plc*	Carillion plc
18-Dec-07	355	Global Solutions Ltd	G4S plc
17-Jan-08	178	Inspace plc*	Willmott Dixon Ltd
23-Jul-07	154	Alpha Airports Group plc (70.1%)*	Autogrill SpA
05-Mar-08	135	Morrison Utility Services Ltd	Cognetas LLP; Englefield Capital LLP
05-Dec-07	81	Grosvenor Waste Management Ltd	Pennon Group plc
10-Jan-08	49	Orbis Property Protection Ltd	Insite Service Management Ltd
07-May-08	43	ArmorGroup International plc*	G4S plc
04-Dec-07	40	Fishers Services Ltd	Bank of Scotland plc (MBO)

Note: Values shown are enterprise value unless asterisked. Asterisk indicates equity value.

Includes announced deals only and where the target is a UK company.

Source: Dealogic, mergermarket.

The UK construction company Carillion neatly illustrated the 'design-build-operate' trend with its £572 million takeover of UK rival Alfred McAlpine in early 2008. The deal has created one of the UK's largest support services and construction firms. Similarly, the private UK construction company Willmott Dixon last year acquired Inspace, the UK provider of property support services, for £178 million; while Balfour Beatty, the engineering, construction and services company, bought Covion, the integrated facilities infrastructure services business, for £33 million.

Demonstrating the movement towards 'bundled' FM services, Carillion recently divested Pall Mall Holdings and Sovereign Soft Services to Resource Services Group for £22 million. Acquired with Mowlem in 2006 and as single commodity service providers in cleaning and security, respectively; Pall Mall and Sovereign were peripheral to Carillion's new strategic focus on integrated service solutions for long-term customers.

The biggest deal in the FM sector in 2007/8 was the £1.7 billion take private of Biffa, one of the UK's leading integrated waste management businesses, by a Consortium comprising Montagu Private Equity, Global Infrastructure Partners and HBOS. Biffa is an attractive target due to its market leading, cash generative qualities and the fact that it operates on long-term contracts in a market in which there is rising and sustainable demand as the UK attempts to meet EU landfill targets. The transaction demonstrates that Waste Management continues to be a highly attractive sector with high levels of interest from both financial and strategic investors.

Also in the Waste Management sector, last year saw the £81 million takeover of Grosvenor Waste Management by Viridor, the waste management arm of the Pennon Group, which also recently paid £23 million for the electrical and electronic equipment recycling company Shore Recycling.

Alongside Biffa, which was originally spun-off by Severn Trent in 2006, another recent water company divestment was the sale of Morrison Utility Services, a provider of outsourced infrastructure services to utility companies, by Anglian Water Group (AWG) in a £135 million buyout by Cognetas and Englefield Capital.

Having been acquired in 2006 by the Osprey consortium (a group of infrastructure investors), no longer listed and governed by a long-term income model, AWG has been looking to sell off its non-regulated activities, which are now regarded as non-core, to maximise value.

On the PE exit side, Cognetas and Englefield Capital recently divested the public sector support services company Global Solutions (GSL) to the Danish security group G4S for £355 million. GSL has returned to its original ownership having been part of G4S – then Group 4 Falk – before it was backed by Cognetas and Englefield in a £200 million buyout in 2004.

Another deal with a Danish dimension was Cinven's £375 million secondary buyout of the Scandinavian FM business Coor Service Management from 3i last year. Coor has offices in Sweden, Finland, Norway and Denmark and is the biggest FM business in the Nordic region and is widely seen as one of the most successful providers of the 'Total Facilities Management' solution.

PE investors generally regard the FM sector as a relatively safe haven. Its participants provide what can be considered 'essential services' on long-term contracts which underpin future revenue and profit streams. Value can also come from operational improvements and underlying market growth.

Despite the credit squeeze banks are continuing to look favourably on the stable cash flows and annuity-like revenues FM can generate from large, installed customer bases. However, it has not all been plain sailing with ISS forced to delay an IPO planned for last November by its PE backers, EQT Partners and Goldman Sachs Capital Partners, due to adverse market conditions.

FM outlook – careful management required

The FM industry is already price competitive and, with a squeeze on budgets, clients are increasingly demanding more services for less money. Those FM companies which are tightly-run and carefully managed will continue to do well although many will maintain margins only by adjusting work specifications. Some firms will begin pitching for contracts more aggressively although this could drive down margins further in what is already a competitive industry.

