www.environment-analyst.com

Market Assessment of the UK Environmental Consulting Sector 2009

Part of Environment Analyst's Market Intelligence Service

September 2009 (version 1)

Market Assessment of the UK Environmental Consulting Sector 2009

- ✓ 114 pages of analysis and data
- ✓ Detailed commentary reinforcing our market assessment data, analysis and forecasts
- ✓ How the recession is impacting demand, M&A activity and financial performance (including margins, contract values and fee rates)
- ✓ Breakdown of drivers, threats and opportunities in each major service area
- ✓ Analysis of how firms are responding to the economic downturn and positioning for the upturn
- ✓ Includes the full results from our Benchmark Survey of the sector

The report comes with a companion Executive Presentation, ideal for board meetings…

- ✓ 105 slides displaying our market data and analysis, including 83 figures
- ✓ Market trends 2003-08 and our forecasts 2009-13
- ✓ Market shares for each major player in each major service area and each client sector
- ✓ Benchmark performance data: turnover growth, revenues per head, staff turnover & remuneration, fee rates, contract values, profitability

It also includes our Competitor Analysis of the Top 30 players…

- ✓ Key information about each firm, our financial dataset for each firm, our SWOT analysis for each firm
- ✓ Learn about competitors' strategic business priorities, growth drivers and constraints
- ✓ Includes profiles of the following Top 30 firms: ADAS, AEA, AECOM (Faber Maunsell), AMEC (Earth & Environment), Arcadis GMI, Arup, Atkins, Black & Veatch, Bureau Veritas, Capita Symonds, Entec UK, Environ, Enviros, ERM, Golder Associates (UK), Halcrow Group, Hyder Consulting (UK), Jacobs, Mott MacDonald, Mouchel, MWH, Parsons Brinckerhoff, RPS Group, RSK Group, Scott Wilson, SLR Consulting Ltd, URS Corporation, Waterman Energy, Environment & Design, White Young Green Environmental, WSP Environment & Energy

"This report by Environment Analyst is the most authoritative and detailed independent study of the UK environmental consultancy market to date - and excellent value for money. It will get regular use as a reference tool by the senior management team at Enviros. This is the first place to go for market intelligence on our sector" - Nigel Clark, Marketing Director, Enviros/Carillion Consulting

"The report from Environment Analyst contains a substantial volume of extremely useful information - both for consultancies and for those outside the sector looking to gain an insight into the market dynamics and impact of recession. It's the best we've seen" - Tom Woollard, Partner & Business Development Director, ERM

Best & worst performers in UK enviro consultancy named

September 2009

A new report reveals exactly which consultancies are aggressively cementing their positions and which are losing ground.

Five companies have each added at least £30 million to their top-line core environmental consultancy revenues in the UK over the last five years, according to the latest research report from *Environment Analyst*. The report also identifies several firms that are lagging well behind their peer group in terms of financial performance.

Top of the rankings is RPS Group, which added more than £40 million (+91%) to its core UK environmental consultancy business during the period 2003-08. Jacobs Engineering, Mouchel Group, Aecom (Faber Maunsell) and RSK Group complete the list of five fastest-growing firms in terms of absolute sales growth during the five-year period.

All of these firms have been highly active in mergers and acquisitions, particularly RPS, which completed no less than nine deals in 2008 with a combined value of more than £35 million. The plc's strategy is to seek out smaller, like-minded businesses that are market leaders in niche, high-margin, business areas. RPS pulled off one of the sector's biggest international deals this year to date, with the purchase of Australian environmental and landscape consultancy Conics for £31.3 million.

According to *Environment Analyst*'s market assessment, RPS is the overall UK environmental consultancy market leader, with sector sales of £85 million last year – equivalent to a market share of 6.0% (up from 5.5% in 2007).

Of the top thirty environmental consultancy firms identified in the report, only one company has seen its UK environmental consultancy turnover contract during the last five years. The company in question is ADAS, the Warrington-based rural development specialist and former government advisory body, privatised in 1997.

ADAS' sales have dropped by almost 19% since 2003. This is partly a reflection of internal rationalisation and restructuring of the business, however the consultancy has also suffered on account of its over reliance on Defra-funded contracts.

