



Livingstone

# Value by Design

Consultancies Sector Newsletter - Winter 2011 Update

## DEAL UPDATE

### M&C Makes it 4-in-1 with Utility Masters

M&C Energy Group (formerly McKinnon & Clarke) has acquired rival Utility Masters to make it four acquisitions in only its first year of new ownership since a management buy-out backed by Lyceum Capital. The acquisition of Oldham-based Utility Masters strengthens M&C's position as one of Europe's leading energy procurement and compliance specialists with group turnover now around £40m. Pricing has not been disclosed, but the transaction will see Utility Masters' three founders join M&C to continue developing the business. Simon Northrop, CEO of M&C, commented, "Utility Masters is a well respected energy consultancy with significant expertise in supply management. This company is a natural fit for our business and supports M&C's aggressive growth strategy."

Following Lyceum's £22m investment in M&C, the group has since acquired Australian Creative Energy Solutions, Germany's ETT and London-based Encore International as part of management's aggressive plans to drive consolidation in the sector. M&C now manages in excess of £6.25bn of energy consumption each year for an international client base across 20 offices in 13 countries. The Group remains on the acquisition trail, with M&C Chairman Gerry Higgins recently telling The Scotsman that they have a substantial pipeline of potential acquisitions that will drive the business towards the £100m turnover level within five years of Lyceum's investment.

### Intertek Acquires Metoc

On 1 November 2010, Intertek, the UK-listed international quality and safety services group, announced that it had acquired Metoc from its management shareholders for £8m in cash. The transaction will see the company re-branded Intertek-Metoc and sit within Intertek's Industrial Services Division. Metoc provides engineering and environmental services to the renewable energy infrastructure sector with around 80 consultants across its UK offices. Its expertise encompasses wind, wave, solar and hydro-electric as well as fossil fuels for infrastructure projects in Europe, North and South America, the Middle East and Africa.

Intertek's acquisition of Metoc sees its renewable energy specialist capability nearly double to 200 people worldwide. Stefan Butz, Executive Vice President of Intertek's Industrial Services Division commented, "By tying our manufacturing testing, inspection and certification expertise with their early stage offshore consulting services we will be able to support Intertek-Metoc clients throughout the whole renewable infrastructure supply chain - a service that is not currently available in the market today."

The deal was announced alongside the acquisition of analytical laboratory technology modeling specialist Profitech for a maximum consideration of £1m.

## CSR Confusion Abounds But Private Sector Shows Ongoing Signs Of Recovery

The UK Coalition Government's Comprehensive Spending Review (CSR) landed in late October but gave little insight for public sector suppliers on exactly where the axe will fall. For the consultancies sector, the bad news was an average fall of 30% in capital budgets and a swingeing cut back in the Schools Programme for which much work had already been done. For business managers, the swift follow up of the National Infrastructure Plan does at least provide a clearer picture of this Government's priorities.

The main message arising out of this is that UK PLC needs to do more with what it already has, but will at least get some support where under-invested infrastructure threatens national competitiveness and a sustainable economic recovery. How any of this will be paid for against the tide of national deleveraging is similarly unclear, but 'next generation PFIs' are being widely mooted.

Whilst the immediate outlook still looks bleak in all but key areas such as power and renewables, glimmers of a recovery for the private sector were beginning to emerge before Q4's snowy disruption. In the UK many retailers are embarking on new store opening programmes, perhaps supporting a more bullish view on long-term consumer spending. JP Morgan's recent purchase of the former Lehman UK offices and application for a further major London office development suggest that the City may yet see a resurgence in major building activity. Furthermore, the reduction in property company failures and preparations by major high street banks to dispose of surrendered property portfolios suggest that the clouds are beginning to clear for this sub-sector.

Nevertheless, many developed countries previously viewed as economically strong are now seen as vulnerable. In their place, BRIC countries and parts of South East Asia are being widely hailed as the engines of growth for UK consultancy skills. For firms looking to participate, the intellectual property developed in the UK over the past two decades in innovative public-private initiatives arguably places them at an advantage where clients are struggling to structure major new infrastructure programmes.