The larger FM players are likely to continue to add new services as they attempt to offer an integrated "one-stop-shop" service to their clients especially in the public sector. This should lead to a number of bolt-on transactions in the sub £500 million M&A market.

Dynamics in the FM space vary between sub-sectors with cleaning and catering the most mature and consolidated. Other sub-sectors are far more fragmented with strong growth potential. The mechanical and electrical subcontractors should continue to provide a consolidation story for strategic buyers wishing to consolidate or expand their service offering and we anticipate continued interest from private equity.

Keeping a lid on wage inflation will be crucial in the FM arena. This will be helped by workers becoming available through EU enlargement and the shedding of labour by beleaguered UK house builders.

M&A 'hot spots' within the FM sector include companies active in local authority-commissioned social housing maintenance. This is being fuelled by the Decent Homes Initiative, announced in 2000, to bring all public sector homes up to a respectable standard by 2010. A shortage of new housing is also driving refurbishment programmes and operators in this market have been highly sought after.

We also anticipate continued activity in the Waste Management sector from both financial and strategic buyers. Specific M&A "hot spots" are likely to include infrastructure type assets, particularly large PFIs, Energy from Waste (EfW) plants and recycling facilities. There remain a wide population of overseas buyers who are still keen to enter this attractive market.

With sustainability high on many corporate agendas, FM companies with a sufficiently sophisticated green agenda are increasingly sought after. The challenge of reducing a company's carbon footprint will often fall onto the facilities manager's desk. A business which can provide clients with a 'total energy solution' and offer propositions to make a visible reduction in overall energy spend and promote a company's 'green profile' rather than just a service to change the light bulbs, for example, will go far. FM's 'green credentials' are also fast becoming an important marketing tool and are now integral to the tender process.



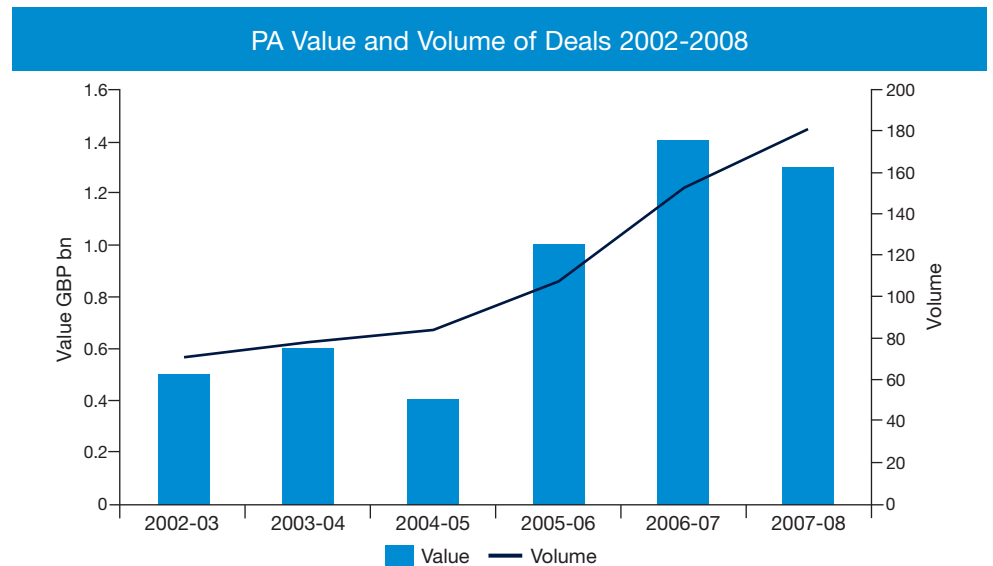
Professional Advisory

Serving a global client base

The most active areas for M&A within the PA sector are environmental consulting, testing and inspection, and architectural and consulting engineering firms.

Within the PA sector, companies in both the environmental consulting and testing and inspection fields have seen their growth and expansion prospects boosted by the raft of rules and regulations emerging at both the UK and EU level. Companies struggling to keep abreast of the latest edicts in terms of health and safety issues or potential environmental liabilities, for example, are increasingly hiring specialists to deal with the complexities and to add value.