Defra has recently reined in its consultancy spend, with AEA Technology another casualty of this trend. The sector's number-two firm, AEA's UK turnover dropped by 18%, from £76.4 million in 2007 to £62.7 million last year. However, the climate change and energy specialist's newly-acquired US business, Project Performance Corporation, helped boost group performance, with AEA's total turnover for the year ending 31 March 2009 up 16% to £93.7 million.

Looking at AEA's five-year growth trajectory, the consultancy has outperformed the UK environmental consultancy sector as a whole, growing by 79% compared to the sector, which increased by 76% for the period 2003-08.

Beyond ADAS, two other companies are identifiable as slow movers in terms of UK environmental consultancy revenue growth during the last five years. These are URS Corporation and Enviros, which have grown by just 14% and 25% respectively.

Finalised data for last year shows that growth in the UK environmental consultancy sector slowed from a booming 15.3% in 2007 to a moderate 6.5% in 2008, to stand at £1,418 million.

Market growth is forecast to be flat in 2009, with environmental consultancies now operating in an unfamiliar trading environment characterised by declining 'discretionary' spend amongst major corporate clients, deferred project pipelines, decreased order book visibility and growing uncertainty about work coming from the public sector, with government spending cuts forecast and a general election looming.

"With reduced staff utilisation feeding straight to the bottom line, firms are faced with a difficult trade off," states the report. "Do they stomach a temporary drop in profit (or even a loss) in order to retain talent in preparedness for the upturn or act swiftly to protect margins at all costs?" The ownership structure of the company and shareholder expectations are crucial factors in this respect, it adds.

Firms best positioned to ride out the recession are those with significant capabilities in climate change, energy and waste management consultancy, as well as those with strong ties to regulated industries, it concludes. Those with a profitable international dimension and access to diversified end markets are also in a stronger position.

The data and conclusions presented in *Environment Analyst*'s market assessment of the UK environmental consultancy sector is the culmination of several months' in-depth analysis, which included a detailed survey of consultancies, interviews with more than 50 sector representatives and interpretation of data collated from a variety of sources, including annual reports and accounts.

1. Contents

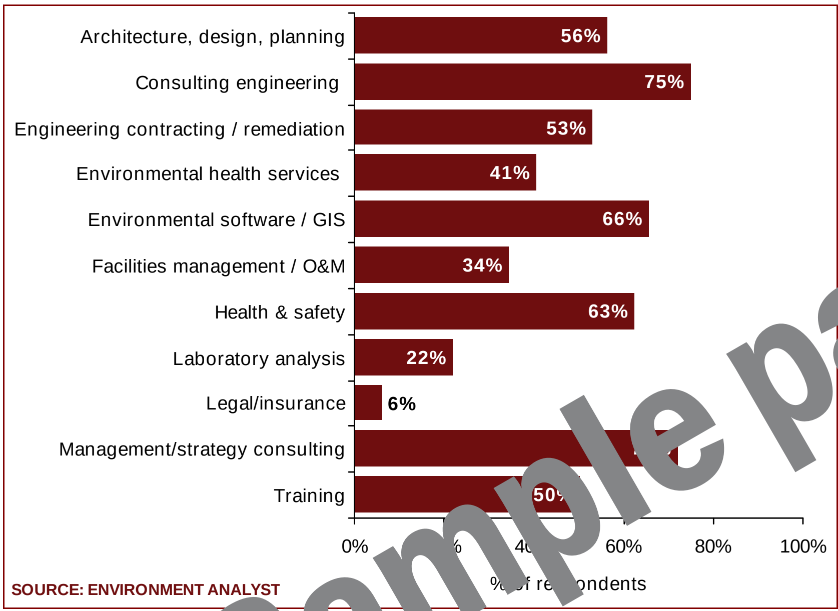
2. List of Figures

5.7 Related services

In terms of related disciplines offered by firms active in the UK environmental consultancy sector, our survey indicates that consulting engineering and management consultancy are the two most common complementary business lines (see Figure 8). This is perhaps understandable given that environmental consultancy can be seen as occupying the space between and indeed overlapping these two distinct ends of the consultancy spectrum – ranging from the purely technical to business strategy-type services.

Health & safety and planning & design services also feature strongly, while approximately one in five of the consultancies surveyed have access to their own in-house laboratory facilities. **RSK Group** established a new £1 million laboratory in Hyde earlier this year, while **RPS** has also enhanced its in-house environmental testing facilities with the purchase of **Mountainheath Services** in September 2008.