We head into 2011 with public spending on its knees and a need for consultancies to make careful choices about where they allocate resource and overhead. Well capitalized consultancies are working hard to drive organic growth from more exotic locations and sensibly using M&A as a tool for more rapid expansion where necessary. Those consultancies with a well differentiated offering, whatever their size, remain of interest to corporate and private equity investors alike. After more than two years of uncertainty, the future for the sector may finally be looking up!



### PUBLIC VS. PRIVATE

#### HALF DAY CONFERENCE, 24 MARCH 2011

Livingstone welcomes Jonathan Goring, CEO of Capita Symonds, as our Keynote Speaker for our third annual Consultancies Conference brings together CEOs, Managing Partners and Finance Directors in a networking event for technical professional services firms.

For more details, see [Back Page](#).



# QUOTED COMPANY ANALYSIS

## SOAP BOX

Looking back at consultancy M&A activity during 2010, it is likely that the mega-deals involving Scott Wilson and Davis Langdon will be foremost in peoples' memories. Both deals attracted significant press attention for their own reasons but for those like Livingstone that are more firmly embedded in the SME market it is the growing volume of niche bolt-ons that represents the bigger story. Many of the global listed consultancies have taken advantage of their strong balance sheets and challenging times for smaller businesses to fill in gaps in their own capabilities whilst providing vendors with a safer haven from which to continue building their businesses.

Where it was once commonplace for specialists to be 'poached' by rivals, many people now prefer to cling to the security of current roles. This has arguably driven interest in smaller company M&A activity previously considered below the radar of most corporates on account of cost/benefit issues. With investors now demanding a smarter approach to delivering earnings growth in a tough climate, the opportunity to complete the services, sectors and geographic matrix has been seized upon by the likes of AMEC, Jacobs, Intertek and Atkins, amongst others.

For those actively acquiring in the UK, much of the focus has been on the energy sector including everything from concept stage renewables infrastructure through to end user carbon compliance. The scale of the international challenge to secure national energy supplies whilst continuing the process of decarbonisation offers a huge potential market and UK consultancies remain at the forefront for addressing this. Domestic and overseas corporates have clearly recognised this and are making "green thinking" one of our most valuable exports.

Fiscal tightening is now firmly upon us and with it a decade-long balloon of fee growth has been painfully punctured for a good while to come. Consultancies

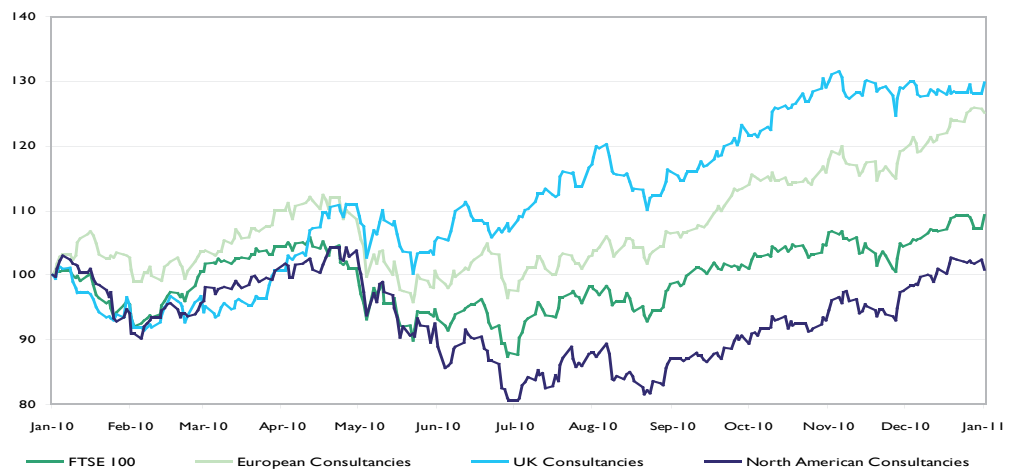
have worked hard to adjust to this new reality and have both re-sized and refreshed themselves to suit. The UK has long been a good home for entrepreneurial, niche consultancies and cash rich buyers are taking full advantage of the opportunity to bring them within their stables. As the economy shows signs of picking up again, owners and managers must decide whether to seek the shelter of a bigger parent or embrace the risk of going it alone. Livingstone Partners are ideally positioned to help you navigate either path.



