

Speed Read

The 10 largest companies in the sector have delivered higher revenues than last year, with four showing growth of more than 10 percent. The top five remain the same for another year, although Viridor replaces SITA as the third largest revenue generator, while Tradebe, Reconomy and Global Renewables enter the top 20 for the first time. Veolia UK saw an increase in revenue, against the overall small decline in the Group's global environmental services division, and remains the largest player. A focus on the circular economy is now at the core of operations for many of the top 20 listed here, highlighted by reports such as Veolia's *Imagine 2050*. Merger and acquisition volumes have remained stable over the past year, and Catalyst expects activity to remain "resilient" in the year ahead, with greater market consolidation due in part to the 37 local recycling authority contracts up for renewal in the next 18 months.

# Improving Economy, Delivering Growth

**Mark Wilson**, partner, and **Robert Pearce**, head of research at Catalyst Corporate Finance, update us on the leading players in the UK waste management industry

Given the complexity of the waste industry today it is unsurprising that a number of themes have shaped the Top 20 list this year.

First, many of the business unit restructuring and efficiency programmes have either been completed or are well underway and have resulted in the 10 largest companies collectively generating significantly higher revenues than last year (+4.3 percent) with Viridor, FCC Environment, Cory and DCC Waste delivering growth above 10 percent.

The next 10 players, generally the privately owned businesses, have continued to deliver a combined growth of just under nine percent with Tradebe, Reconomy and AMEC's subsidiary, Global Renewables, entering the list for the first time. PHS notably contracted and this year sold its commercial and industrial (C&I) operations to Biffa.

Another important theme is the rise of the circular economy as a foundation on which companies are basing their strategies. SITA has outlined criteria that will drive its business, including increasing the volumes of waste recycled back into the economy and producing more renewable energy. Viridor has, for example, increased profits from recycling operations by 75 percent in the last year. Taking the concept even further, Veolia's *Imagine 2050* report captured a vision of bin-less homes with a strategy which moves away from waste management and recycling to manufacturing products for the circular economy.

It was also a big year of news and investment within energy from waste (EfW) and a vibrant debate emerged around future capacity. SITA published its *Mind the Gap* report, which claimed that the UK must invest up to £25bn in new waste treatment plants by 2025, a view supported by CIWM and Veolia. Eunomia, however, re-issued its *Residual Waste Infrastructure Review* in June, warning of the risk of EfW overcapacity. Defra also concluded that there is now enough infrastructure, partially explaining its decision to withdraw £169m of PFI credits for the proposed 250ktpa Cory incinerator in Norfolk. The Green Investment Bank has now countered this position, and recognises the gap that needs to be filled.

The Big Five

THE TOP five businesses remain the same as last year, however Viridor has overtaken SITA to become the third largest player in the UK. Viridor added almost £100m to its top line in the 12 months up to 31 March 2014.

Veolia Environmental Services

In contrast with the Group's environmental division's overall 1.5 percent revenue decline, Veolia UK's turnover rose by 2.7 percent in 2013 as a result of an increase in PFI contract revenue and a cost reduction plan offsetting a

disproportionate increase in costs relative to service prices.

Veolia launched a number of circular economy initiatives throughout the year, including London's first EfW-powered district heating system, which will supply heat and hot water to 2 500 homes from the South East London CHP plant.

In October 2013, Telford & Wrekin Council awarded Veolia a 24-year, £299m contract to collect, treat and dispose of 89ktpa of waste and manage recycling centres. In January 2014, Veolia renewed a contract with the London Borough of Brent, in place since 1992, to continue collections. The council estimates that the deal, worth £142m over nine years (with a possible seven-year extension) will save up to £1.3m per year. Veolia is among three bidders shortlisted for a household waste contract with Isle of Wight Council, worth up to £225m over 15-25 years; the preferred bidder

The Criteria: Table 1 was compiled using audited financial statements filed at Companies House, participants' relevant stock exchange or submitted directly by the company to Catalyst Corporate Finance. To be considered for inclusion, participants' revenues are required to be consolidated and relate to waste management activities undertaken in the UK, revenues generated outside the UK have been extracted. The compiled list allows for companies domiciled outside of the UK to be considered, providing entities report separate accounting information for UK activities.