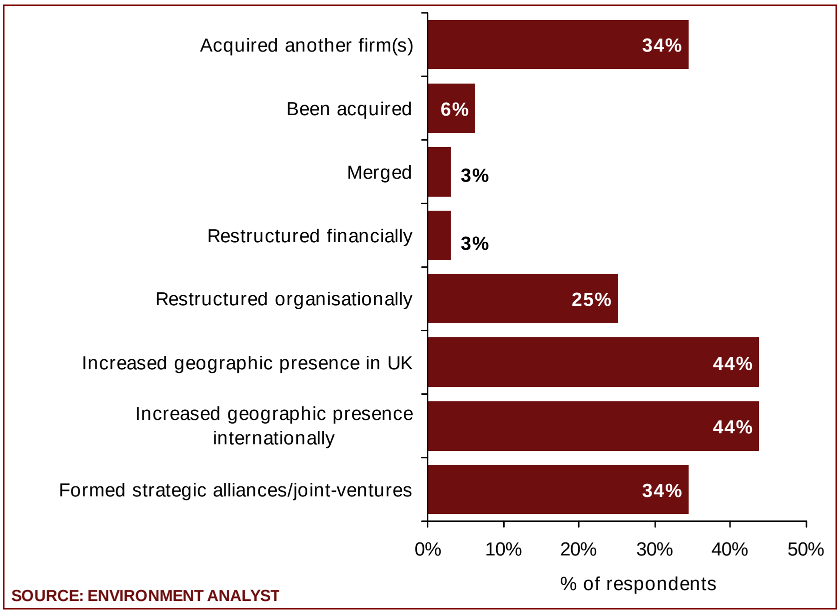
Fig 8 Related services offered



5.8 Overview of operational trends

In terms of recent strategic actions, UK environmental consultancies are equally likely to have opened new offices in overseas markets as they are to have expanded their UK network in the last two years, according to the survey (see Figure 9).

Fig 9 Strategic actions in last two years



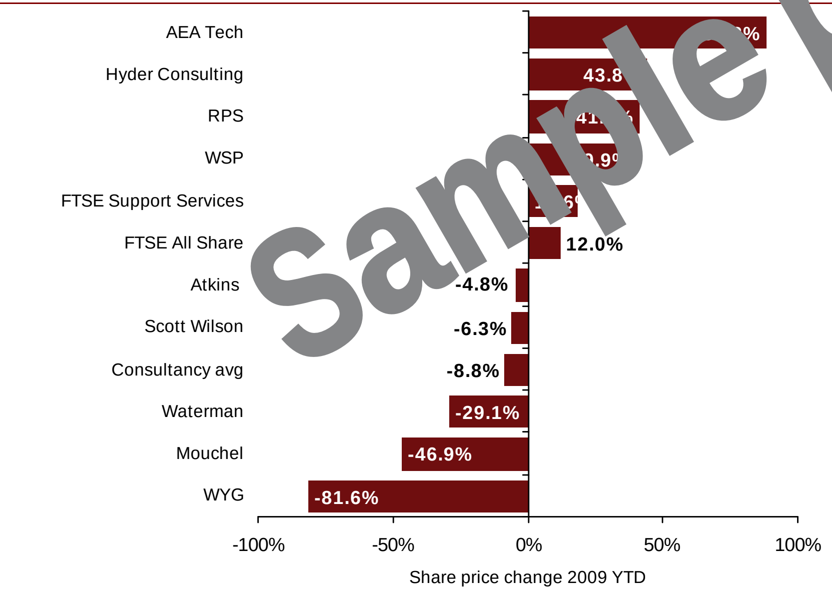
The consultancy sub-sector as a whole has continued to lag the wider support services sector through 2009, reflecting the City's nervousness on the potential impact of public sector cuts to capital projects, although the market is now factoring in a better/stabilised private sector trading environment for support service firms.