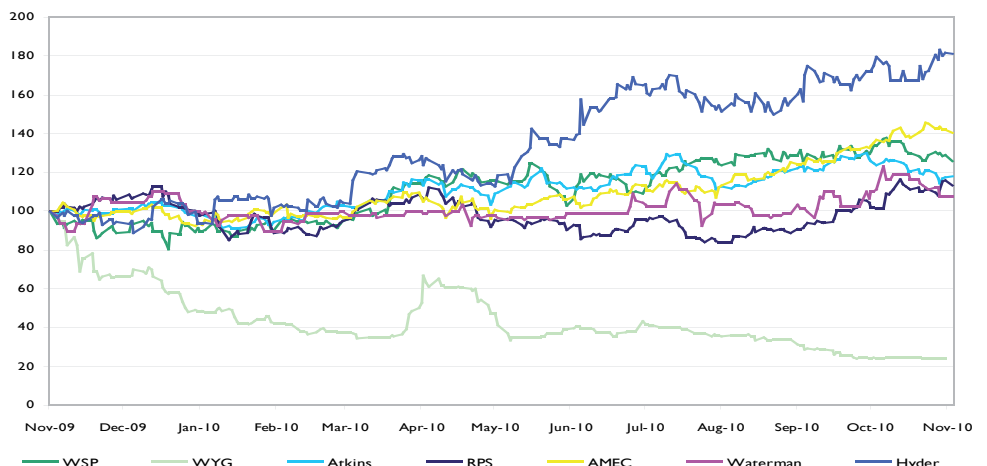
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The 12 month share performance of the leading UK consultancies paints a pretty vivid picture, especially in the case of Scott Wilson, where the rise in the share price in late June 2010 represented the second highest UK takeover premium since records began in 1992.

All of the other companies monitored have begun 2011 on par with or above their starting position in January 2010, with the exception of WYG. The stellar performer over 2010 without a doubt has been Hyder Consulting. Market sentiment has responded with a correspondingly and resoundingly positive reaction to Hyder's strong financial performance and order book and statements that forecasts will be above market expectations. Whilst CEO Ivor Catto has signalled Hyder's intention to make acquisitions, the fact that 85% of its operating profits are from overseas has fuelled Hyder's attractiveness as a rumoured takeover target. AMEC and WSP followed Hyder with rallying share performances, and likewise are rated for their strong international credentials and reduced dependency on the UK market. In the same vein, they are also considered to be possible takeover targets, with AMEC's share price rising in early January 2011 on the back of vague bid speculation. At the other end of the spectrum, WYG continues to be chastised by the market in spite of the ongoing implantation of its strategic recovery plan.



2010 saw 68 deals complete in the UK Consultancies sector; a significant increase on the 50 deals in 2009. Whilst the level of activity has in part been driven by a volume of distressed sales and assets being acquired out of administration, a 36% increase is an encouraging step back towards M&A levels in the heady times of 2007/8.



## MID-MARKET ANALYSIS



Despite the increase in activity levels, disclosed aggregate deal value fell from £901m in 2009 to £668m in 2010. However, the total deal value in 2009 was skewed by the £553m sale of Wood Mackenzie. Whilst the largest deals in 2010 came nowhere near in magnitude to that of Wood Mackenzie, 2010 saw a number of high profile larger transactions: URS's £222m takeover of Scott Wilson, the £204m acquisition of Davis Langdon by AECOM and the £61m acquisition of Entec by AMEC. These three deals alone accounted for 73% of the disclosed aggregate deal value in 2010.