Since compliance is mandatory and generally represents a small cost relative to the financial and reputational risk a company would suffer if something were to go wrong, this segment of the PA industry is reasonably well insulated from the economic downturn.



Source: Dealogic, mergermarket

Leading UK architectural and engineering practices – many of which enjoy world class reputations – are looking to offer a full-range of services and develop international representation to meet the needs of an increasingly global client base. This is a prime M&A driver as firms seek bolt-on acquisitions to fill gaps in their expertise, skills-sets and geographic coverage.

Private equity and infrastructure funds have dominated the PA segment

PA Top 10 Deals – Announced Deals 1 July 2007 – 30 June 2008			
Date	Value (£m)	Target	Acquiror
04-Feb-08	229	Inspicio plc*	3i Group plc (P2P)
18-Jan-08	75	British Nuclear Group Project Services Ltd	VT Group plc
11-Dec-07	68	BBI Holdings plc (87.9%)*	Inverness Medical Innovations Inc
21-Apr-08	65	Weir Strachan & Henshaw	Babcock International Group plc
04-Oct-07	64	Cozart plc*	Concateno plc
31-Oct-07	55	Beck & Pollitzer Engineering Ltd	Hermes Private Equity Ltd (IBO)
06-Mar-08	50	Hedra Ltd	Mouchel plc
10-Jul-07	49	Donaldsons	DTZ Holdings plc
17-Sep-07	48	Tilt Estate Co Ltd	Grainger plc
22-Jan-08	40	INS Innovation Ltd	Babcock International Group plc

Note: Values shown are enterprise value unless asterisked. Asterisk indicates equity value.
Includes announced deals only and where the target is a UK company.
Source: Dealogic, mergermarket.

The largest deal in the PA sector during 2007/8 was 3i's £229 million P2P of Inspicio, the UK testing, inspection and performance conformity business. 3i looks set to support Inspicio's acquisitive strategy and continue building its international presence in its core markets. Environmental consulting and testing and inspection companies have been magnets for PE investment and activity in recent years, with strong underlying growth and some profitable exits.

Earlier this year 3i also acquired a stake in the international environmental consultancy SLR, replacing ISIS Equity Partners as minority shareholder. SLR, which has offices in the UK, US and Canada, has particular strengths in the oil and renewable power sectors, the private sector waste management industry, and the planning and development sector.

There has been a steady increase in the pricing metrics in this segment of the PA sector during 2007/8 with double-digit EBITDA multiples seen for both environmental and testing and inspection firms and strong consolidation underway in both areas.

The deal environment is more difficult for architecture and consultant engineering firms, due to their exposure to the property industry. However, it is important to remember that these companies are now often well diversified by sector, working across transportation, energy and other areas showing strong demand.

Transactions in the engineering consultancy space continue to take place, for example Babcock International's £65 million acquisition of Weir Strachan & Henshaw, a leading engineering designer and project manager for the defence and nuclear industries, from Weir Group earlier this year.

Depressed stock market values could give rise to some public takeover activity and the engineering consultancy White Young Green recently announced it had received an approach.

Many legacy partnerships are also currently reviewing their ownership structures to establish the right platforms for the future. Coupled with the rise of large, global projects, many firms have either considered or brought in PE capital to fund their next phase of development.

A landmark transaction was 3i's acquisition of a minority interest in Foster + Partners, one of the world's most recognised names in architecture and design, to fund the practice's growth and continue its world-wide expansion. The plan has broadened the firm's ownership base, created a more flexible and enduring structure, and provided funds for future overseas expansion and the diversification of its skills base.

PA outlook – large scale consolidation overdue

Confidence in the PA sector is generally good. However, because PA businesses are often people and project-based and not contractually underpinned, deals tend not to be over-gearred with the banks continuing to support the sector with modest levels of debt.

Large scale consolidation is still overdue, particularly in the consultant engineering field with a strong strategic rationale for more combinations. But although mergers and takeovers are being talked about, the uncertain economic outlook has made prospective acquirers wary.

A 'hot spot' within the PA sector is the legal services sector, which following the Legal Services Act obtaining Royal Assent in 2007 is expected to experience significant consolidation. The Act has raised the profile of the legal services industry to new investors such as private equity who were previously restricted from investing due to regulation.