Fig 24 Market capitalisation of quoted consultants

Calendarised data to a Dec year end	Price (p)	Mkt Cap (£m)	Price change (%) 2008	2009 YTD	P/E (x) 2009E	2010E	Div yield (%) 2009E	2010E
AEA Technology	32.0	73.2	(76.3)	88.2	11.3	14.2	-	-
Atkins	639.0	639.7	(41.5)	(4.8)	9.2	9.7	4.2	4.3
Hyder Consulting	180.5	68.2	(75.0)	43.8	5.7	5.9	2.9	3.5
Mouchel	181.2	203.6	(27.4)	(46.9)	7.0	6.9	3.6	3.6
RPS Group†	198.0	424.8	(56.3)	41.4	11.1	10.2	2.1	2.4
Scott Wilson Group	89.0	65.0	(63.7)	(6.3)	5.3	5.8	4.7	4.9
Waterman Group†	41.5	12.8	(61.0)	(29.1)	5.0	6.2	6.0	6.0
White Young Green	11.0	5.8	(83.1)	(81.6)	0.8	1.0	-	-
WSP Group	284.0	180.6	(64.8)	39.9	7.0	6.8	5.3	5.3
Weighted average			(39.6)	(8.8)	8.2	8.4	3.4	3.7
Linear average		186.0			6.9	7.4	4.1	4.3

Prices updated as at close on Tuesday, 1 September 2009
Source: Arbuthnot estimates, † Hemscott Company Guru.

Fig 25 Quoted consultants share price change, 2009 year to date



SOURCE: Thomson Financial, Arbuthnot estimates. Priced as at close 1 September 2009NALYST

6.8 Financial performance metrics

The mean average revenue per full-time environmental consultancy employee stands at about £61K, an increase of around 14% since 2001/02. However, the range of turnover per head is very broad, with one in ten of our survey respondents achieving £140K+ per employee in 2008 (see Figure 27). The turnover per head for the top 30 firms is listed in Section 13.

The survey results suggest that small consultancies (<£10 million EACEC turnover) earn greater revenues per head than large firms (£10 milion+) (see Figure 26). This may reflect the tendency for more SMEs to be positioned towards the strategic end of the service spectrum (commanding premium fee rates), while many of the large firms are more technically focussed and come from an engineering background where fee rates are typically lower.

In addition, the average revenue per head for large firms may not be an accurate reflection of the market situation because some cross-disciplinary firms have a tendency to over-state the number of environmental professional staff. Another factor which impacts on the level of revenues per head achieved is the number or sub-contracted consultants, temporary staff and associates relative to the

Fig 28 Benchmark key performance indicators of selected consultancies in 2008

Consultancy size	Turnover per head	Average project value	Projects per employee	Profit margin	Organic turnover growth	Average remuneration	Senior consultant fee rate
Large	£67,800	£21,300	4	10-15%	13%	-	-
Large	£62,100	£12,000	1	10-15%	10%	£38,000	£550
Large	£58,300	£15,000	4	5-10%	5%	-	£600
Large	£120,100	£50,000	4	5-10%	11%	-	£675
Large	£79,300	£6,500	9	-	-	-	-
Large	£225,000	£80,000	2	15-20%	9%	-	£330
Large	£24,500	£10,900	2	-	-	-	-
Large	£66,700	£200,000	-	5-10%	-5%	-	£500
Large	£23,300	£35,000	2	-	-	-	-
Large	£77,400	£15,000	6	-	-	-	-
Large	£88,000	£25,000	6	15-20%	10%	£33,000	£440
Large	£65,300	£16,000	4	-	-	£32,000	-
Large	£32,400	£11,200	-	-	-	-	-
Large	£67,200	£63,000	3	-	-	-	-
Large	£104,000	-	12	-	-	-	-
Large	£142,900	-	12	-	-	-	-
Small	£97,200	£50,000	6	10-15%	30%	-	-
Small	£106,300	-	-	5-10%	76%	£51,000	£1,000
Small	-	-	-	5-10%	20%	[illegible]	£630
Small	£10,000	£10,000	1	-	-	[illegible]	£400
Small	£3,000	£3,000	1	15-20%	[illegible]	-	£400
Small	£65,400	£50,000	4	5-10%	[illegible]	[illegible]	£540
Small	£113,900	£5,400	15	0-5%	-	-	£480
Small	£81,600	£5,700	14	-	-	-	-
Small	£81,800	£20,000	[illegible]	-	-	-	-
Small	£142,900	£50,000	3	-	-	-	-
Small	£100,000	£50,000	[illegible]	[illegible]	-	£35,000	£1,056
Small	£25,000	£20,000	-	-	-	-	-
Small	£60,000	[illegible]	[illegible]	-	-	-	-

6.9 Contracts and visibility of order book

Extrapolating the survey results to the industry as whole, it is estimated that the UK environmental consultancy sector undertakes around 77,500 contracts annually. As would be expected, the large consultancies tend to average a little higher than small firms in the contract size stakes, as illustrated in Figure 24.

