

STRATEGY

FM Market

Workplace Futures 2011

10 February 2011, Churchill War Rooms, London

ADVISORY

What we will cover

Key market themes

What is the FM market and how big is it?

Market drivers and trends

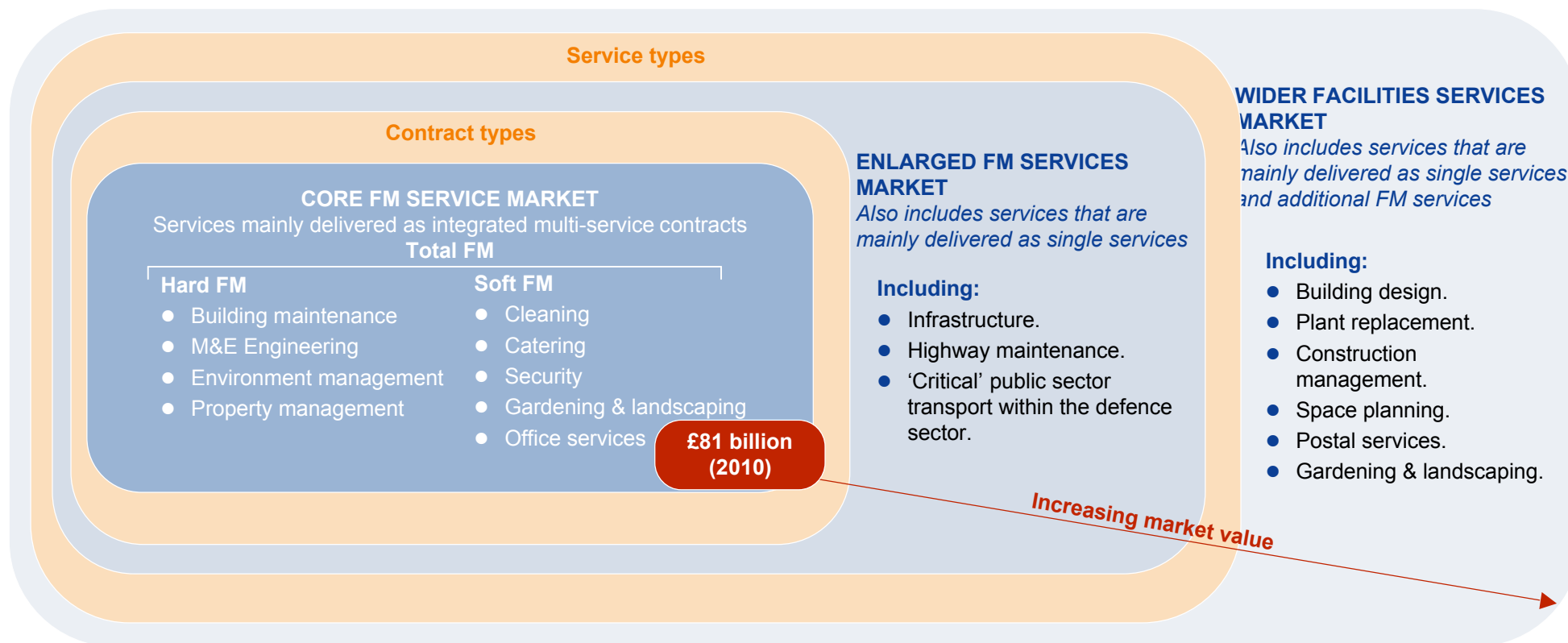
Sector outlook – risks and opportunities for FM

Public sector focus – wherever next?

M&A activity

KPMG research suggests that the core UK outsourced facilities management market is valued at circa £81 billion