The oil & gas and emerging renewable energy sectors are both booming and will support increasing levels of environmental consulting, inspection and testing, architectural and consulting engineering work. This is likely to remain a high growth area for the foreseeable future.

Human Capital Management

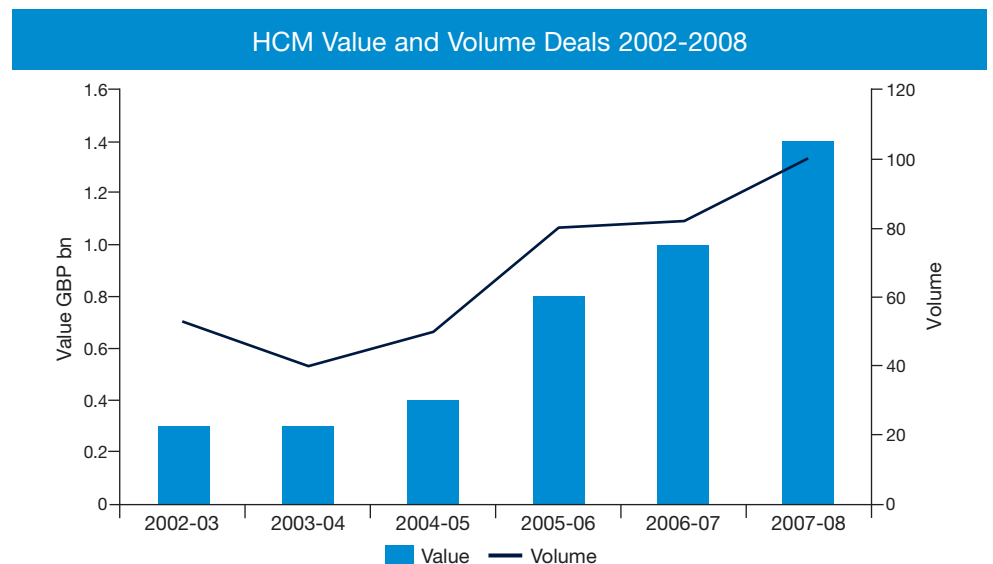
Niche areas evolving

The key areas for M&A within the HCM sector are specialist recruitment, training, and the acquisition of independent schools.

The recruitment sector has traditionally been dominated by firms exploiting relationships in vertical markets. However, this model can have low barriers to entry and can leave firms exposed to adverse market or government policy change. Healthcare recruitment firms, for example, have been affected by the government's decision to control NHS spending on temporary staffing, through introducing Framework agreements and a central NHS Professionals staffing bank. This led to a number of specialist healthcare recruiters experiencing significant volume and margin reductions.

A newer business model styled as 'recruitment process outsourcing' (RPO) has emerged over the last few years. This sees firms contracted to handle all of a client company's recruitment needs, from initial hiring stage through on-boarding, talent management and even outplacement.

RPO is perceived as having 'professionalised' the recruitment industry and allows firms to add greater value, establish a broader spread of services and forge closer ties to clients. It also brings in elements wider than pure-play recruitment – such as relocation services, and although RPO might generate lower margins it produces recurring revenues and future earnings visibility.



Source: Dealogic, mergermarket

Vocational training is an active area for M&A although hitting the acquisition trail is not always a guarantee of success as was demonstrated by Carter & Carter, the learning solutions provider, which went into administration earlier this year. Aiming to be 'number one' in the vocational learning market, the group had executed an aggressive buy-and-build strategy.

Meanwhile, the UK's private education sector – hitherto dominated by charitable trusts and family-owned independent schools – is currently being transformed by an influx of capital from both trade and financial investors.

