

PRESS RELEASE

23 January 2015

Mega mergers shake up UK environmental consulting sector

- *Market recovery continues with third successive year of post-recession growth; sector revenues rise 5.6% to reach £1.42 billion in 2013 and are expected to increase by a similar level in 2014*
- *Recovery of housebuilding sector and expanding pipeline of nationally significant infrastructure projects are contributing to the resurgence, while the impact of government austerity is stabilising*
- *Mega mergers in the wider global engineering consultancy and support services industry are resulting in a shake-up and consolidation among UK environmental consulting's market leaders*
- *Stagnation in the global EC market has seen many players channel investment in their domestic businesses, with an average 3.2% increase in EC staff numbers in 2013 across the Top 34 firms*
- *Whilst some practices are still struggling in the post-recession climate, others are enjoying success in some high-growth sectors including construction, property, transport and energy*

The latest report from business intelligence and market research firm *Environment Analyst* finds that the UK environmental consultancy (EC) sector expanded by a solid 5.6% in 2013, to stand at £1,424 million. This follows a rise of 3.1% in 2012 and 1.9% in 2011, after two consecutive years of significant declines at the height of recession (see Figure 1). However, it is yet to surpass its pre-recession peak of £1,556 million recorded in 2008.

The recent performance is still impressive given that the UK economy grew less than two per cent in real terms in 2013. Growth is expected to continue at around the 5% mark in 2014, according to EA's market projections.

However, growth across the sector is far from uniform with the impact of government spending cuts continuing to be felt – albeit stabilising somewhat this year. In 2013, there was a 0.3%

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reduction in EC revenues from public sector commissioning bodies to stand at £321 million – equivalent to 22.5% of the total market, down from approximately 33% in 2010.

Of the Top 34 players – which are profiled in detail in *Environment Analyst's* series of market reports and who collectively account for around two-thirds of the total market based on gross turnover – those most heavily dependent on government sourced contracts are identified as Atkins, CH2M Hill, Jacobs (inc. SKM Consulting), Ricardo-AEA and Mott MacDonald (ranked according to their segmental market shares).

However, the public sector decline was more than offset by increased spend from within the private sector and regulated industries, which together saw a robust growth rate of 7.6% year-on-year to reach £1,103 million 2013 – equating to 77% of the total UK EC market. Demand was particularly strong in the construction, property & transport sector (up by 17.0% year-on-year) and in the area of energy (oil, gas, nuclear and renewables) which drove a 5.8% increase in sector revenues from the regulated industries. The top five EC operators serving the construction, property & transport sector – which has benefited from two key driving forces: the house-building recovery and investment in national infrastructure projects – are ranked as WSP, Atkins, RSK, URS Infrastructure & Environment (owned by AECOM from 2014) and Mott MacDonald (according to their segmental market shares).

In terms of the overall UK EC market shares, the top five firms – RPS Group, Environmental Resources Management (ERM), Jacobs (inc. SKM Consulting), Mott MacDonald and RSK – have consolidated their market position with their combined market share increasing from 20% in 2012 to in excess of 22% in 2013. This was helped in part by US-based Jacobs' £767 million acquisition of SKM Consulting at the end of 2013 which saw its UK EC revenues and headcount almost double.

More recently completed large-scale M&A deals are set to further upset the UK EC rankings table going forward, with the pairings of AECOM-URS, WSP-Parsons Brinckerhoff and Arcadis-Hyder – as well as the intended purchase of Environ by Ramboll announced at the end of 2014 - all jostling for position inside the top ten.

The report's author, Liz Trew, comments on the ramifications of high-level M&A activity: "We've been seeing the creation of global super companies – with staff numbers in the case of AECOM-URS in excess of 100,000 – offering complete life-cycle service provision, but the 'bigger is better' ethos does not necessarily readily translate through to the specialist area of environmental/sustainability consulting, where contract values tend to be relatively small and local knowledge and stakeholder relationships are often critical. So it will be interesting to see how the trend for mega-mergers plays out."

The latest staffing trends among the Top 34 practices shows that UK EC team headcounts are firmly back on the rise. In 2013, there was a 3.2% increase in full time equivalent staff positions to 10,414 – which compares to the peer group’s average 2.3% decrease in employee numbers when all international operations are accounted for. This underlines the importance of the home market at a time when globally demand for environmental consulting is not growing – which is a complete reversal of the trend from the last few years.

Overall, the international environmental consultancy business of the peer group – including all overseas offices and acquisitions – saw a 3.7% decline in 2013 to stand at £9.8 billion.

In terms of specific service lines, the report finds that three core EC practice areas in particular stand out for their strong growth in 2013: contaminated land/remediation (with a year-on-year increase of 9.0%); ecological/landscape services (10.2%) and environmental liabilities, risks & hazards (15.5%). Growth for the fourth successive year for contaminated land services – which took a severe hit during the recession mainly on account of the property development/construction sector crash – is an extremely positive sign. With sector sales worth £209 million in 2013, it is now almost on a par with its pre-recession level at the height of the previous property boom.

Ms Trew says: “Although there are still significant uncertainties – whether economic growth will be sustained and issues relating to the government’s wavering support for green regulation, renewables and shale gas – the fact that there have been three years of stable growth with specific areas forging ahead with some impressive growth rates, bodes well for the UK EC industry. The introduction of mandatory greenhouse gas reporting for publicly-quoted firms, the broadened scope of energy efficiency requirements placed on businesses under the new energy savings opportunity scheme (ESOS) and other recent legislative changes – impacting the environmental impact assessment regulations for example – should also provide fertile ground for consultants.”