UK market map for outsourced FM services, 2010



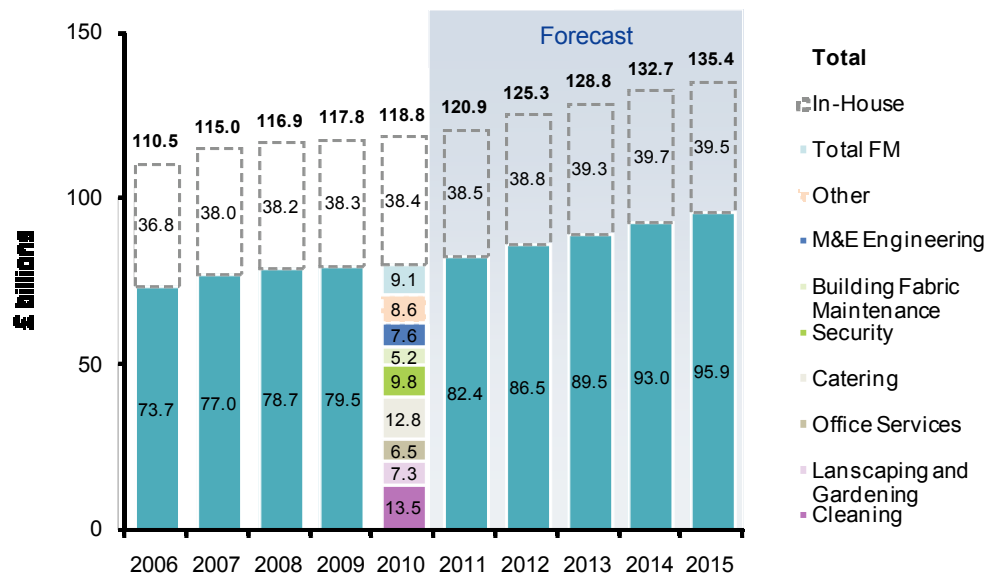
Key: ■ Total market size

This market includes delivery of hard and soft services, singly or bundled, by third party providers

Overview of the UK FM Market

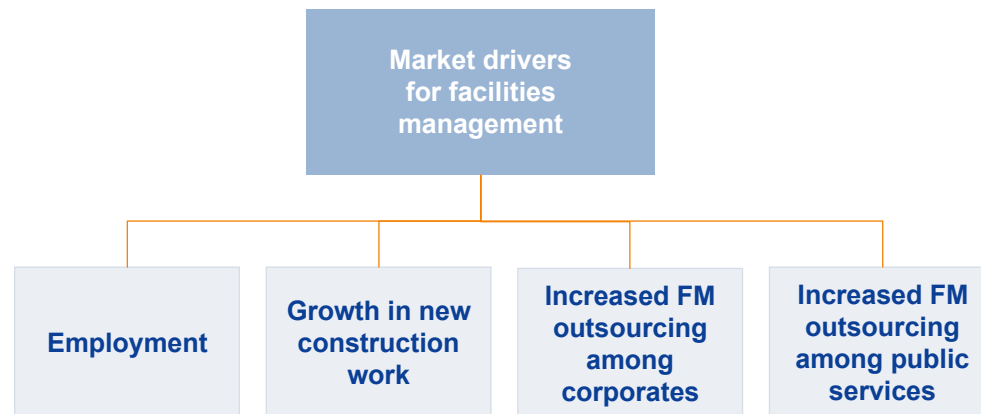
The market has seen steady growth to date with major companies taking share from the smaller players

UK Facilities Management market 2006-2015F



CAGR (%)	2006-2010	2010-2015F
In-House	1.1%	0.6%
Outsourced	2.2%	3.6%
Total UK FM Market	1.8%	2.7%

