



Livingstone

Value by Design

Consultancies sector newsletter - Summer 2009

AECOM's Acquisition Spree

Major US provider of professional and support services AECOM Technology has completed a sizeable European acquisition, heralding a renewed interest in expanding across Europe. AECOM has acquired Savant, a 600 employee project, management services business supporting private and public sector clients. The deal expands the group's global presence, in particular in Russia, Eastern Europe and the Commonwealth of Independent States, as well as the UK. With more than 43,000 employees worldwide, AECOM claims to service clients in 100 countries and had 2008 revenues of \$5.6bn. The group is believed to be actively looking to expand further its offering across the UK and continental Europe.

AMEC on the Hunt

UK-listed group AMEC plc has an estimated £700m cash war chest for acquisitions and seems keen to deploy it. AMEC has shed the low margin contracting activities that it was historically associated with to develop its Earth & Environmental (E&E), Natural Resources and Power & Process divisions. The group has completed a flurry of deals, most recently the June 2009 acquisition of Canadian archaeological firm ARCAS. The acquisition fits AMEC's strategy of geographic and capability expansion in its E&E division and follows 11 similar acquisitions since January 2007. In January 2009, it acquired oil and gas consultancy company Performance Improvements Group in the UK for £19m. AMEC is currently linked to two further deals: a potential takeover of GRS, the listed Australian engineering company which would complement AMEC's Natural Resources operations, and UKAEA, the UK nuclear consultancy being sold by the UK Government.

CIPS/Markit Cheer

The influential CIPS/Markit Purchasing Managers' Index for May 2009 revealed the slowest contraction in services in the UK for eight months. The indicator reached 51.7, thereby exceeding the 'neutral' threshold of 50, and surpassing April's reading of 48.7. New business still continues to be a challenge, but the decline in new contracts is less marked. Jobs are still being lost at alarming rates but service industry confidence is at its highest for 11 months. In a fit of optimism, Malcolm Barr of JP Morgan, observed: "If you were to ask me to name one number, it would be the PMI. When we talk about the day the economy went back above zero it will be the [CIPS] May data that did it."

Recession Impacts M&A Appetite for Consultancies

Despite the Consultancies sector being one of the last to feel the effects of the global recession, the industry finally succumbed to the inevitable in Q4 2008. Between January and May 2009, the sector saw just 21 mergers and acquisitions reported in the UK compared to 58 in the same period in 2008, although to maintain some perspective, the same period in an otherwise busy 2007 also saw just 21 completed Consultancies transactions.

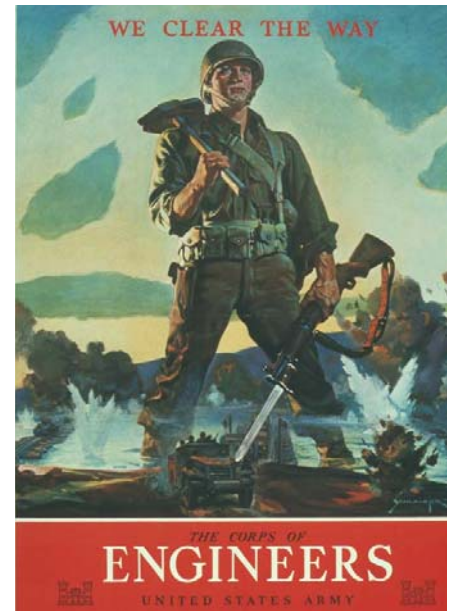
More dramatically, the total disclosed value of deals completed in the first five months of 2009 was just £168m - compared to £678m in the same period in 2008 - and of which £123m was accounted for by one deal, the sale of marine engineers Noble Denton to Germanischer Lloyd.

The implied average UK deal value of just £2m in 2009 so far amply illustrates how risk averse many acquirers have become in these exceptionally uncertain terms, preferring to focus on small, bolt-on acquisitions rather than transformational ones. The grim reality is that these low values may also conceal an escalating number of distressed company sales and businesses being bought out of receivership or administration for peanuts.

Total value of UK deals completed in 2009 to date is £168m

2009, the UK Consultancies had plummeted to 42% of their June 2008 values before the Spring global stock market rally provided a small cause for celebration.

