

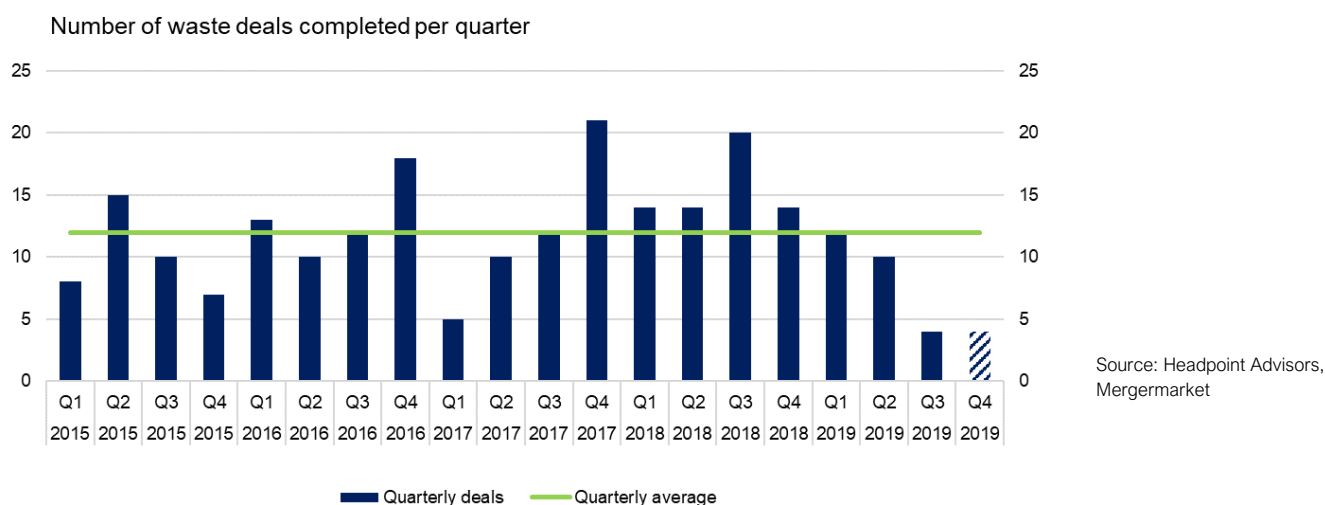
Sector Insights – Waste Management

Political and economic uncertainty impacts deal volumes

November 2019

After falling for four consecutive quarters, M&A volumes in Q4 2019 look to be on track to record a modest increase. The overall picture shows a drop of almost 40 percent on last year's record number of transactions. Whether Brexit uncertainty is causing acquirors and investors to hold off on investment activity will only become clearer next year, but it is certainly impacting valuation negotiations and influencing capital deployment strategies.

The drop is particularly noticeable amongst smaller, privately owned operators. With smaller cash reserves, regional operators are likely to be holding off on any major acquisitions until they have a better understanding of market conditions going forward.



The industry does however continue to see interest from different pools of strategic and institutional capital. Private equity in particular is showing an increasing interest in waste management, due to having high number of potential targets for new 'buy & build' platforms as well as bolt-on acquisitions for existing platforms.

Strategic buyer activity

In addition to serial acquirers Veolia and Biffa, there continues to be strategic buyer interest in industry consolidation.

Beauparc Group (also known as PandaGreen), the largest waste management company in Ireland, has further expanded its UK presence. The company acquired Leeds-based Associated Waste Management in December 2018, growing its operations in Yorkshire, which includes the 12 year,

Sector Insights – Waste Management

150,000 tpa Bradford city council residual waste contract, estimated to be worth £165m. The acquisition of Mid UK Recycling from administrators in June further consolidates Beuparc's footprint in England.

In February, Beuparc itself sold a minority stake (37 percent) to Blackstone Group, one of the largest global private equity investors, providing a partial exit for owner Eamon Waters (pictured).



While acquisitions by smaller operators have dropped, there continues to be activity driven by consolidation from a product, service or geographic perspective.

Devon Contract Waste, a Commercial and Industrial (C&I) waste collector and processor acquired three local businesses to support its regional growth and product diversification strategy, making it one of the larger operators in Devon and Cornwall.