NB: Veolia's revenue figure has been converted from euros using the average annual exchange rate. AmeyCespa would have featured in the list, however it has not been possible to separate the waste business from the wider Government division.

Company	Revenue in latest year £m	Ownership
Veolia Environmental Services	1,424	Foreign Listed
Biffa Group	830	Private Equity
Viridor (Pennon Group)	802	UK Listed Group
SITA UK (Suez)	783	Foreign Listed
FCC Environment	596	Foreign Listed
Cory Environmental	260	Private Equity
Shanks Group	181	UK Listed
DS Smith Recycling UK	137	UK Listed Group
DCC Waste Services	111	Foreign Listed
SRCL (Stericycle)	91	Foreign Listed
Grundon Waste Management	82	Private
Tradebe Environmental Services	82	Foreign Private
LondonWaste	72	Local Authority
LEO Group	71	Private
SAICA Natur UK	68	Foreign Private
Hills Waste Solutions	57	Private
Reconomy	57	Private Equity
PHS All Clear	55	Private Equity
AMEC – Global Renewables	54	UK Listed Group
Cleansing Service Group	53	Private

Table 1: The leading players in the UK waste management industry by revenue generated in the latest year

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will be selected by August 2015.

In October 2013 construction began on the company's EfW facility at Cross Green industrial estate, expected to be operational in 2016, as part of a 25-year partnership with Leeds City Council to process 214ktpa of residual household waste. In May 2014, Veolia inaugurated its high-tech 300ktpa incinerator with energy recovery in Staffordshire, in line with the council's "Zero to Landfill" strategy and part of a £1bn PFI contract. Not all Veolia's plans have been successful however. Despite gaining approval at local level in October 2012, the company's proposed 380ktpa EfW plant near Hatfield was denied planning permission in July by Communities Secretary Eric Pickles, over concerns of its impact on the Green Belt.

Veolia also agreed with its joint venture partner EDF to take over the international operations of biomass and anaerobic digestion (AD) specialist Dalkia Group, which includes a 120ktpa wood-fed biomass plant in Durham.

**Biffa Group**

Despite revenue remaining relatively static at £830m, Biffa has made quite a few headlines over the last year, with the business featuring in the *Sunday Times* Top Track 100 for the UK's highest earning private companies and CEO Ian Wakelin going undercover in Channel 4 series *Undercover Boss*.

The municipal division delivered a positive cash flow despite a difficult year, due to a client base under increasing financial pressure and the landfill and C&I divisions performed well in a challenging operating environment. In July 2013, Biffa rolled out a new collection service for Ashford as part of a 10-year, £86m contract with the Mid Kent Waste Partnership. Ashford trebled its 14 percent recycling rate within three months, having previously been

the worst performing local authority.

Last September, Biffa was awarded a seven-year £12m contract to collect waste for Crawley Borough Council, with the option to extend to 2024. It was also one of four contractors to secure a contract from East Riding of Yorkshire Council and Hull City Council which are jointly worth £200m over 10 years. This year Biffa secured contract extensions worth over £110m with seven local authority clients, and in July agreed to extend its 2009 contract with South Oxfordshire and Vale of White Horse district councils – two of England's best performing recycling authorities with rates of over 65 percent – for a further seven years in a £70m deal. Biffa also remains one of the three bidders shortlisted for a household waste contract with Isle of Wight Council.

Infrastructure issues have impacted the business recently. Further delays postponed the opening of its 327ktpa West Sussex MBT plant and the company is tackling odour issues that have led to the Environment Agency issuing enforcement notices at its Redhill landfill site and 120ktpa AD plant in Cannock.

Early this year Biffa completed the acquisition of Shanks' UK solid waste business for £9.5m, which will support its consolidation in the industrial and commercial sector. In the same month it acquired PHS Wastetech, also focused on commercial waste, for £2.5m. Both deals will help channel increased waste volumes into Biffa's recycling and EfW facilities.