The mean average UK contract value based on our survey sample is £19K – which has almost doubled since 2001/02. It may still seem surprisingly low, but most firms – including many of the larger players – continue to have a signifcant tail of fairly small contracts on their books. This means that revenue visibility is fairly short at perhaps 3-6 months compared to other related disciplines.

However, some envirnonmental consultancy projects can be longer-term and worth £ millions – as indicated by the mean average largest contract value for the top 30 firms' in 2008, which is just over £3 million.

Long-term frameworks or master service agreeements are becoming increasingly prevalent in the public sector and regulated industries as a means of supplier procurement. The primary advantage being that frameworks allow the consultant and client to hammer out contract terms and conditions only once rather than for each new project. And the frameworks can be large – the Environmental Agency 's strategic flood risk management framework has an annual spend in excess £15 million for instance.

However, the sector's major public sector frameworks with the EA and Office of Government Commerce (OGC) are notoriously competitive, with firms willing to slash their rates to rock bottom in order to make the list of usually around six or eight preferred consultants.

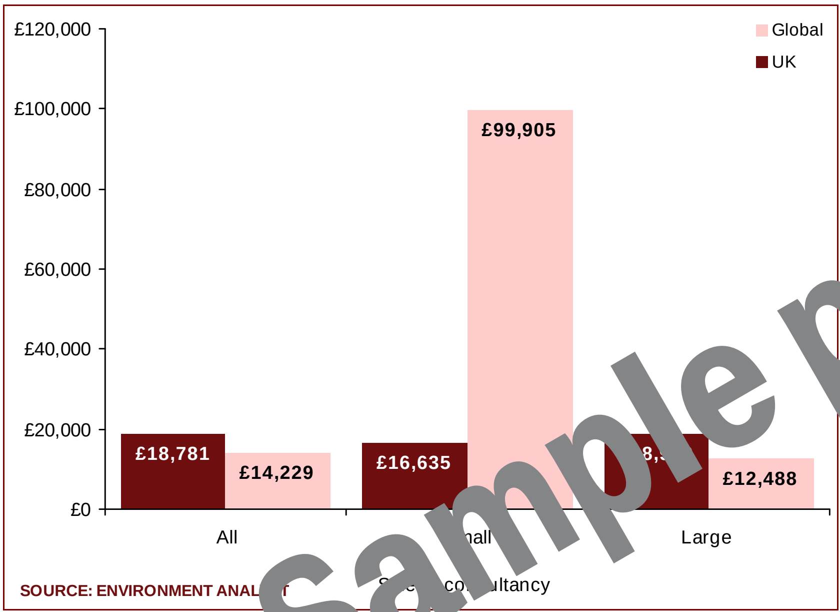
In the commercial world, some of the larger environmental consultancies are actively seeking to ramp up the number of global framework agreements they have in place with multinational corporates to provide continuous service provision no matter which country the client is operating in.

Another different type of contract is the direct secondment model, where consultants work directly in the client organisation alonside in-house environmental management teams.

Our survey confirms the anedotal evidence that many firms are experiencing a reduction in average contract values during the economic downturn. By the end of 2008/beginning of 2009, around a quarter of the survey sample reported declining average projects values, although the vast majority (62%) had still seen growth through the previous twelve months of trading.

At £14K, the mean average contract value for consultancies operating globally is lower than the UK market norm. Note that the average contract value indicated in the chart below for small consultancies in the global market is anomalous due to the impact of a statistical outlier from one firm.

Fig 29 Average project value, by size of consultancy



6.10 Profitability

While turnover is of course a measure of how successful a consultancy is at bringing in work, profit margins indicate how successfully it is run as a business. Twenty years ago, the environmental consultancy sector was a sector with fairly small margins Many firms were struggling to make a profit in the wake of the previous recession (1991/92) and for some cross-discipline companies environmental consultancy was at the time viewed as a loss leader to win more lucrative engineering consulting or contracting work downstream.

However, that view has certainly changed and profit margins have been driven up through efficiencies of economy of scale, better commercial business management within the sector and the trend for larger projects to be handled entirely by one consultancy rather than shared out between several specialist firms.

Our survey sample's mean average profit margin on environmental consujltancy revenues for the last financial year is 11.7%, up from an average of 8.8% six years ago. A selection of profitability results for both quoted and private firms is shown in Figure 30, while further details on the profits and losses of the top 30 firms can be found in their individual company profiles (Section 13).