Wastecare, a provider of specialist services in the compliance, hazardous waste and WEEE spaces, acquired Augean's East Kent Incinerator in January. The incinerator is one of three high-temperature incinerators in the country, able to process hard-to-treat waste coming from laboratories or hospitals. Wastecare will hope to turn the facility around, with Augean not able to make a profit from it since acquired from Pfizer in 2014.

Private equity activity

Three Hills Capital Partners made a major investment in Preston-based Recycling Lives which reported £75m turnover in its 2018 financial year. The company has earmarked funds for M&A investment as part of a national growth strategy. It's first post-investment acquisition was the takeover of the EMR-owned Metal & Waste Recycling, which was mandated to be sold by the Competition and Markets Authority.

In January, Business Growth Fund (BGF), a minority stake investor, invested along with HSBC into Red Industries, a hazardous waste specialist, in a funding package understood to be around £39m. Part of this funding was used to acquire competitor Environmental Resource Group (ERG). Since being founded in 2011, BGF has become an active investor across different waste streams. The fund has investments in all four countries of the UK, including RiverRidge (NI), Keenan Recycling (Scotland), Wales Environmental (Wales) and J&B Recycling, Total Recycling Services and Johnson Aggregates (England). In September, Red Industries announced its second acquisition of 2019, of Haz Environmental.

Waterland Private Equity-backed Textile Recycling International (previously known as JMP Wilcox) is also following a 'bolt-on' acquisition model. The company acquired Cookstown Textile Recyclers and Nathan's Wastesavers at the end of 2018, cementing its position as the largest textile recycler in the UK.

Sector Insights – Waste Management

In October, Elysian Capital achieved an exit with Raymond Brown Waste Solutions, which was sold to the Collard Group, which will taking it into the ‘top-tier’ of waste management companies with a one million+ tonnes annual capacity for waste and recycling.

A notable management-buy out (MBO) in the past twelve months was of Acumen Waste Services, backed by Barclays and Lombard Asset Finance. The company’s management team has taken over the equity of long-standing shareholders who were looking for a retirement exit.



Infrastructure fund investment

Compared to last year’s high-profile sale of Cory Riverside, 2019 has been a relatively subdued year. However, long term institutional investors, who tend to be more risk averse and target long term predictable cash flows, are making commitments to the UK, EfW infrastructure in a similar way to the ‘Big Five’.

In October 2018, a consortium led by Infracapital, invested a further £150m into the Bioenergy Infrastructure Group (BIG), a major operator of anaerobic digestion (AD) and EfW plants. The funding round saw long term investor Foresight exit the business, selling its stake to Aurium Capital. BIG has since opened its waste wood gasification plant at Ince.

Foresight’s main focus has instead been the acquisition of John Laing’s Environmental portfolio in June, comprising 28 operational projects with an asset value of £764m. The acquisition saw the Environmental Assets team of 12 move over to Foresight and brings the fund’s total assets under

Sector Insights – Waste Management

management in the clean energy and environmental infrastructure sector to over £4bn. The new fund made its first new acquisition in August, of Warren Power, an AD operator, for £14.8m.

US specialist EfW operator Wheelabrator is seeking backing for another two plants in the UK following the company's sale to Macquarie Infrastructure Group in February of this year. One is set to be located on a current Raymond Brown site in Hampshire, while the other is a renewed attempt at Skelton Grange EfW, previously planned by Biffa.

What does the future hold?

The UK waste management industry faces a number of challenges in the short term: securing direct processing outlets for domestic waste, technological innovation to increase product reuse and recycling, pressure on council budgets as well as how to deal with the fall-out from Brexit. These are big challenges that will take time to address. Nonetheless, companies in the sector continue to grow and make significant investments for the future.

We predict that overall the industry will be relatively flat, matching current macro-economic conditions, but specialist sectors with higher barriers to entry and strong demand for services such as WEEE and hazardous waste will grow strongly.

These sectors will also attract sustained M&A appetite from both larger strategic acquirers and private equity backed operators. Whether M&A across the rest of the industry increases is likely to depend on post-Brexit market conditions. If uncertainty caused by the process is lifted, we see no reason why waste M&A should not see higher transaction volumes in the next 12 months.

This report is an extract from a longer article for the Chartered Institution of Wastes Management (CIWM) published in the Circular magazine in November.