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FURTHER INFORMATION

1. *The 2014 Market Assessment of the UK Environmental Consulting Sector* includes analytical commentary and over 130 tables and charts looking in detail at the UK environmental consultancy sector, the service areas and client sectors within it, and the performance of the Top 34 operators. The 92-page report is available to subscribers of Environment Analyst's Market Intelligence Service.
2. For further details (including a full list of contents and figures) see: <http://www.environment-analyst.com/intelligence>
3. Our market analysis is based on core figures supplied by over 80 companies (representing approximately half the sector in terms of UK environmental consulting revenues), a detailed analysis of the Top 34 consultancies, as well as market trends information collated from over 350 environmental business managers via our Market Trends survey conducted during February to June in 2014.
4. *Environment Analyst Ltd* (<http://www.environment-analyst.com>) is a publishing and market research organisation focusing on the environmental consulting and support services sector – we collect and analyse information from the industry for the benefit of the industry. *Environment Analyst* also publishes EA OnSite, Brownfield Briefing and Sustainable Building newsletters, as well as running 8 industry conferences each year and an industry awards dinner.
5. *Environment Analyst's* market research has identified more than 675 firms active in the UK environmental consulting sector, of which c167 achieve annual sales in excess of £1 million
6. The UK environmental consultancy sector remains highly fragmented, with the Top 34 each achieving revenues in excess of £10 million, accounting for 67% of the total market when combined (before any adjustments for sub-contracted revenue). Together these practices handled over 43,745 environmental consultancy projects, employing some 10,414 UK-based environmental consultancy staff in 2014.
7. The charts below are provided for publication:

Fig 1 UK environmental consulting market revenues, 2003-2014e

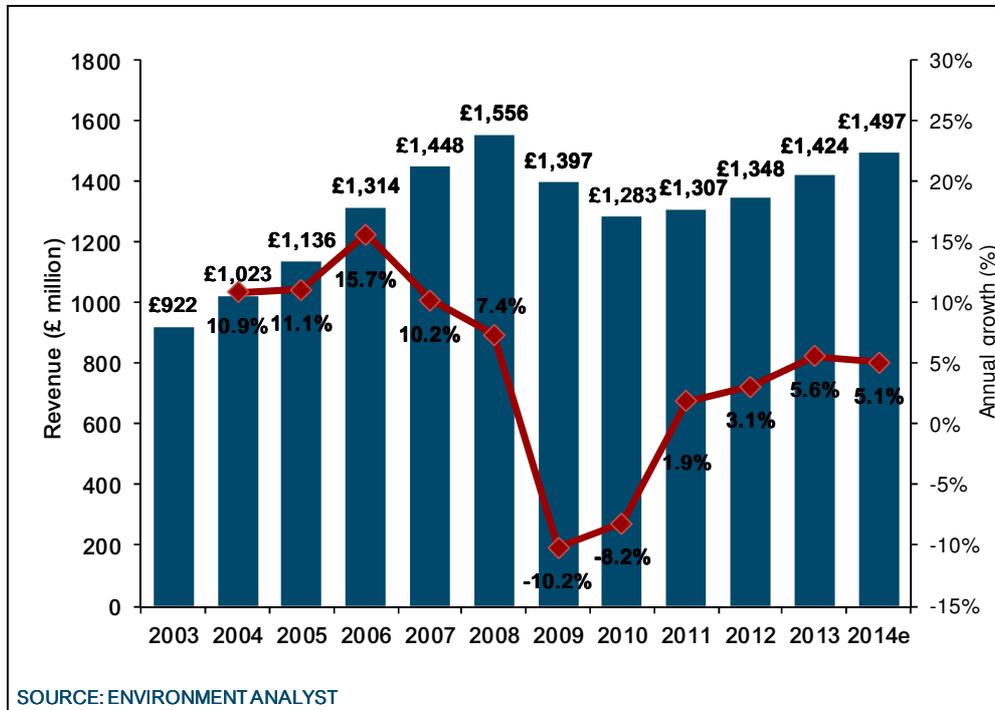


Fig 2 Top 34 ranking 2014 by UK EC revenues

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| 1. RPS Group | 18. Bureau Veritas |
| 2. Environmental Resources Management (ERM) | 19. ENVIRON |
| 3. Jacobs (incorporating SKM Consulting) | 20. Hyder Consulting (UK) |
| 4. Mott MacDonald | 21. Capita Property and Infrastructure |
| 5. RSK Group | 22. Parsons Brinckerhoff (WSP Global) |
| 6. Atkins | 23. Royal HaskoningDHV |
| 7. URS Infrastructure & Environment UK | 24. Mouchel Group |
| 8. Arcadis | 25. Temple Group and the Ecology Consultancy |
| 9. WSP | 26. PwC |
| 10. Arup | 27. Wardell Armstrong |
| 11. CH2M HILL (UK) | 28. Ramboll |
| 12. RICARDO-AEA | 29. AECOM |
| 13. WYG Environment | 30. JBA Consulting |
| 14. AMEC Environment & Infrastructure | 31. ADAS UK Ltd |
| 15. MWH | 32. Cefas |
| 16. SLR Consulting | 33. Black and Veatch |
| 17. Golder Associates | 34. Waterman Energy, Environment & Design |

Fig 2 Market revenue breakdown by service area, 2013