The health and safety, oil and gas, renewable energy and energy management sectors have continued to see a high level of deal activity. Private equity's interest in the energy management sector was demonstrated through Lyceum Capital's backing of M&C Group, and latterly, Bridgepoint Development Capital's acquisition of Building Automation Solutions. 2010 also saw some renewed activity in the rail sector, with AECOM's acquisition of Trittech and Amey's acquisition of the rail consultancy arm of WYG. Of the transactions where deal details were disclosed, the median historic EBIT (or Operating Profit) multiple appears to have risen from 7.0x in 2009 to 7.9x in 2010. However, as ever the data set is limited and best used as an indication of valuation trends. In reality, we would find the prevailing market trend to continue to be in the range of 6.0x to 7.0x current year EBIT for 'typical' consultancies in the £5m to £50m deal space.

DATE	TARGET	TARGET DESCRIPTION	ACQUIRER	D/V £M	T/O £M	EBITDA X
Nov 2010	Building Automation Solutions Ltd	Building energy management systems	Bridgepoint Capital Ltd	40.0	28.0x	13.3x
Nov 2010	Metoc Ltd	Engineering and environmental consultancy services	Intertek Group plc	8.0	-	-
Oct 2010	Sula Systems Ltd	Systems engineering and consulting	Jacobs Engineering Group	-	-	-
Aug 2010	Trittech Rail Ltd	Rail engineering consultancy	AECOM Technology Corp.	-	-	-
Aug 2010	Davis Langdon LLP	Cost and project management consultancy	AECOM Technology Corp.	204.0	270.7	-
Jul 2010	WYG Engineering Ltd (Rail operations)	National rail consultancy	Amey plc	-	-	-
Jun 2010	Encore International Ltd	Energy price risk management services	M&C Energy Group/ Lyceum Capital	6.3	-	-

### OPINION: AECOM BUILDS EUROPE AT A COST

91 year old industry veteran Davis Langdon was acquired by AECOM for a reported £204m in a deal that saw its circa 100 equity partners cash out a substantial windfall. Retiring Senior Partner Rob Smith oversaw the deal, which took a year to complete, that has divided opinion amongst clients and seen some fall-out among staff – including a number of high profile senior management. For AECOM, the deal capped a phenomenal summer spending spree that saw the US conglomerate spend almost \$1 billion on acquisitions and will push gearing to unusually high levels for the sector. In addition to buying a US contractor and a government intelligence specialist, AECOM's purchase of Davis Langdon brings into the group a well respected QS and project management business with big ambitions for the future. Interestingly, the 3,000-strong Davis Langdon & Seah will not be joining the party.

Many have questioned whether Davis Langdon's stated strategy to take on the likes of McKinsey as a strategic consultant to global governments and businesses is truly deliverable. Notwithstanding the higher value added element of the modern QS role on major projects, many doubt that they can effectively compete with such exalted company as Bain & Company and Boston Consulting Group. Leaving to one side their reputations and track records, many of these organisations have developed long standing relationships with senior decision makers throughout global Big Business – in many instances through alumni networks – that Davis Langdon may find themselves unable to penetrate. AECOM's hope is that their own strengths as a supplier to major government and infrastructure contracts will offer Davis Langdon a springboard into new areas. For the new parent, the opportunity to grow its own presence outside the US market through David Langdon could have significant upside across the former colonies. AECOM is certainly not the first US group to try using the "British engineering" brand as a selling point in these emerging markets.

The negative reaction from some clients and commentators may be little more than sentimentality at the likely demise of a household name (some have unfairly likened it to the Cadbury's-Kraft deal!), but AECOM would be well advised to tread softly while the market adjusts. Staff fall-out is not uncommon in consultancy consolidation and should not be overplayed, but should the quality of service delivery to be impacted then clients will find EC Harris, Gleeds and others only too willing to step into the gap. Davis Langdon was arguably finding itself caught in the middle – between smaller, more nimble 'boutiques' on the one hand and true global giants on the other. With project size, contract complexity and the trend to global end-to-end provision on the rise, the "old world" model of a UK-based partnership poses significant challenges for mid-sized consultancies of scale. Davis Langdon had quickly accumulated a £32m debt pile which, although bearable in the context of a circa £200m turnover business, may still have made the partners question how to fund future growth.