Traditional FM Market Growth Drivers



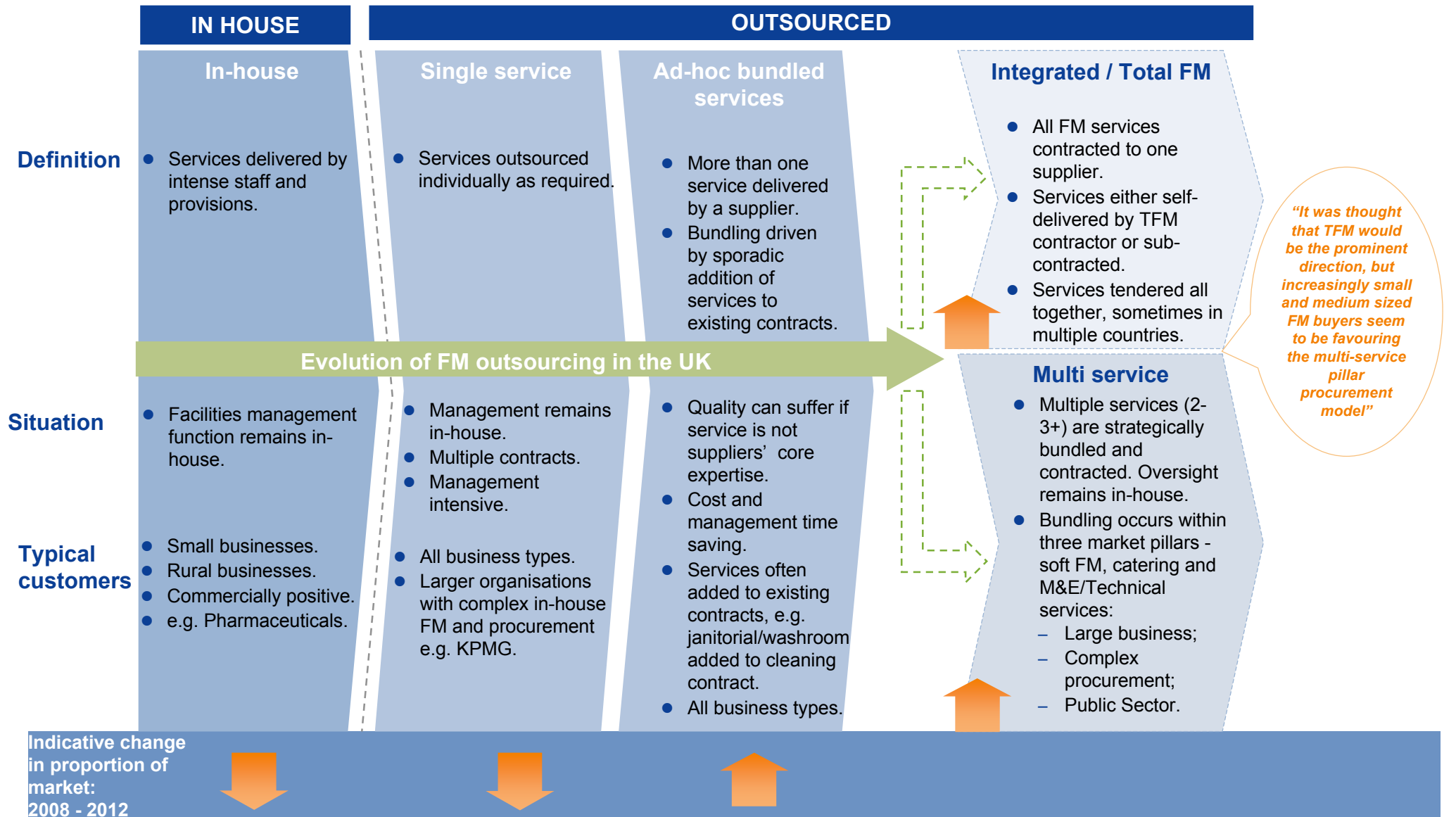
Note: Other includes office services.

Source: MBD, The UK Facilities Management Market Development, January 2011, Trade Estimates, KPMG Research and Analysis.

Consolidation of basic services; the move to broader multi-service contracts, and changing regulation is driving smaller players to be acquired, or go out of business as margins are pressured and costs under scrutiny

Drivers and Trends

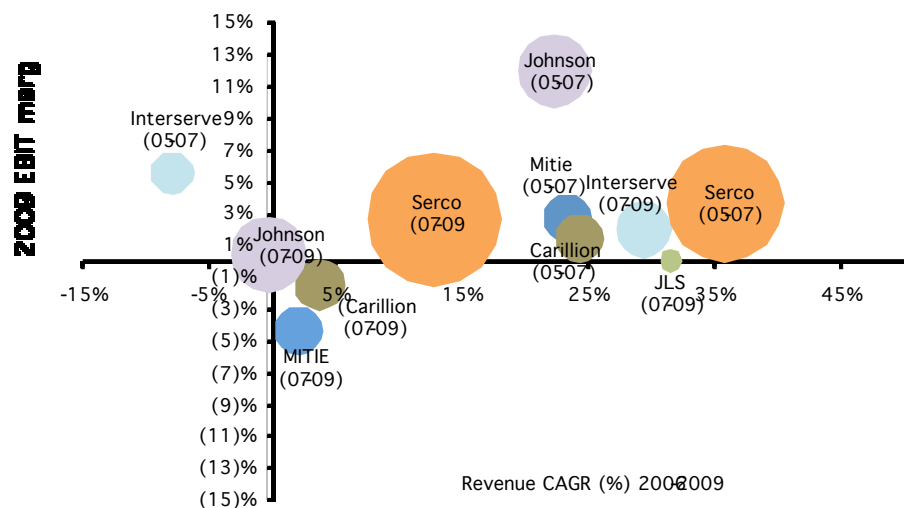
There has been significant evolution in the procurement of FM services, from in-house provision, through single service and now to a mix of multi-service bundled offerings



