

VIEWPOINT ARTICLE

2010 REFM Mergers & Acquisitions Report

Making sense of M&A deals to understand global trends in the Real Estate & Facilities Management sector

M&A:

The most active providers in 2010 were the Compass Group and ABM.

The year 2010 has seen its fair share of mergers, acquisitions, partnerships and joint-ventures within the Real Estate & Facilities Management sector. If in the past ISS has been an unstoppable M&A machine (refer to exhibit at the end of this article), the award for the most active company in this field over the course of 2010 probably belongs to both the Compass Group and ABM.

As detailed in the table next page, Compass realized no less than four major acquisitions in 2010. Compass continues its global expansion and is the only company on our list and under Agile OAK's REFM watch that made major acquisitions clearly outside of its home market but still within its core service offering centered around workplace services and in particular food services

This is a stark contrast with ABM, which continues to strengthen its presence in its home market. ABM's presence has been historically stronger on the US West Coast and its recent acquisitions have allowed ABM to considerably strengthen its presence on the US East Coast. The acquisition of The Linc Group also gives ABM greater access to Government contract opportunities and enables it to provide FM services under the GSA umbrella. The combined engineering operations of both ABM and Linc will be close to an impressive \$1 billion in revenues.

In France, Vinci, which can claim to be the world largest construction company, surprised the market place with the acquisition of France-based Faceo and the creation of Vinci Facilities with expected FM-related revenues exceeding 1.3 billion euros per year. Austria-based Strabag, usually active on the Eastern Europe M&A market, made a substantial acquisition in Germany by acquiring Rimex. Rimex's soft services core offering allows Strabag to strengthen its FM services, which traditionally have been more focused on the delivery of project and hard services.

The most important REFM acquisition on our list, however, was realized in 2010 by a Finnish group little known in the Real Estate and Facilities Management sector. YIT purchased building maintenance specialist, Caverion, making YIT Germany's second largest provider of building system services.

Acquirer	2010 Major FM Acquisitions (>1,000 employees) sorted by revenues in USD (highest to lowest)				
	Name	Core Business	Employees	Revenues	Deal Value
YIT Finland	Caverion Germany	Building Maintenance	1,900	€440 million (± US \$614m)	€73 million (Aug 31: US \$93m)
Vinci France	Faceo France	Facilities Management	2,500	€430 million (± US \$600m)	Undisclosed
ABM USA	Linc USA	Facilities Management	3,000	US \$580 million	US \$300 million
Compass UK	Hurley Group Canada	Cleaning and Facility Management	3,500	Est. ± US \$160 million	€34 million (Feb 5: US \$47m)
Compass UK	Southeast Service Corporation USA	Cleaning Services	6,500	US \$153 million	US \$65 million
Compass UK	IDA Service Denmark	Food Services	1,700	DDK500 million (± US \$95m)	DDK148 million (Sep 30: US \$27m)
ABM USA	Diversco USA	Cleaning Services	3,000	\$79 million	Undisclosed
Compass UK	Clean Mall Servicos Brazil	Workplace services	5,000	BRL80 million (± US \$41m)	Undisclosed
Strabag Austria	Rimex Germany	Cleaning & Landscaping	2,000	€27 million (± US \$40m)	Undisclosed

2009 average exchange rate for used for revenues conversion: 1.39 USD/EUR 0.19 USD/DKK 0.51 USD/BRL
The exchange rate used to convert the deal value in USD is the spot rate on the date the acquisition closed in 2010.

Market Entry

Even though the market for Real Estate & Facilities Management is maturing and becoming more and more competitive each day, a few new entrants continue to appear:

- ▶ German data center specialist, Schnabel AG created Schnabel ImmobilienService after the takeover of the Facility Management division of the troubled German Real Estate firm X-TERN.

- ▶ In the UK, T Clarke acquired DS Engineering for £11.6 Million and announced in March its intention to step into the market for Facilities Management services.
- ▶ Deloitte acquired Drivers Jonas. The acquisition of UK's oldest real estate consultancy firm suggests Deloitte intends to step into the commercial property advisory market. Drivers Jonas Deloitte employs 700 professionals and will generate £110 Million in annual revenues, complementing Deloitte's existing real estate advisory business and corresponding to an additional £200 Million in fees.
- ▶ In United States, the re-organization of Colliers prompted several affiliates to create Cassidy-Turley. Affiliates from other commercial real estate firms such as Grubb & Ellis followed suit and joined the new affiliate structure, which combined manage 420 Million square feet and in 2009 generated the equivalent of \$13 billion in completed transactions.

Eastern Europe: EU's Gold Rush

In Eastern Europe, major French and German REFM service providers rushed to benefit from a general economical slowdown by making acquisitions in a market which still shows significant growth prospects in the long run.

- ▶ France's BNP Paribas Real Estate acquired the property management subsidiaries of AEW in Poland (PBW Polska), Hungary (PBW Hungary) and Czech Republic (PBW Czech Republic), adding 4 million SQFT to its property management portfolio.
- ▶ German-based Strabag Property and Facility Services acquired Czech-based ECM Facility, which had 220 employees and generated sales of 16 million euro in 2009.
- ▶ France's Atalian strengthened its presence in Europe with the acquisition of AEW Europe, BFM Facility Management (Hungary), EKUS (a business which provides primarily cleaning and maintenance services to the banking and manufacturing industries, located in Croatia), KADUS (a staffing company, again located in Croatia) and PFM Facility Management (Czech Republic).