By tying up with AECOM, Rob Smith has put a celebrated industry name in the hands of a parent whose deep pockets and extensive global contact base may just unlock the strategy to move further upstream into the world of high-rolling management consultancy. For those prepared to stay on board, the future at Davis Langdon could be very exciting indeed.



# PUBLIC vs PRIVATE

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**08.30 Registration**

**09.15 Welcome & Opening Remarks**

Kristian Gavan, Director, Livingstone Partners

**09.30 Panel Session: Public or Private? Growth Sectors for 2011**

As UK Government spending cuts bite in earnest, where should successful consultancies be looking for growth across the public and private sectors? A panel of experienced PLC business developers share their thoughts on where the greatest opportunities reside - and also reflect on the areas with the bleakest outlook.

**10.30 Keynote Speaker:**

Jonathan Goring, CEO of Capita Symonds, shares his experience of building one of the UK's largest consultancy groups under the wings of public sector giant Capita plc.

**11.00 Coffee Break**

**11.30 Panel Session: Private or Public? Raising Capital and Pleasing Investors in a Challenging Market**

Our team of experts discuss the pros and cons of being a listed company during a uniquely turbulent time, how to keep the markets happy, and whether raising private equity is a sensible alternative or complimentary strategy.

**12.30 Closing Remarks:**

Jeremy Furniss, Partner, Livingstone Partners

**12.40 Lunch & Networking Session**

**13.30 Conference Ends**

## THURSDAY, 24th MARCH 2011

THE SOHO HOTEL, LONDON W1D 3DH

Public sector or Private: where does the greatest mid-term opportunity sit? Public listing or private equity: which is the most viable source of funding? Livingstone Partners' third annual Consultancies Conference brings together CEOs, Managing Partners and Finance Directors in an event tailored for technical professional services firms.

This half-day event will combine expert insight into the medium-term opportunity for technical consulting businesses with plenty of audience interaction and a chance to network with like-minded individuals from across the consultancies sector.

From being perceived as a safe haven for many consulting businesses just 18 months ago, the outlook for the public sector has suffered a massive reversal, with the threat of major schemes being axed, often in an arbitrary manner. But will the curtailment of investment in the transport infrastructure and schools building programmes be offset by 'new' nuclear, renewable energy projects and the Green Deal, and the few major capital projects that may survive the cull? In which sectors should ambitious consultancies be focusing their energies over the next 24 months?

As fear recedes and confidence grows, successful professional services firms may need to raise external funding to rebuild balance sheets, provide working capital and make selective acquisitions. An IPO might be an option, but how have the small- and mid-cap listed consultancy groups fared over a turbulent two years? Has the stock market delivered what was promised? Is there another way?

### Key Issues to be Addressed

- Private or private sectors: what is the right balance?
- When and how are Government spending cuts impacting hardest?
- Where are there still opportunities for growth?
- Can a private sector recovery take up the slack?
- Is the grass greener abroad?
- How has the market treated PLCs in the sector recently?
- Is a flotation an option - what are the pros and cons?
- Is private equity investment a more viable alternative to an IPO?
- What are investors' criteria - and how do I meet them?

### The Speakers

Livingstone has assembled a group of seasoned senior executives from a range of high-profile PLCs and growing companies to share their thoughts and experiences of building successful businesses in some of the harshest market conditions in living history.

Co-hosted with:

**BEALE**  
AND COMPANY

 **LYCEUM CAPITAL**

### Booking Form

**Date:** Thursday, 24th March 2011

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

**Cost:** £110 + VAT for the first delegate and £100 for each delegate thereafter

Please return your form with payment to:  
Rosemarie Lamanno, Livingstone Partners LLP  
15 Adam Street, London WC2N 6RJ

For further queries please email Rosemarie Lamanno at lamanno@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 Conference.

Surname

First Name(s)

Job Title

Name of Additional Guest(s)

Company

Address

Post Code

Tel No.

Email

Signature

**Payment Details:** I would like to book \_\_\_\_\_ place(s)  
I am enclosing a cheque for \_\_\_\_\_  
made payable to Livingstone Partners LLP