Seeking out some positives from this rather bleak analysis may seem difficult, but all is not lost! Outside the UK, the North American and European Consultancies have performed, on average, much more strongly. Many of the UK's largest professional services groups - Atkins, RPS, WSP - have created geographically diversified businesses that appear to have weathered the storm with some success so far. As the Noble Denton deal illustrates, demand for successful UK firms with specialist skills in resilient segments - in this case Oil and Gas - remains high. Finally, a diaspora of talent from larger organisations has greatly alleviated UK skills shortages and, for growing consultancy firms, created a much-needed opportunity to continue to develop their businesses - in anticipation of sunnier times!



Events:

Going Global to Grow

As clients increasingly demand a global service from their technical advisers, the pressure is intensifying on mid-sized professional practices to 'go global' or lose out. Livingstone's latest half day conference and networking event on **Thursday, 17 September 2009** in London will give senior decision-makers a valuable insight into the international strategies of some of the world's most successful consulting groups. *More on Page 8.*

Quoted Company Analysis (cont'd)

Hyder, Scott Wilson and Waterman have all lost circa 70% of their value as the market has expressed nervousness about their relatively small scale and reliance on a vulnerable UK market. Among the listed groups making up the UK Consultancies index, White Young Green has been the worst performer, having lost over 90% of its value since June 2008 for a host of well-publicised reasons.

Within the North American Consultancies community, URS and TetraTech stand out as the only major groups to have actually seen an increase in value compared to June 2008. TetraTech has used this resilience to good effect, having announced several significant acquisitions and an interest in increasing its geographic footprint through making acquisitions outside North America. This strategy has been echoed by Los Angeles-based AECOM and Pasadena-based Jacobs, despite the latter losing 50% of its value in the past year. Given the relative strength of these groups' stock market ratings, it would be surprising indeed if one or more of the UK's quoted companies did not succumb to a bid from an overseas player over the next 12 months.

In continental Europe, the listed groups have shown a similar - albeit less acute - performance to their UK peers. Denver-based but Dutch-listed group Arcadis, Sweco and Bureau Veritas have all stabilised at share prices circa 25% down on June 2008. Acquisitive Dutch group Grontmij and Finnish group Poyry sit at circa 65% of last years' value. Overall, the European groups' balance sheets remain strong and their share prices allow for a similar scope for acquisitions to the strongest of the UK quoted groups. While their appetite for UK acquisitions may be modest at the moment, it is likely that they will be back in the market towards the end of 2009.

Mid-Market M&A Analysis

Date	Target	Target Description	Acquirer	D/V £M	T/O X	EBIT X
May-2009	Noble Denton Group Ltd	Marine consultancy and ocean engineering services	Germanischer Lloyd AG	122.9	1.2x	-
May-2009	MMB Associates	Transport technology consultant	Capita Symonds Ltd	-	-	-
May-2009	Savant International Ltd	Project, cost and construction management consultancy	AECOM Technology Corporation	-	-	-
Apr-2009	Dewjo'c Architects Ltd	Architectural consultancy	Devereux Architects/ PM Group	-	-	-
Apr-2009	Helix RDS Ltd	Subsurface reservoir consulting	Baker Hughes Limited	17.1	-	-
Apr-2009	The Evaluation Partnership Ltd	Evaluation and consulting	Coffey International Ltd	1.1	0.6x	6.1x
Mar-2009	Schofield Lothian Ltd	Project management consultancy	MBO	-	-	-
Feb-2009	CSTIM Ltd's business and assets	Specialist management consultancy services	Navigant Consulting (Europe) Ltd	1.7	-	-
Jan-2009	Performance Improvements Ltd	Asset optimisation consultancy services	AMEC plc	19.0	-	-
Dec-2008	National Industrial Fuel Efficiency Service Ltd	Energy consultancy	Spice plc	7.5	0.9x	8.7x
Oct-2008	MG Bennett & Associates Ltd	Multidisciplinary engineering design company	WS Atkins plc	2.5	-	-
Oct-2008	Morrel Consulting Ltd	Water consultancy services	Spice plc	5.2	-	-
Oct-2008	Paras Ltd	Energy sector information management and consulting	RPS Group plc	6.4	2.1x	6.4x
Aug-2008	Brook Hunt & Associates Ltd	Mining/metal industry consultancy services	Wood Mackenzie & Co Ltd	c. 50.0	-	-
Aug-2008	Sworn King & Partners	Chartered quantity surveyors	Baqus Group plc	0.4	0.5x	3.1x