**Viridor**

Viridor posted a 14 percent rise in revenue to £802m for the year ending 31 March 2014, to beat SITA into third place. In August 2013 Colin Drummond retired after 20 years as chief executive and was replaced by Ian McAulay. The strategy

appears to remain a combination of securing long-term contracts, driving quality in recycling and increasing capacity in waste-derived renewable energy.

In December 2013, after fending off competition from Veolia, Viridor secured a 25-year, £1.1bn PPP with Prosiect Gwyrdd, a partnership of five local authorities in South Wales. 172ktpa of residual waste will be treated at Viridor's £223m EfW facility in Cardiff, due to be completed in 2014, which has a capacity of 350ktpa and will generate 28MW of electricity annually.

In addition to Cardiff, Viridor has made good progress with its EfW portfolio, with a number opening this year. In April, its 60ktpa EfW plant in Exeter received its first waste delivery and began commissioning in advance of full scale operations expected in July. After numerous planning hurdles, the £200m EfW facility in Oxfordshire began operations in June. The 300ktpa CHP facility was developed under a 25-year deal signed in March 2011 with Oxfordshire County Council to process approximately 150ktpa of residual waste, with additional merchant capacity, and will return 25MW of electricity to the grid. However, Viridor was dealt a blow on the £200m, 275ktpa EfW plant in Sutton after a judge called for a judicial review into the decision to award planning permission. The proposed facility is part of a £990m, 25-year contract with the South London Waste Partnership signed in November 2012.

In June, Viridor won a two-year contract to process and sell 61ktpa of dry recyclable material from Kent County Council, with kerbside collections to be processed at its 400ktpa MRF facility in Crayford, along with household recycling from a two-year contract with the London Borough of Hillingdon.

Viridor also remains one of two final bidders announced in September 2013 for a contract with the City of Edinburgh and Midlothian councils to treat 135ktpa of mixed waste.

**SITA UK (Suez)**

SITA's revenue has remained relatively flat since last year. Its CEO David Palmer-Jones described 2013 as a "transformational year" for the company, with good progress made on the development of infrastructure including EfW, MRF and plastic-to-diesel facilities. SITA currently has 2m tonnes of capacity in construction or being commissioned in 2014.

SITA's sustainability report published in November 2013 reaffirmed its commitment to meeting the increasing demand for refuse derived fuel (RDF) in the UK as well as investing £1.4bn in waste treatment infrastructure over the next three years.

In July 2013, SITA was awarded a seven-year, £53m contract with Northamptonshire County Council to treat 79ktpa of waste, which will be sent to its landfill site in Wellingborough for the first two years and subsequently to a 200ktpa SRF facility in Rugby, which is being commissioned this year. In December, a consortium led by SITA finally signed a 30-year residual waste treatment contract with Merseyside Waste Disposal Authority following a nine-month delay caused by legal action by previous bidder Covanta. The £1.2bn contract involves the development of a 430ktpa, £250m EfW facility with CHP in Teesside to treat waste from 600 000 households.

In January, SITA commenced a contract with the West London Waste Authority, worth £1.4bn over 25 years, to treat 300ktpa of household waste from 1.6m residents. The Green Investment Bank has invested around £20m in the £244m 34MW Severnside Energy Recovery Centre, due for completion in 2016, which will receive residual waste by rail. In March, SITA signed a £10m contract with Walsall Council to take over operation of two household waste and recycling centres and a waste transfer station, which handles

around 100ktpa, with the aim of increasing recycling and reducing waste to landfill.

SITA began treating residual waste at its 256ktpa EfW plant in Teeside in April. The £160m facility, as well as three waste transfer stations which have also begun operations, is part of a 25-year, £727m contract with Stockton, Middlesbrough, Redcar and Cleveland and Hartlepool councils.

SITA remains the largest exporter of RDF to the Continent for energy recovery and overall industry volumes exported increased sharply in 2013 to over 1.59m tonnes. This is expected to grow next year, supported by its acquisition of Nordic Recycling in July.

#### FCC Environment

FCC posted an impressive 14.3 percent turnover increase to £596m, principally due to construction revenues recognised on its Lincolnshire Waste Partnership EfW facility, as well as the improved performance of its Allington incinerator and recycling activities.