Education leads the way

HCM Top 10 Deals – Announced Deals 1 July 2007 – 30 June 2008

Date	Value (£m)	Target	Acquiror
18-Aug-08	186	Nord Anglia Education plc*	Baring Asia Private Equity Fund
18-Dec-07	113	Alpha Plus Group Ltd	Delancey Real Estate Asset Management Ltd
06-Dec-07	100	Alexander Mann Solutions Ltd	Graphite Capital Management Ltd (SBO)
21-Feb-08	100	Capital Consulting Ltd	Alexander Mann Solutions Ltd
27-Sep-07	47	Protocol Skills Ltd	Close Brothers Private Equity Ltd
29-May-08	44	Imprint plc*	Premier Group Ltd
14-Apr-08	37	World Class Learning Schools & Systems Group Ltd	Sovereign Capital Partners LLP
04-Oct-07	35	Construction Learning World Ltd	Melorio plc
25-Sep-07	34	Quantica plc*	Berkeley Scott Group plc
29-Nov-07	33	Complete Care Holdings Ltd	Claimar Care Group plc

Note: Values shown are enterprise value unless asterisked. Asterisk indicates equity value.
Includes announced deals only and where the target is a UK company.
Source: Dealogic, mergermarket.

Education accounted for the two largest deals within the HCM segment during 2007/8 with the acquisitions of the private schools groups Alpha Plus and more recently Nord Anglia Education.

Alpha Plus is the second largest private school owner in the UK, behind Englefield Capital-owned Cognita. It was bought by the property fund manager Delancey Real Estate Asset Management from Sovereign Capital. Alpha Plus owns 17 schools, more than half of which are freehold, giving Delancey a real estate-backed operating business with an attractive cash flow model (similar to a private hospital group).

This deal was followed in August this year by the £186 million takeover of Nord Anglia Education, the education and training provider, by the Baring Asia Private Equity Fund. The company offers a UK-style education in international schools across Central Europe and the Far East.

In the recruitment sector the RPO model outlined earlier has been exploited particularly successfully by Alexander Mann Solutions (AMS). It was backed by Graphite Capital in a £100 million secondary buyout from Advent International at the end of 2007.

AMS has continued to build on its global platform, rolling-out its business model to new sectors and geographical areas. Shortly after the buyout it acquired fellow RPO provider Capital Consulting in a deal designed to give the group market leadership on a global basis as well as the scale to further its strategic services capabilities.

HCM is a key investment area for Graphite which also owns NES (the technical recruitment business serving the oil and gas, power and infrastructure sectors); the recruitment communications business, TMP Worldwide; and Aktrion, the managed outsourced staffing services group.

Although recruitment firms operating under the traditional model still tend to concentrate on specific sectors, many are also seeking to expand these geographically, both organically in terms of exporting their HCM service and brand and through bolt-on acquisitions. International coverage helps companies – such as Hays and Michael Page International – to diversify risk as well as respond to client demands.

A significant transaction among companies using the traditional recruitment model was the £44 million takeover of the UK recruitment company Imprint by Premier Group following a tussle with OPD and Hydrogen.

PE firms generally have been looking hard at the recruitment sector, trying to find ways of generating greater value albeit cautious about the sector's cyclical characteristics. Even though employers will often switch to temporary rather than permanent staff when times get tough, recruitment tends to be the preserve of certain PE houses such as Graphite, Gresham and Baird, who all have had sector experience.

Another big issue for PE is leverage. Banks have a wariness about extending cash flow lending on recruitment businesses and tend to prefer receivables financing – factoring and invoice discounting. However this constraint can often prevent the PE community from raising the level of debt finance needed to be competitive and achieve their target returns.

HCM outlook – riding out troubled times

HCM is cyclical industry and the recruitment industry is currently being hit by a widespread drop in recruitment activity. The most enduring models are fairly fleet of foot, can keep their overheads low, and are able to ride out difficult times. In addition, recruitment firms are generally funded via invoice discounting which rises and falls with levels of business. Therefore high leverage is seldom a feature of the HCM market and the credit crunch has had less impact than in other areas.

With rising energy prices fuelling multi-billion pound investment in recent months, the major players in the global oil and gas industry also continue to be big HCM spenders. There is a particular call for the RPO model in this global technical recruitment sector given the need for employers to look after newly-recruited contract and permanent staff, particularly those relocating overseas. In the energy sector the demand is for a complete 'one stop shop' RPO service ranging from personnel selection to complete mobilisation to many destinations.

Another 'hot spot' is in the training sector fuelled by the Government's focus on vocational training in areas such as 'welfare to work', 'work based learning' and 'train to gain'. It is providing profitable opportunities for the private sector and is currently a growth area for companies such as Protocol; A4e, Employability and Skills Group, and VT Group.