The table above illustrates some of the more notable UK deals since Summer 2008

In the first five months of 2009, M&A activity among UK Consultancies fell to 21 deals, a 64% reduction from the 58 deals completed at the market's peak in the same period in 2008. Aggregate disclosed deal value in the same period fell from £678m to £163m - actually, to £40m in 2009 if you exclude the £123m acquisition of Noble Denton! The next largest deal for which a value was reported was the £19m 'bolt-on' of Oil and Gas asset optimisation consultancy PI Group by AMEC plc. 'Small is best' appears to be the prevailing M&A mantra as larger acquirers choose to keep their powder dry at this point in the cycle.

The Oil and Gas and Energy sectors featured large among the 21 completed deals, revealing the high level of acquirer appetite in these niches, and belying the relative resilience of these sectors compared to others such as real estate development.

Investor Focus

Private Equity - Piecing Together The Fragments By Dan Adler, Lyceum Capital Partners LLP



The expertise provided by specialist support service businesses is in strong demand from public and private organisations facing legislative change on complex and often sensitive issues. The breadth of regulation has created a highly fragmented sector comprising a high number of niche firms providing a wide range of technical services.

These dynamics present considerable opportunities for consolidation and private equity house Lyceum Capital is focused on providing financial and strategic input to enable companies to drive operational improvements, make complementary acquisitions, increase scale and capture market share.

Laying Foundations

We look to invest in growing support service businesses where our capital and expertise will help establish a strong platform capable of supporting further rapid expansion. A detailed initial 'market mapping' analysis gives us the industry knowledge needed to identify and open dialogue with those companies where there is potential to generate significant shareholder value.

This understanding also enables us to develop a tailored, robust deal structure which meets the needs of founders, owners and the stakeholders who will be crucial to the firm's future growth. Integrity and trust is crucial so we invest in those management teams who share our entrepreneurial vision, drive and determination to build a business.

Once a transaction is completed, we help to strengthen the organisation's infrastructure, systems and processes by supporting significant investments to develop areas such as corporate governance, management information, and external communications. The focus is on building an operational structure which enables innovative service delivery, maximises cross-selling opportunities and improves profitability.

Building Scale

With clients increasingly looking to consolidate their service providers, we are targeting investments where we can help build a multi-disciplinary offering capable of meeting a broad range of requirements.

To do this, Lyceum Capital helps management to execute carefully targeted acquisition strategies that quickly extend the scope and reach of a company's technical and geographic coverage. The aim is to create a group capable of developing critical mass across a number of specialisms and target markets.

Our understanding of the support services landscape enables us to identify these complementary bolt-on acquisitions and ensures we move swiftly to secure opportunities. We then implement the integration tools, techniques and processes needed to effectively maximise synergies and drive further growth in the enlarged business.

Hot Spots

Organisations are facing intense scrutiny from pressure groups, legislators and, increasingly, consumers particularly around areas such as environmental compliance and energy management.

Businesses which provide outsourced services in these areas are finding demand rise as pressure grows to comply with ethical and legislative requirements around issues such as carbon reduction, waste management, energy consumption and water conservation. EU regulation is creating strong visibility of potential demand for the next decade and some commentators expect at least 5-10 per cent annual growth in the £1.7 billion UK environmental consultancy market.

The key challenge for owner-managers is identifying the right investment partner that not only has the access to capital, but the vision, and expertise to implement a consolidation strategy that fully capitalises on the opportunity such a dynamic sector presents.



National Britannia Group

Lyceum Capital identified the safety, health and environment (SHE) sector as presenting strong opportunities to invest in organisations providing outsourced compliance, risk management and related services.

With the sector growing at 14% a year it was clear that the right business, with Lyceum's backing, would be in a strong position to capitalise on the highly fragmented nature of the market.

Our team identified National Britannia Group (NBG) as a key industry player capable of generating significant growth through bolt-on acquisitions which bolster both services and reach. After opening a dialogue with the firm, we developed a deal structure which enabled founders and managers to make a significant re-investment.

We acquired the firm for £25m in 2005 and immediately set about working with management to implement a strategy which saw the company:

- Invest in its marketing, infrastructure and IT systems to enhance customer service and retention levels.
- Create streamlined new divisions to enhance service delivery, aid cross-selling and accelerate sales growth.
- Broaden its service offering through eight add-on acquisitions.
- Introduce new expertise and grow employee numbers from 270 to 770.