Drivers and Trends

Multi-service contracts are typically serviced by soft services providers; the majority of true Total FM and Agency players have a hard FM or construction background

Selected FM provider performance comparison^{(1)(a)}
2005-2007 and 2007-2009

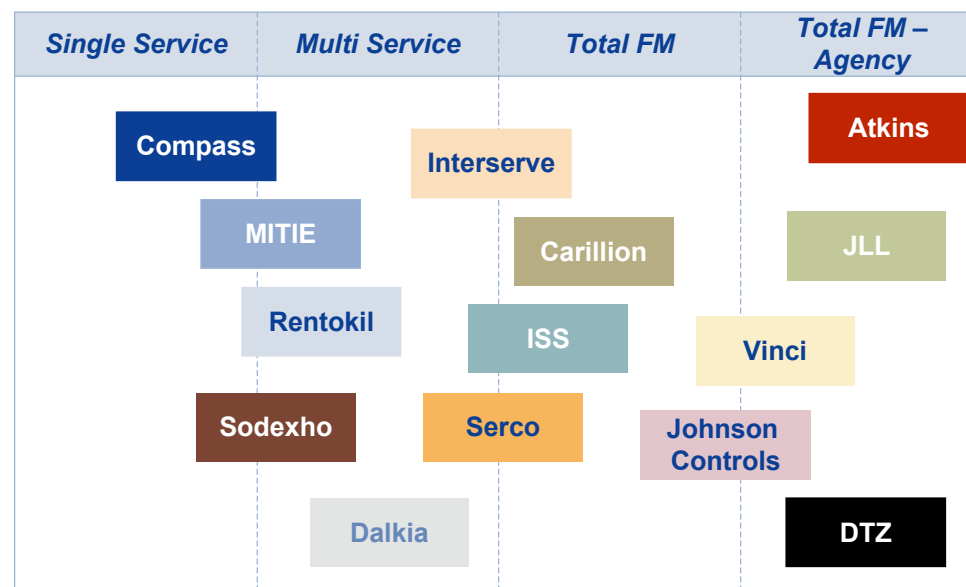


	Revenue 07 (£ million)	Revenue CAGR (2005-2007)	EBIT Margin (%) 2007	Revenue 09 (£ million)	Revenue CAGR (2007-2009)	EBIT Margin (%) 2009
MITIE (FM) ^(a)	222	23.3%	2.7%	231	2.0%	(4.3)%
Carillion ^(b)	232	24.3%	1.5%	249	3.7%	(1.4)%
Serco ^(c)	1,384	35.7%	3.7%	1,760	12.7%	2.7%
Interserve ^(d)	184	(8.0%)	5.6%	307	29.3%	2.1%
Johnson Controls Limited	546	22.3%	12.0%	542	(0.4%)	0.5%
Jones Lang LaSalle Limited	30	108.5%	(2.0%)	53	31.4%	0.1%

Notes: (a) Financial information is for FM divisions of these companies. 2009 financial information is the latest available. All companies shown have a December year-end with the exception of Mitie (March) and Johnson Controls September. Mitie's 2009 financial information has been adjusted from a 15 month basis to a 12 month basis.

Sources: (1) FAME, financial information by company, accessed January 2010.