Perspectives on the REFM market in Eastern Europe

Eastern Europe consists of a number of REFM sub-markets in different stages of their maturity. A recent market analysis highlighted that some of them have very similar characteristics. The REFM Eastern European market can therefore be categorized as follow:

Central Eastern Europe

This region, represented by Poland, the Czech Republic, Slovakia, Slovenia and Hungary, is highly developed due to its size, proximity and historical importance to Western European countries such as Germany, France and Austria. The REFM services development of the region was triggered by heavy international property investments and the demands of financial companies requiring a range of quality services meeting international standards. Internationalization of the REFM market is occurring mainly through acquisitions or outsourcing of local service providers by French, German or Austrian companies such as ECM Facility (CZ) or Slovak Telecom (SK). These Western European companies dominate the market, although some high-performing local players are beginning to emerge.

South Eastern Europe

This region consists of Croatia, Albania, Bulgaria, Romania and all other Balkan countries. These markets are heavily centered on their capital cities. The market is still dominated by numerous local companies such as BSS and MT&T (RO) and Forton (BG), most of which are not full-range suppliers but rather hard or soft FM providers, or property management firms. Companies aiming to enter this market will therefore have to either build up their own operations following their existing international clients or acquire a bundle of companies in order to reach a significant market size. This is one reason why actual M&A activities are seldom reported (due to their lack of size), despite the significant growth prospects for the whole region.

Increased intra- Central Eastern Europe activity

In several M&A mandates which Reality Consult currently executes, intra- Central Eastern Europe M&A activity is becoming a factor. Some of this is opportunistic, but other cases are actually cross-border initiatives designed to build up a regional presence. This could end up being the most interesting development of all.

Georg Stadlhofer, Reality Consult

Commercial Real Estate: the rise of the Canadian firms

In recent years, major Canadian banks have made some major investments in the US Market. The trend is not restricted to the banking industry as two

important commercial real estate firms from Toronto were also quite active in the US Market and beyond in 2010.

- ▶ Over the past two years, Avison Young has opened offices in Chicago, Houston and Washington D.C. In 2010, Avison Young acquired Atlanta-based Hodges Management and Leasing Company (HMLC).
- ▶ In 2010, Colliers International went from a decentralized affiliate model to a centrally owned and operated business with approximately 70% ownership under Toronto-based FirstService REA's control, with the remaining equity retained at the local Colliers operator level.

Sustainability: limited M&A activity from FM Service Providers in Energy Management and Energy Management Solutions

The market in the Energy area is extremely active with the announcement of multiple partnerships and joint-ventures. While alternative energy solutions seem to get a lot of attention from the market, there have been fewer acquisitions made by FM Service Providers of firms specialized in Energy Management and Energy Management Solutions. It is therefore not unusual to see firms such as McKinstry, Cofely and Veolia for which utilities management is part of their core business active in this highly technical niche of the FM industry. We are wondering if this low level of interest stems from the limited availability of smaller firms with the technical know-how/technology or valuation multiples out of the reach of typical FM Service Providers.

- ▶ McKinstry acquired in 2010 Enterprise Energy Management Suite from its long-time partner Itron. The acquisition allows McKinstry to integrate smart grid technology into building systems. The EEM Suite is a web-based solution, which monitors buildings' energy and water usage and which McKinstry has been licensing from Itron since 2007 as a part of its facility management offering to its clients.
- ▶ Cofely acquired Proenergy Contracting, which operates in Germany, Hungary, Austria, and Romania and which provides energy services to various types of facilities, including hotels, hospitals and industrial properties. Cofely also acquired UK-based Utilicom and, as a result, created Cofely District Energy to expand its existing portfolio of district

District Energy:

District energy systems produce steam, hot water or chilled water at a central plant. The steam or water is then piped underground to individual buildings for space heating, domestic hot water heating and air conditioning.

As a result, individual buildings served by a district energy system do not need their own boilers or furnaces, chillers or air conditioners.

Source: International District Energy Association

energy schemes in the UK, which counts more than 110 agreements throughout Europe.

- ▶ District energy agreements might be on the rise in Europe, but in the US and among the REFM Service Providers under our watch it is Veolia which is expanding its footprint. Veolia Energy North America (Dalkia parent company) acquired the Baltimore-based Comfort Link district cooling system business, with plans to improve the company's technology. Comfort Link, one of the largest U.S. ice thermal storage system specialists, was previously a partnership of Baltimore Gas and Electric (a Constellation Energy subsidiary), and Monumental Investment, a subsidiary of Emcor Group.

Going forward...