In just two years, sales increased from £27m to £49m whilst EBITDA rose from £3.1m to over £8.6m.

NBG's significant success attracted the attention of many potential suitors and, in 2007, leading integrated services group, Connaught plc, acquired NBG for £91m.

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Case Study: Sustainable Finance

Green Light for Sustainable Deal

When a high profile environmental policy consultancy needed to go global, it turned to Livingstone Partners to find a suitable new owner.



Leo Johnson, Co-founder

"We occupied a commanding space in our niche, but shifts in the market presented a new risk to us"

 Mark Harrison

For Leo Johnson, co-founder and CEO of Sustainable Finance Ltd (SFL), rubbing shoulders with heads of state and global business leaders is all in a days' work. Since its launch in 2003, SFL has become the definitive environmental policy advisory firm, focusing on sustainability in the financial sector.

The senior team of Johnson, Matt Arnold and Andre Abadie has provided support to more than 1,000 professionals and 30 banks world wide. In a short space of time, it has grown from a London base to include offices in the Netherlands and the US.

SFL initially focused on policy, strategy tools and training for banks: the firm was instrumental in developing the Equator Principles, the international industry standard for managing environmental and social risks in project finance. It also played a part in developing the Carbon Principles, the climate change guidelines for evaluating and addressing carbon risks in the financing of electric power projects in the US. SFL now also creates opportunities for building businesses through sustainability such as green credit cards or sustainable forestry.

When PricewaterhouseCoopers (PwC) emerged as an eager buyer, the shareholders turned to Livingstone Partners to advise on the sale. "The timing was right for us," says Johnson (pictured). "We occupied a commanding space in our niche, but shifts in the market presented a new risk to us, in that we no longer had the scale to command the same position we once did."

As a modestly-sized firm in a fast-moving market, SFL was keen to gain a global reach. Johnson explains: "SFL was still a small organisation punching above our weight. We needed a strategic partner that offered a platform to respond to this drastic shift in the market. Livingstone played a key role in ensuring that the buyer could deliver this, giving us the capabilities to help turn our vision into reality."

While there were competitive alternative offers, PwC proved to have the best strategic fit, with its global reach, its cross-function expertise and appropriate financial framework. But there were many challenges. Livingstone partner James Lever explains: "PwC is a global organisation

with an elaborate and robust consensus structure that involved many people at different levels in all key decisions. We had to stay focused on getting the deal done."

Both SFL and PwC benefit from the deal. Lever explains: "SFL brings a depth of expertise and cutting-edge sustainability solutions to PwC, as well as an extensive policy-making client base at the highest levels. Likewise, for SFL, there is leverage to be gained with PwC's huge raft of services and global infrastructure. The combined international expertise will bring the very best advice and guidance to those who understand the need to take account of sustainability issues throughout their organisations."

Johnson concludes: "Livingstone really knows due diligence and the complexities of M&A. We had never done this before, so we owe it to the Livingstone team, who helped steer us through the immense complexities of the deal to find the right partner."

Whose earn-out is it anyway?

By Michael Archer, Beale & Company Solicitors LLP

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Earn-outs are popular with acquirers of consultancy businesses. They help prevent buyers paying over the odds where the sellers want their future expectations for the business reflected in the sale price. They also provide the motivation for sellers to continue to drive the business after they have given up their ownership. However, the seller will want to be satisfied that the targets set by the earn-out are achievable and that there is a common understanding with the buyer as to how the business is to be run during the earn-out period.

Superficially, both buyer and seller normally have a common interest in seeing the target business succeed. But there are differences - the seller's interest may be short term - covering performance during the earn-out period only. How does an investment decision sit if the benefits do not accrue to the acquirer until years later? In addition, the buyer will often be keen to integrate the target business, for example, by bringing in new systems, IT, reporting structures and Head Office resources. While these may play a vital part in a large corporate, they are more likely to run counter to an entrepreneurial target business made successful by keeping a tight rein on overheads.

In the present climate, a buyer is likely to see an acquisition, at least in part, as an exercise in acquiring the necessary skills and resources to take advantage of the upturn, when it comes. That strategy may require the business to be overmanned and thus operating at lower net margins in the short term.