Primary service delivery focus, by selected company

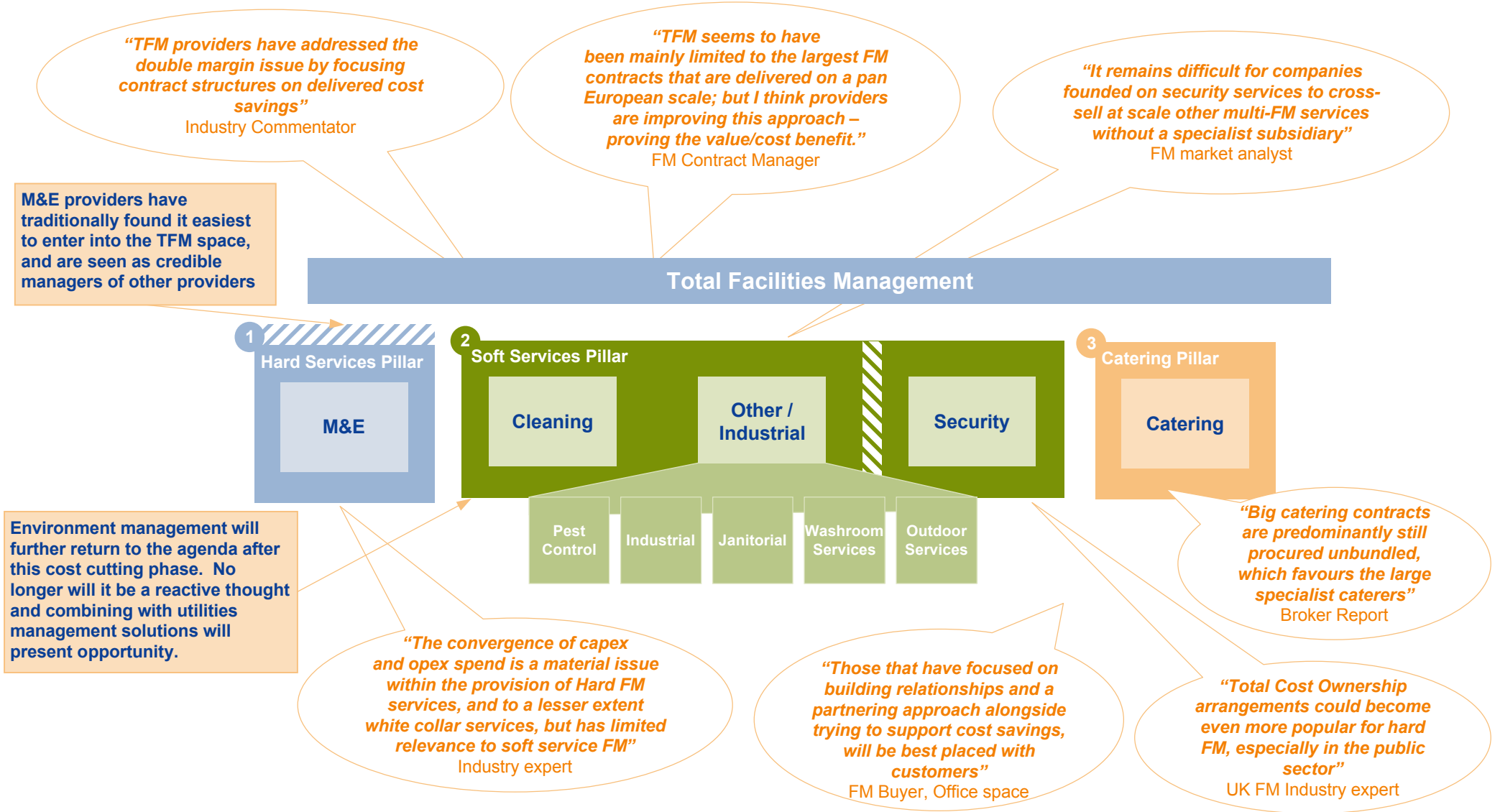


TFM and large multi-service contracts often include both hard and soft services

- While contracts can focus on solely hard or soft services, the majority blend the two. Currently, around 60% - 70% of large scale Total FM contracts are hard service led.
- This trend is reflected in the major providers operating in the sector, with many of them originally hard FM or construction focussed businesses e.g.: Carillion, Haden Building Management, Johnson Controls. Traditionally soft service companies, including MITIE, Sodexo and ISS are making inroads into the space.

Overview of the UK FM Market - Multi-service FM

TFM has evolved its proposition....