It is no news that ISS owners, Goldman Sachs and EQT have been shopping ISS around, following a dual approach towards an initial public offering (IPO) or sale. At the time of this article's completion, it was reported in several reputable publications that Goldman Sachs and EQT had halted exclusive discussions with Apax Partners for the 6.4 billion euro sale (\$8.4 billion) of ISS to the private equity firm. ISS was purchased in 2005 for 21.9 billion Danish Kroner (equivalent to \$3.9 billion) and had the sale gone through, it would represent more than a 100% return on gross invested capital.

As investors return to the stock market, our opinion is that ISS owners believe an IPO might yield better results even though it represents a riskier alternative, given the likelihood that ISS may only be perceived as a cleaning company. We believe that the lack of understanding of the sector weighs on the stock of publicly listed Service Providers and this might explain why many of them are still privately held.

Going forward, South Asia and South-East Asia will probably be very active M&A markets for REFM service providers. India has seen the emergence of a major player, A2Z Maintenance, whose initial public offering in December closed with a 96% subscription rate. Curiously, the share issuance received a weak response from qualified institutional buyers but a good participation from non-institutional investors. In China, the market dynamics are

different. The identification of currently suitable acquisition targets requires considerable efforts from service providers. Nevertheless, the market potential makes it a very appealing region in the longer run.

REFM in China

Despite the large number of REFM services suppliers in China, there has been limited visibility of M&A activity. The reasons for this are many. First, China's REFM services companies tend to be quite small. In fact of the approximately 2,000 companies listed on China's two main stock markets not one of them is listed as an REFM service provider. Thus, the transaction value of the M&A activity that does occur is so small that it is not typically reported.

Sixty-five percent of the top one hundred Chinese REFM service providers are spin-offs from, or otherwise directly associated with a real estate developer. The reason these providers exist is to service the developer's projects, which they exclusively support. For example Vanke Property Services Company the number one REFM service provider in China is associated with Vanke Real Estate Group, China's largest residential real estate developer. Additionally, SOHO China, one of the largest commercial real estate developer, fully owns its property services company. These types of firms seldom engage in the pursuit of independent REFM opportunities and are not typically visible or of interest to the much larger internationally recognized REFM service providers.

There are a few independent REFM providers with more ambitious expansion plans such as Shenzhen Tefa Property Services Company, Shanghai Zhicheng Environment Services Company, Shanghai Donghu Property Services Company. However, more often than not these types of domestic Chinese companies do not yet meet the sophisticated requirements of their potential international suitors.

For these reasons international REFM services organizations have had a difficult time finding a willing or qualified M&A target in China. However, as the market matures and the smaller independent providers continue their locally focused consolidation activities, we believe that REFM acquisitions in China will become a much more viable value proposition for international firms looking for expansion into the Chinese market place.

Timon Smith, FacilityOne

How did a company from Denmark, a country with only five million inhabitants, grow to have half a million employees?

Between 2005 and 2010, ISS made round-the-world acquisitions and added 70,000 to 100,000 employees to its current workforce. This comes in addition to the employees ISS transitioned from various accounts after being awarded new contracts.

Exhibit 1: List of ISS acquisitions between 2005 and 2010			
Date	Acquisition	Country	Employees
Jun. 05	Manchester Property Care Ltd. (MPC)	New Zealand	900
Aug. 05	Cleantec Hospitality Services Private	India	2,300
Oct. 05	Norwegian Personalhuset AS	Norway	500
Feb. 06	Tempo Services Ltd (from 49% to 100%)	Australia	21,000
May 06	San Rafael S.A. de C.V. Tap New S.A. de C.V.	Mexico	10,000
Apr. 06	Lyon y Compañía Ltda.	Chile	2,100
Jul. 06	Gayren Maintenance Services	Philippines	1,500
Jul. 06	Edelweiss Facility Management AG	Switzerland	740
Nov. 06	DEBEOS GmbH	Germany	548
Jan. 07	Topman Fealty	Taiwan	2,000
May 07	Sanitors, Inc.	USA	10,000
Nov. 07	Martex S.A.	Mexico	76
Nov. 07	Shivas Hotliers and Caterers Pvt. Ltd.	India	2,500
Nov. 07	Putra Bogasari Buana	Indonesia	
Nov. 07	Makati Skyline	Philippines	
Feb. 08	Aspis Security S.A.	Greece	1,400
Mar. 08	BGM Industries	USA	est. 4,000
May 08	Sardunya Paksil	Turkey	3,000
Aug. 08	Habitue	Uruguay	Undisclosed
Dec. 08	Chubb	New Zealand	Undisclosed
May 09	Godrej HiCare Ltd	India	est. 3,000
Aug. 10	SDB Cisco (49% stake only)	India	27,000
2005-2010: 25 acquisitions in 15 countries			70,000 to 100,000 emp.

About The Author



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Prior to consulting, Jean-Philippe headed the REFM department of Citizens Bank where he was in charge of a portfolio of 250 retail banks in the US.

A seasoned global sourcing professional in the Automotive and Electronics industries as well as an experienced engineer on large European construction / engineering projects, JP spends his time between North America and Europe advising organizations on the optimization of their REFM Operations.

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Timon successfully led an initiative to set up an ARCHIBUS Learning Center at Tongji University, widely regarded as one of the top two Real Estate-related universities in China.

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