What is clear is that the intentions of each party need to be explored thoroughly in pre-contract negotiations to identify how, and whether, an earn-out should be part of the deal, and how it should be structured.

One salutary piece of case law where this dialogue appears not to have occurred, was reported in the US a few years ago [Horizon Marine LLC v Genmar Holdings Inc]. It involved the trade sale of a boat-building business - those flat-bottomed aluminium boats so loved by anglers on the vast stretches of inland waterways in the southern US states. The buyer Genmar was then one of the largest builders of recreational boats in the US. A deferred earn-out of \$5.2m was due against achievement of certain financial targets, including turnover and gross margins. Differences occurred almost immediately after completion on the strategic direction the business should take. The buyer dropped the "Horizon" brand name, renamed Horizon's best-selling product and insisted on its own boats being built at the Horizon facility, requiring new designs to be developed and a large labour force to be recruited and

trained. This led to a falling out, with the seller eventually being removed from employment in the business.

Not surprisingly, the business did not achieve its targets and the earn-out was lost. The seller set about suing for the lost payment. During the course of the case it became clear that Genmar's real objective in buying the business was to eliminate the competition that Horizon represented and to use Horizon's facilities to manufacture Genmar's existing range of boats. No wonder the earn-out did not work!

While the case exposed the buyer's bad faith (one of the findings in the case), such a situation could easily occur through misunderstandings.

The case is useful to help lawyers explain why they aim to reflect the parties' intentions in drafting the earn-out provisions in some detail and, when acting for the seller, why they seek to protect the earn-out through contractual protections linked to the earn-out accounting. If the buyer wants to impose his own plans for the business on the seller, then either an earn-out is not the right structure for the deal or the effects on the seller's ability to achieve the earn-out need to be adjusted out of the figures, so that the seller is not penalised financially.

As a post script to the case, Genmar filed for Chapter 11 Bankruptcy on 1 June 2009. Happily for the sellers, they had won their case and been paid well before then.



Michael Archer is a Partner at London-based law firm Beale and Company. Beale and Company has acted for over 30 of the top 50 firms of Consulting Engineers and as legal advisers for both Buyers and Sellers in Corporate deals in the sector, giving the firm what is generally acknowledged as an unrivalled level of expertise.

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Introducing Livingstone

Livingstone Partners LLP Mid-market M&A Specialists

Established in 1976, Livingstone is an international investment banking boutique focused on company sales and acquisitions with deal values of between £10m and £100m plus. In 2008/09, the firm's 70 staff have advised on 45 transactions with a total value of £800m and was voted the *Independent Corporate Finance House of the Year* at the 2008 Private Equity Awards, the second time it has won this coveted award in three years.

Livingstone stands out for its cross-border credentials: with a pedigree drawn from over 600 successful projects, the firm has completed close to 200 cross-border transactions. By combining a sector-based strategy with an international office infrastructure, Livingstone has ready access to international acquirers and investors. With our own teams in Chicago and Madrid, and established relationships with M&A advisers in 30 other countries, we are able to deliver the best available strategic solutions from across the globe to our clients' doorsteps.

Livingstone has a strong focus on advising entrepreneurs and privately-owned companies and partnerships throughout their development, providing advice on acquisitions, succession planning, exit options, management buy-outs and company sales. For further information, please contact **Jeremy Furniss** on 020 7484 4703 or at jfurniss@livingstonepartners.co.uk

The Business Services Team

Livingstone focuses on four sectors: Business Services, Consumer, Industrial and media:tech. The Business Services team draws from team members across the firm's international offices to deliver expert corporate finance advice in the Consultancies, Building & Environmental Services, Outsourcing, Human Capital and Logistics arenas.

In recent years, the Business Services team has advised on deals in the Consultancies sector with an aggregate value of over £250m. We have had the privilege of working with many exceptional professionals over a range of disciplines including:

- Architecture
- Infrastructure
- Quantity Surveying
- Engineering
- Outsourcing
- Systems Engineering
- Energy & Environmental
- Planning
- Project Management

Unlocking the cash value of many years' hard work in a Consultancy business requires an acute understanding of our clients' requirements, the drivers that will underpin an attractive deal, and the strategies and priorities of acquisitive groups and investors around the world. Our focus on the Consultancies sector has equipped us to provide this.

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SUSTAINABLE FINANCE LTD
PRICEWATERHOUSECOOPERS

The sale of one of the world's leading sustainable finance consultancies to PwC.