In December 2013, FCC underwent a £381m refinancing and subsequently secured an £80m investment from its Spanish parent company. In October, the Bill and Melinda Gates Foundation bought a six percent stake in parent company Fomento de Construcciones y Contratas for €113.4m.

FCC has had mixed fortunes over the past year in terms of securing contracts. In September 2013, it was awarded a contract to manage 14 household waste recycling centres on behalf of Staffordshire County Council, for up to 15 years. Also in September it was announced that FCC was one of the final two bidders (along with Viridor) for a contract with the City of Edinburgh and Midlothian councils to treat 135ktpa of mixed waste.

However, in the same month, the North London Waste Authority scrapped plans for what could have been the UK's largest waste contract, stating it would be seeking a cheaper alternative. A consortium of FCC and Skanska had been sole bidders. Further disappointment came in February when FCC's challenge over the granting of planning permission for Covanta's proposed 585ktpa, 65MW EfW facility, due to be built in Bedfordshire, was rejected.

FCC beat Viridor to be named preferred bidder for an eight-year 65ktpa residual waste contract with Cheshire West and Chester Council, as well as to securing a contract with Wigan Borough Council, which would involve sending waste to its £300m EfW facility in West Yorkshire, due to become operational in summer 2015.

Construction work on Mercia Waste Management's (a joint venture between FCC and Urbaser) 200ktpa EfW facility near Kidderminster will finally commence following lengthy discussions over financing the project involving Worcestershire County Council, Herefordshire County Council, Mercia and Defra, which is providing PFI credits worth £5.5m per year. The plant is due for commissioning in Spring 2017 under a £926m, 25-year PPP contract.

Plans to build the Bowling Back Lane incinerator as part of a 25-year, 193ktpa waste contract, for which an FCC / Skanska consortium were preferred bidders, was cancelled in December 2013 by Bradford and Calderdale councils, following Defra's decision to withdraw £62.1m in funding. In May 2014, FCC's 150ktpa EfW plant in Lincolnshire, developed under a 30-year contract with Buckinghamshire

County Council to process 300ktpa of waste into 22MW electricity, became operational.

#### Mergers & Acquisitions (M&A)

M&A VOLUMES have remained stable over the past year despite a focus on the building-out of infrastructure among the top five, particularly EfW facilities.

After struggling in the commercial waste market due to lack of scale, Shanks divested its UK solid waste business to Biffa for £9.5m and its 150ktpa Blochairn MRF to Glasgow Council, and will focus on its profitable UK municipal division which is underpinned by a series of long-term contracts. Biffa also acquired commercial waste business PHS Wastetech for £2.5m, which will lead to growth in its energy and processing operations.

SITA entered into a joint venture with hazardous waste specialist Tradebe to form a clinical waste and treatment business, which will operate three high temperature incinerators and six alternative technology facilities, but also sold five scrap recycling sites to European Metal Recycling, following years of difficult trading conditions.

Tradebe also acquired Inutec, a specialist radioactive waste management company. Activity continued in the hazardous sector as Augean sold off its waste network assets, following disappointing results, to Greenway Environmental and Cleansing Service Group for a total of £1.2m, while Environmental Resource Group acquired Hazchem Waste Disposal and the Lamp Recycling Company.

Private equity (PE) investors continued to invest in the sector. Through the Green Investment Bank, Foresight invested £15m in a 1.2MWe AD facility in Enfield, Agilitas Partners backed the management buy-out of Impetus Waste Management and H2 Equity Partners acquired Ballast Phoenix for £30.1m. There are now four PE backed businesses in the Top 20, which have been in ownership for a number of years, so it is likely that an exit will be sought by these PE investors over the short-term.

Overall, we expect M&A activity to remain resilient over the next year, with interest from overseas investors and private equity attracted to companies focused on renewable energy, maximising recycle values and accessing long term fuel supply. Over the course of the next 18 months more than 37 local authority contracts will be renewed, which includes almost 1m tpa of recycle, a substantially larger volume than normal. We anticipate that the bidding process for these contracts could contribute to more consolidation in the market. **CIWM**

*Catalyst Corporate Finance ([www.catalystcf.co.uk](http://www.catalystcf.co.uk)) is an award-winning international corporate finance advisor and specialises in the waste management sector.*

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