Even within the same organisation margins can vary hugely between different disciplines and client sectors, with strategic corporate work and carbon management work at the top end of the scale reflecting their premium pricing (see Sections 9 and 10).

Profit margins are expected to suffer temporarily as a result of the recession, which has already been borne out by many of the Q1 and H1 results released by quoted consultancies for trading so far in 2009.

13. Top 30 UK Environmental Consulting Companies 2009: Competitor Analysis

This section provides the vital statistics, business strategy summaries and recent corporate developments for the top 30 companies operating in the UK environmental consultancy sector according to *Environment Analyst's* independent market assessment criteria, as well as our unique SWOT for each firm.

Following that, there is a listing of the next 70 firms by EACEC turnover to complete the top 100 rankings (Section 14).

Environment ANALYST

RPS Group

CONTACTS	
Web site	www.rpsgroup.com
E-mail	rpsmp@rpsgroup.com
Head office	Centurion Court, 85 Milton Park
	Abingdon, Oxfordshire OX14 4RY
Tel	01235 438 000 Fax 01235 864 451
Directors	Dr Alan Hearne (Chief Executive)
	Andrew Troup (Executive Director)
	Peter Dowen (Executive Director)
	Phil Williams (Executive Director)
Ownership	Listed on the LSE
Locations	Europe, North America, Asia Pacific
Founded	1970

CORPORATE DEVELOPMENTS	
1995	Elevated to FTSE small-cap constituent on LSE
1997	Acquires first Dutch env. consultancy BAK
1998	Buys UTS to enter water consulting engineering sector
1999	Acquires two further UK water specialists
2000	Expands UK, Irish & Dutch presence via several acquisitions
2001	Buys Ashdown Environmental (noise and AQ consultancy)
2001	Gains listing on new FTSE4Good socially responsible index
2003	Enters FTSE 250; Hydrosearch acquisition sees creation of RPS Energy Services
2004	First Australian acquisition among several niche M&A
2005-9	Acquisitions continue (biggest worth £31.3m = Conics of Australia in 2009) and help establish foothold in USA
2009	Job cuts - 6% of planning & development* staff (mainly UK)

VITAL STATISTICS	UK	World
No of offices	45	75
Env. consulting staff	2,505	5,000
Env. consulting contracts	11,900	20,150
Average EC contract value	£15.0k	23.3k
Biggest EC contract	£650k	
Group turnover	£178.8m	£470.5m
Operating profit (group)		£57.5m
Env. consulting turnover (stated)	£178.8m	£470.5m
Env. consulting turnover per head	£71.4k	£105.1k
EACEC turnover proportion	40-65%	
EACEC turnover 5-yr growth	90.6%	

CLIENT OVERVIEW	% of sales (2008)
Government & agencies (local & national)	15
Energy & utilities	28
Extractive, manufacturing & processing	22
Construction/property	3
Financial/professional/service sectors	11
Others	21

Key clients:
BAA plc, BP, Centrica, Highways Agency, J Sainsbury plc, MoD, Scottish Power, Scottish Water, Southern Water, Welsh Water

UK SERVICE AREA TURNOVER (£m)	2003	2004	2005	2006	2007	2008
Air quality	2.7	3.1	3.5	4.1	4.4	5.1
Climate change & energy	2.7	3.1	3.5	4.7	5.9	7.7
Contaminated land/remediation	4.9	5.6	6.4	7.4	8.1	9.4
Ecological/landscape services	2.7	3.1	3.5	4.1	4.4	5.1
EIA & sustainable development	4.9	5.6	6.4	7.4	8.1	9.4
Env. liabilities, risks & hazards	3.6	4.1	4.7	5.4	5.9	6.8
Env. management & compliance	3.1	3.6	4.1	4.7	5.2	6.0
Env. noise/vibration	1.8	2.1	2.3	2.7	3.0	3.4
Env./sustainability policy & strategy	0.9	1.0	1.2	1.4	1.5	1.7
Waste management/recycling	2.7	3.1	3.5	4.1	4.4	5.1
Water quality & resource management	6.2	7.2	8.2	9.5	10.3	11.9
Other services	8.5	9.7	11.1	12.2	12.6	13.6
Total (based on EACEC turnover estimate)	**£44.6**	**£51.3**	**£58.5**	**£67.7**	**£73.9**	**£85.0**