Livingstone advised the vendor and assisted in the negotiations.




ROGER PRESTON & PARTNERS
GRONTMIJ NV

Sale of a leading international sustainable building services consultancy by Grontmij of The Netherlands.


ROGER PRESTON & PARTNERS

Livingstone initiated the transaction, advised the vendors and assisted in the negotiations.



ADVANTAGE BUSINESS GROUP LTD
WS ATKINS PLC

Sale of leading independent defence and systems consultancy to Atkins.



Livingstone advised the vendors and assisted in the negotiations.



Going Global to Grow

Seizing the M&A Opportunity

17 September, 2009

The Soho Hotel, London W1D 3DH

Supported by:

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 **LYCEUM CAPITAL**

Who Should Attend?

This half-day event is designed for Managing Partners, MDs and FDs of growing Consultancy businesses offering technical advice to an increasingly demanding and global client base.

While the themes that we will be exploring are relevant for all people-based consulting firms, the event has an emphasis on organisations delivering technical, often engineering-based, advice to the commercial, energy, environmental, public and infrastructure sectors.

Thinking Ahead

As the professional services industry looks ahead uncertainly to a recovery in global markets, many independent players are looking beyond simple survival to the future - and ways of cementing and growing client relationships so as to emerge from recession with a flourish.

As clients become ever more global, a pressing issue for growing consultancies is the need to choose whether or not to become international and, if so, whether to resource projects remotely from the UK or to establish an overseas infrastructure. **Going Global to Grow** aims to deliver a high impact networking event for entrepreneurs at a cross-roads looking to decide upon the best route to a viable international business, through organic expansion, by acquisition or through selling out to a strategic partner with an existing global infrastructure.

Key issues to be addressed

- What level of coverage are clients demanding?
- How much time do I have to implement a strategy?
- Have I got what it takes to grow by acquisition?
- What do I need to know about doing deals overseas?
- How do I enhance - not prejudice - shareholder value?
- The state of the market - who's buying, why, and what are acquirers looking for?

The Speakers

Livingstone has assembled a group of seasoned senior executives with direct experience of making and executing these difficult strategic decisions. Keynote speaker David Richards, CEO of SLR Consulting will be joined by John Cumberland, Chairman of Interfleet Technology, Lawrence Hughes, CEO of Grontmij UK, Tarun Bafna, M&A Director of AMEC plc, Ken Dalton, CEO of Faber Maunsell (part of AECOM) and John Priestland, Growth Director of WS Atkins.

Venue

The Soho Hotel, 4 Richmond Mews (via Richmond Buildings off Dean Street), London. The hotel is located in the heart of London's entertainment and creative district.

08.30 Registration

09.00 Welcome & opening remarks:

Jeremy Furniss, head of Business Services at Livingstone Partners, sets the scene.

09.45 Panel session:

Global Growth: M&A Potential & Pitfalls

A panel of senior executives from major groups with responsibility for strategy and M&A discuss their approach to international growth.

10.15 Keynote speaker:

David Richards - SLR Consulting

David shares his experience of growing a consultancy business tapping into private equity to make overseas acquisitions.

10.45 Coffee break:

11.15 Panel session:

International Expansion: Do I, Don't I, and How?

Seasoned entrepreneurs explore the choices that they have made and the reasons why they made them.

12.15 Concluding Remarks

12.30 Lunch & networking session:

An opportunity to network with the speakers and panellists, like-minded delegates, and the Livingstone team.

13.30 Conference ends

Booking Form

Date 17 September 2009

Venue The Soho Hotel, 4 Richmond Mews, London W1D 3DH

Cost £125 + VAT for first delegate and £100 + VAT for each delegate thereafter

Please return your form with payment to:
Andrea St. Hill, Livingstone Partners LLP,
15 Adam Street, London WC2N 6RJ

For further queries please email Andrea St. Hill at
asthill@livingstonepartners.co.uk

Conditions: A VAT receipt will be sent with your confirmation. If you are unable to attend, please telephone with your substitute's name. No refunds are available for cancellation received less than 14 days before the seminar.

Surname

First name(s)

Job title

Name of additional guest (s)

Company

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Postcode

Tel no

Fax no

Email

Signature

Date

Payment details: I would like to book _____ place(s).

I am enclosing a cheque for _____
made payable to Livingstone Partners LLP