Overview of the UK FM Market

Sector Outlook – we see challenges and opportunities for FM

Key market issues				
	Sector	2010 Workforce	Outlook	Market Direction
Private Sector	Transport	6.1m	<ul style="list-style-type: none"> New projects offer opportunity, but cost inflation needs control and help from FM. 	
	Services	5.0m	<ul style="list-style-type: none"> Moderate growth, restricted by unemployment and PDI pressures. 	
	ICT	3.4m	<ul style="list-style-type: none"> Continued growth; office based activities offer opportunities for traditional FM. 	
	Construction / Real estate	2.5m	<ul style="list-style-type: none"> Increasing activity but tempered growth. Environmental issues high on the agenda offer opportunities for providers with capability. 	
	Manufacturing	2.5m	<ul style="list-style-type: none"> Having a good time at present. Outsourcing penetration has been lower than average, but expansion and increased innovation may provide opportunity here. 	
	Financial Services	1.1m	<ul style="list-style-type: none"> After a tough 24 months, the financial services industry is enjoying a period of growth. With a lot of cost removed, we expect a focus on service quality. Opportunities for contract churn. 	
	Other <small>(Primary industry, Utilities and Entertainment)</small>	1.6m	<ul style="list-style-type: none"> Cost and volume pressures across much of the private sector. Demonstrable cost savings from FM providers seen as a key differentiator: <ul style="list-style-type: none"> ➤ <i>“If a provider can bring us savings whilst maintaining service quality, we will be happy to share in the upside”</i> FM buyer, Major Utility. 	
Public Sector	Education	2.7m	<ul style="list-style-type: none"> Capex spend to decrease by up to 50%; Free schools may present opportunity; Big cost pressures. 	
	Healthcare	4.0m	<ul style="list-style-type: none"> Significant pressure on non-clinical spend, with moves towards centralising non-clinical procurement – may offer opportunities, albeit with price pressures throughout. Specialisation and healthcare-focused engagement seen as a differentiator. 	
	Public Services	1.7m	<ul style="list-style-type: none"> Significant cost pressure in local government. Capex budget in education cut by 60% and BSF scheduled back. Operational spend on older estates may provide opportunity. Mutualisation / localisation agenda and community delivery of service may offer opportunities to FM providers. 	
	Defence	0.3 m	<ul style="list-style-type: none"> Need to save £350m in estate running costs – increase outsourcing ; pressure on contract values. 	

What will happen in the Public Sector?

A tough challenge...

“The Government's planned spending cuts could be formidably hard to deliver”
Institute for Fiscal Studies

- £81 billion of cuts and average real budget cuts of 19% by 2014/15
- There will be some 'rough and ready' approaches to cost cutting:
 - Blanket-style service withdrawal;
 - B.P style “20% mandatory savings” for all suppliers
- Recovery to 'business as usual' focus on service delivery not until 2012 at the earliest –
- Local Government has been a real loser in budget terms:
 - Forced outsourcing; decreasing contract values

But

- Other issues, e.g. “Big Society”, Mutualisation of Local Government services, following the Localism Bill, may offer new opportunities for FM providers.

COST CUTTING

4 Different approaches from Local Governments

- ➊ Merge service delivery (e.g. Westminster with Hammersmith).
- ➋ Become a 'commissioning body' of outsourced services (e.g. Suffolk).
- ➌ Blanket cuts in services (e.g. Brent).
- ➍ Re-evaluate approach (e.g. Camden); looking at mutuals and other solutions.

MUTUALISATION AGENDA

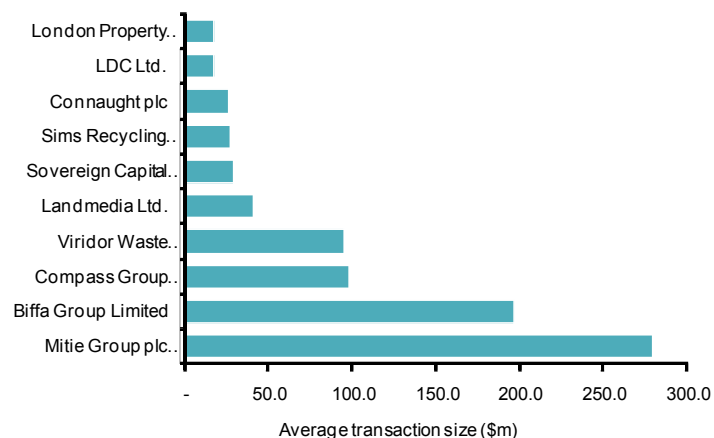
Mutualisation of Local Government services

- 12 Pathfinder mutuals (e.g. London Partnership).
- Allow public sector bodies to become independent self deliverers.
- Often focused on core service delivery and will outsource FM and non core activities.
- Examples: Free schools, Public Services (Job Centre Plus, libraries, leisure facilities, social care).