We believe further consolidation is likely to occur and the most successful training businesses in the long-term will be those operating in the most regulated areas of the market, such as health and safety or financial services, where training is mandatory or where training is fundamental to Government Policy.

Business Process Outsourcing

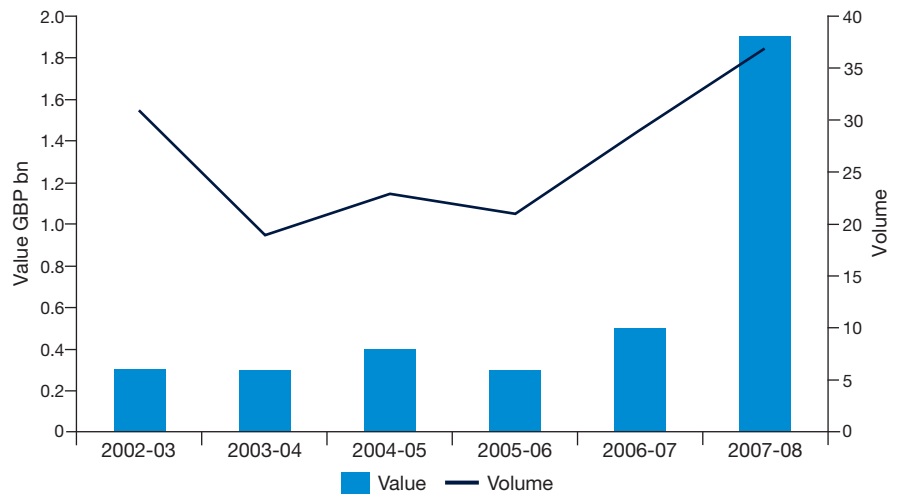
Seeking higher value-added services

Outsourcing is routinely sold on the basis of its potential to achieve substantial, long-term cost reductions and performance improvements through optimising business processes, controlling costs more effectively, and helping clients make the most of technological innovations. The scope and complexity of these services continues to increase.

Coupled with the trend for flexible organisational structures, focus on 'core competencies' and the accelerating drive towards outsourcing within both the public and private sectors, has made BPO another relatively healthy Business Services area to operate in.

Traditionally outsourcing has revolved around the supply of manpower. Now, however, and particularly with regard to IT outsourcing, providers are seeking to move further up the value chain, away from the headcount revenue model with its low-end, administrative support functions, towards analytical, higher valued-added services – typically known as Knowledge Process Outsourcing (KPO).

BPO Value and Volume of Deals 2002-2008



Source: Dealogic, mergermarket

Outsourcers are therefore increasingly looking to acquire consultancy-type businesses to gain specific industry sector expertise, technical skill-sets (such as SAP) and customer relationship skills. BPOs are also buying geographic in-fills to provide the global coverage necessary to offer multinational clients a full range of services, often combining on-shore and off-shore delivery channels, and product options.

IT and BPO attracts financial and trade buyers

BPO Top 10 Deals – Announced Deals 1 July 2007 – 30 June 2008			
Date	Value (£m)	Target	Acquiror
05-Mar-08	593	Northgate Information Solutions plc*	Kohlberg Kravis Roberts & Co - KKR
21-Apr-08	222	Civica plc	3i Group plc
08-Feb-08	158	NSB Retail Systems plc*	Epicor Software Corp
19-Dec-07	147	Billing Services Group Ltd (European wireless business)	Syniverse Technologies Inc
12-Oct-07	97	Revenue Assurance Services plc	Spice plc
27-Jun-08	78	IBS OPENSsystems plc*	Capita Group UK
07-Aug-07	46	Hyder Business Services Ltd*	Mouchel Parkman plc
12-Dec-07	40	Dalglan Ltd	Hero Ites
07-Aug-07	40	Telecom Service Centres Ltd	Hero Ites
29-Oct-07	20	KCS Global Holdings Ltd	Sage Group plc

Note: Values shown are enterprise value unless asterisked. Asterisk indicates equity value.

Includes announced deals only and where the target is a UK company.

Source: Dealogic, mergermarket.

The largest BPO deal in 2007/8 came at the end of last year when US buyout firm Kohlberg Kravis Roberts agreed a £593 million takeover of the UK software group Northgate Information Solutions, a market leader in specialist software, outsourcing and IT services.