ENVIRONMENT ANALYST SWOT

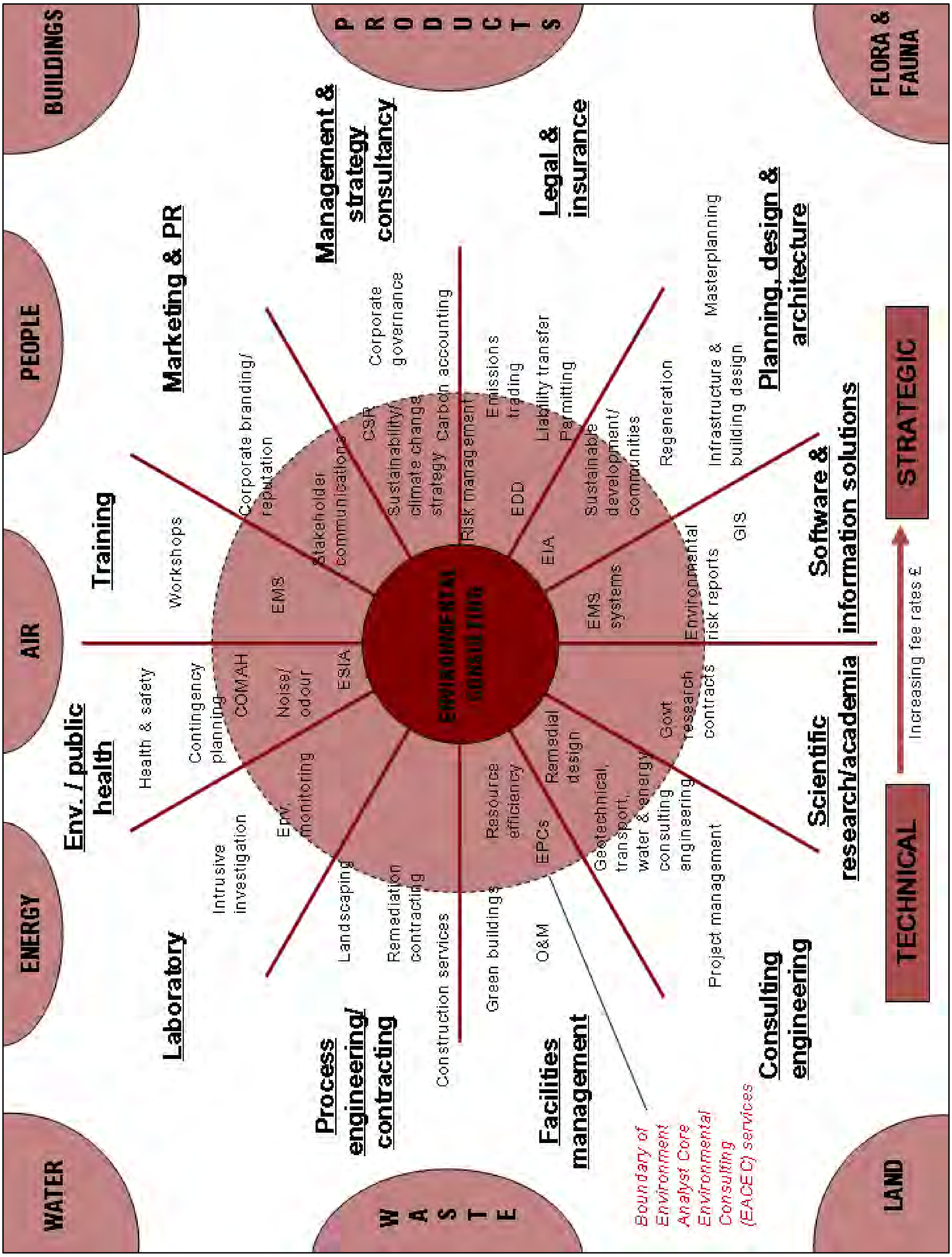
S • Excellent track record of turnover and earnings growth through strategic M&A and organic growth
S • Critical mass achieved through focus on environmental sector & anticipation of emerging client demands ---> branching out into related service areas
W • Lesser reputation for strategic and policy work
O • Positioning for growth in energy sector (oil & gas and renewables), incl. carbon capture & storage
O • Further geographic expansion (---> truly global player)
T • Dependence on energy sector (commodity price volatility and financing)
T • Business integration and staff retention following M&A