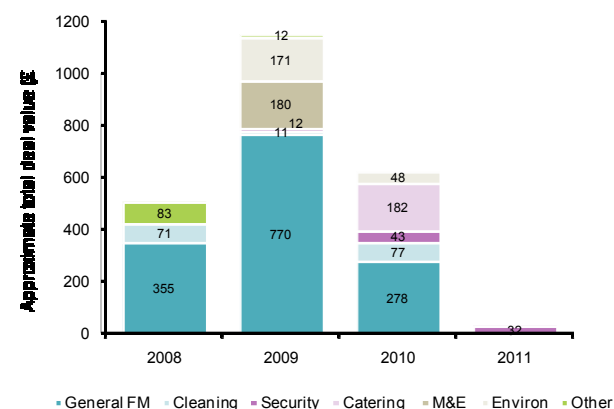
....The real winners will be providers who work proactively with the public sector to reduce costs – their ears are open

Recent UK deal activity – a mixed bag...

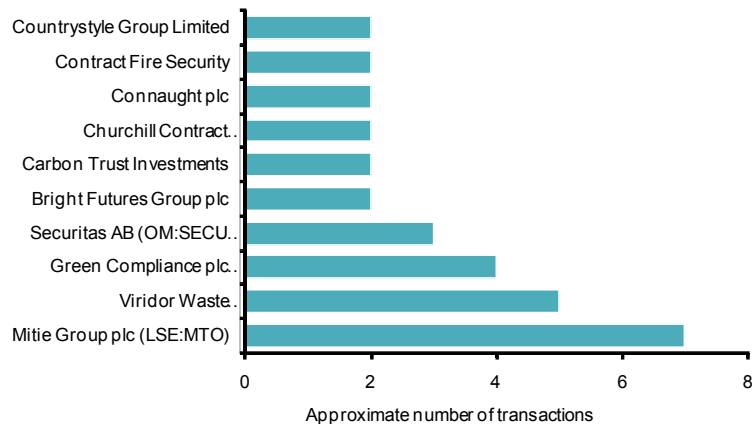
Most Active Buyers/investors by average transaction size (2009-2011) ⁽¹⁾ ⁽²⁾



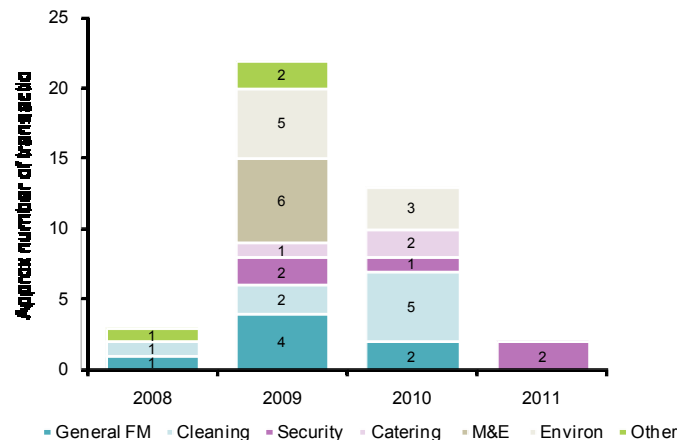
Deal values (>£10m) by FM sector type (2008-2011) ⁽³⁾



Most Active Buyers/investors by number of transaction (2009-2011) ⁽¹⁾ ⁽²⁾



Number of transactions (approximate) by FM sector type (2008-2011) ⁽³⁾⁽⁴⁾



Sources: Mergermarket, Capital IQ, Thompson and KPMG Analysis

Criteria: (1) UK Only, (2) Industry Classifications include FM or Support Service and sub-sectors of Commercial Building Care /Improvement, Sanitary (Primary), Security or Catering Services

(3) Mergermarket, Capital IQ, Thompson and KPMG Analysis, not an exhaustive list of deals.

(4) Deals that have occurred of this period that have undisclosed deal values have not been included.

...Transaction volumes and values are picking up as major trade consolidators and private equity re-enter the M&A market

Overview of the UK FM Market

Key themes in the FM industry

- *After a period of modest growth, positive volume growth is expected – 3.6% CAGR to 2015.*
- *Total FM has found its place alongside multi-service as a model of choice.*
- *Sector outlook is mixed, although cost pressure and emphasis on provider-led solutions is universal.*
- *Public sector presents opportunities despite budget pressures. Again, pro-activity is key.*
- *M&A has returned – consolidators and investors are taking opportunities.*