The deal represented a large premium over Northgate's share price before the bid emerged and highlighted the tough market conditions experienced by companies on the public market. One of Northgate's major competitors, Civica, was duly taken private in April this year backed by 3i in a £222 million deal. The deal is expected to facilitate a buy-and-build strategy in the UK and abroad as the industry continues to consolidate and Civica cross-sells and expands its service offering worldwide.

As these deals demonstrate, PE investors remain interested in the BPO space attracted by the cash flows that large outsourcing contracts generate, as well as the potential for them to act as consolidators in what remains a highly fragmented market.

More generally, BPOs need to be able to provide a comprehensive, geographically-varied range of service options with, for example, low cost call-centre operations based offshore but also have provision for delivering a higher quality on-shore service. This was the strategy behind Hero of India's acquisition of Telecom Service Centres, a leading UK call-centre operator, in a deal worth £40 million, from Lloyds Development Capital.

In August 2008, Infosys acquired UK-based IT services and consulting group Axon in a £407m transaction highlighting the increasing appetite of the Indian BPO players.

Despite concerns about the economic outlook, the value expectation of BPO vendors remains high given the growth in the sector, pricing on recent transactions, as well as the ongoing need of corporates to effectively manage their cost base and non-core operations in increasingly difficult times.

Mega deals such as Hewlett Packard's (HP) acquisition of Electronic Data Systems (EDS) in the US for \$13.9 billion, doubling its services business at a stroke and putting HP in a strong second place in the IT services market behind IBM, are indicative of the tectonic strategic forces at work.

In the mid-market, companies such as 2e2 Group – the PE-backed business which provides 'mission critical' IT services and solutions – has made a series of IT acquisitions as part of a buy-and-build programme.

BPO outlook – powerful strategic drivers at work

Major players in the BPO sector are generally well-funded and there is a notable rise in Indian M&A appetite as evidenced by HCC Technologies acquisition of Liberata Financial Services (deal value undisclosed). US participants have been hit by the falling stock markets although this did not scupper the HP-EDS deal.

There continues to be some powerful strategic drivers at work such as the movement towards providing higher value services, the need for sector expertise and closer customer relationships necessitating improved geographic coverage. These factors will ensure that M&A remains an essential part of the BPO sector.

Customer relationship management is increasingly important, particularly in times of economic uncertainty. This brings with it a heightened need for 'customer care' to generate and preserve 'emotional loyalty' to a company. Providers therefore must be able to offer clients a balanced portfolio of cost choices, particularly in terms of geographic location. A problem, however, is that the availability of relevantly skilled operating personnel has generally not kept pace with the demand for call centre services. The training and retention of good staff is a constant challenge.



Definitions:

Transport, Distribution and Logistics (TDL)

revolves around the efficient movement of goods and services. It includes mail and document handling; parcels; contract logistics; freight transport; wholesaling and merchandising; equipment rental; and fleet-based maintenance services. It also takes in capital intensive 'infrastructure' such as ferries, railways, ports and airports.

Facilities Management and Services (FM)

concerns the provision of services to ensure a safe, clean and secure working environment. FM activities typically include everything from cleaning and washroom services, security, and catering; through to textile and laundry rental, waste management, and pest control. These divide into operational 'blue collar' functions reliant on unskilled and semi-skilled labour, and advisory 'white collar' services provided by office-based staff. The more property related services are often described as "hard" services.

Professional Advisory (PA)

encompasses a wide range of specialist companies providing professional and consultancy services. Disciplines in this segment include environmental consultancies; inspection, testing and certification; property advisory; architectural and consulting engineering firms; accountancy, legal and actuarial practices; and public relations, marketing and advertising agencies.

Human Capital Management (HCM)

focuses on people management issues including temporary and permanent recruitment, search and selection, retention, outplacement, training, incentivisation, and rewards and benefit analysis. Another increasingly important strand, which is gaining the attention of the deal community, is private education, notably the development of independent school groups.

Business Process Outsourcing (BPO)

is a business service which enables organisations to contract-out many of their 'discrete' processes and operations with the aim of achieving long-term cost reductions and performance improvements. Outsourced functions will typically include IT; finance and accounting; payroll; human resources; sales, marketing and customer care; payment services; – supply chain management; and administrative processing.

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