COMMENTARY

Originally known as Royal Planning Services, RPS was founded in 1972 when a group of academics established a commercial environmental planning practice, claimed to be the first of its kind in the UK. The business evolved to offer landscape and architectural services, and later expanded into the town and country planning market, as well as technical and engineering consultancy to the water sector. The energy division (est. in 2003) has grown rapidly, providing integrated services in the fields of geoscience, engineering and HSE*. Today, the RPS business consists of energy (c35% group t/o), planning & development (c45%) and environmental management (c20%) - with the latter incl. water services. In the last decade, RPS has pursued an aggressive acquisitive growth strategy, buying up niche market-leading businesses to build presence in selected geographies.

Notes: RPS' planning & development (P&D) division encompasses environmental assessment (EIA/SEA) activities
**HSE = health, safety & environment*

15. Appendix 1 - Market boundaries



10% discount

Order form

FAX BACK ON: +44 (0)1743 818 121

or email **ea.sales@environment-analyst.com** PHONE: +44 (0)1743 818 008

Environment ANALYST

✱ *10% introductory discount on all subscriptions using this form*

YES, please set up a year's subscription to the full ***Environment Analyst Market Intelligence Service***

☐ ~~£1239~~ £1115 price includes 10% first year discount and covers up to 5 users in the same organisation.

The Market Intelligence Service comprises:

✱ Our flagship report, ***Market Assessment of UK Environmental Consulting Sector 2009***

✱ **PLUS** ***Top 30 UK Environmental Consulting Companies 2009: Competitor Analysis*** (available July)

✱ **ALSO INCLUDES** A 5-user team subscription to ***Environment Analyst Market Briefing*** (our bi-monthly PDF newsletter and online news service) ☐ Additional users £85 each: number requried ________.

PLEASE PRINT CLEARLY

Subscriber name: Mr/Miss/Mrs/Ms/Dr/Prof ________________________________

Subscriber email address: ________________________________

To set up team/multiple user membership/subscriptions, order in name of lead subscriber and send the other names and email addresses to our customer services team at ea.sales@environment-analyst.com when you are ready.

Job title ________________________ Telephone ________________________

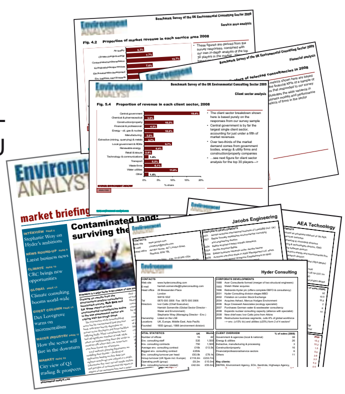
Company ________________________ Address ________________________

____

City/town ________________________ Post/zip code ________________________

Country ________________________

Note: We will **not** disclose details to a third party. We may occasionally contact you with information about other Environment Analyst services. UK orders are liable for 17.5% VAT. We do not add VAT to overseas orders (reverse-charge arrangement applies to customers based in other EU countries)



Payment methods

(Please tick as appropriate)

☐ Please charge my credit card the above amount

☐ Visa ☐ Mastercard ☐ Amex

Card number ________________________ –

Signature ________________________

Expiry date ________________________

Card security code (on signature strip)________________________

Important: Card holder's name & address if different from above: ________________________

____

____

☐ I enclose a cheque payable to
Environment Analyst Publishing & Research for ________________________

☐ Please invoice me quoting this purchase order number ________________________

Signature ________________________

Environment Analyst Market Briefing offers:

✱ Bi-monthly PDF newsletter to print out in your office ✱ Weekly email news alerts ✱ Breaking news on website

Market Intelligence Service offers:

✱ Market Assessment of UK Environmental Consulting Sector
✱ Our Market Briefing newsletter and news service, as above
✱ Competitor Analysis report on Top 30 consultancies

How to place your order: 5 options

1. Order online at
http://environment-analyst/subscribe

2. Mail completed form to:
Environment Analyst Publishing & Research, London House, Town Walls, Shrewsbury SY1 1TX, United Kingdom

2. Fax form to: +44 (0)1743 818 121

3. By phone to: +44 (0)1743 818 008

4. Email:
ea.sales@environment-analyst.com

VAT number GB 939 6918 59

website 01/10