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The latest in small and mid-market sales, mergers, acquisitions, investments and advisory

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# Industry Scan

Merger & Acquisitions | Business Sales | Corporate Advisory | Funding

## April 2013

### In this edition:



### Investment Spotlight: Skip Bin Hire and Solid Waste Collection Services

This industry is focused on the collection and short-distance haul of domestic, commercial or industrial solid waste (including hazardous and non-hazardous waste). There are a variety of services offered within this industry including:

- The hire and collection of skip bins,
- Portable toilet hiring services, and
- Municipal waste collection services.

**Industry Performance**

IBISWorld forecasts that the industry will continue to grow. In the five years to 2017-18, IBISWorld forecasts steady growth of 4.8% p.a. IBISWorld is also forecasting a stable profit forecast for the industry.

Some of the major external drivers of industry performance include:

- *Real GDP growth:* as businesses expand and produce a greater range and volume of products and services, this leads to higher waste levels which can lead to greater demand for solid waste collection services.
- *Number of households:* as the number of households increase, this leads to a greater volume of waste during the initial construction stage and then by the residents once the household is established.
- *Environmental events:* major environmental events can drive the demand for solid waste collection such as occurred during the Queensland floods in January 2011, which resulted in a surge in industry revenue growth of 10.3%.

**Barriers to Entry**

The barriers to entry within this industry are relatively high due to:

1. high capital costs related to truck and equipment expenses
2. a degree of customisation associated with the vehicles and any peripherals (such as metal skip bins)
3. the requirement for a local presence to provide truck haulage creates distinct geographic territories

The barriers to entry and the ongoing demand for waste collection services have contributed to the relatively low volatility in revenues within the industry.

**Valuation Considerations**

The industry includes a variety of service providers that operate under different business models. With almost 18% market share, Transpacific Industries is the largest company within this industry. Transpacific's revenues, which include contracts with local authorities, are expected to exceed $1B in FY13.

*Smaller privately held companies* within this industry are typically valued based on:

- Goodwill: estimated as a multiple of EBIT (eg 25% - 35% capitalisation rates), and
- Plant, equipment and vehicles: typically valued at written down value or like-for like replacement value

Based on the relatively high asset backing and low industry volatility, the overall return on invested capital (goodwill and physical assets) typically ranges from 20% - 30%.

For more information, contact: ross.tiller@scancorp.com.au.

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## Scancorp's "5 Pillars" Underpin Acquisitions: Pillar 4 - Customer and Industry Dynamics

In our last newsletter, we provided an overview of the third pillar of the "5 Pillars" framework that we use to prepare a business for sale or assess the attractiveness of an unlisted business for acquisition by trade or financial buyers.

The fourth pillar considers some of the key *customer and industry dynamics* that concern acquirers. These include:

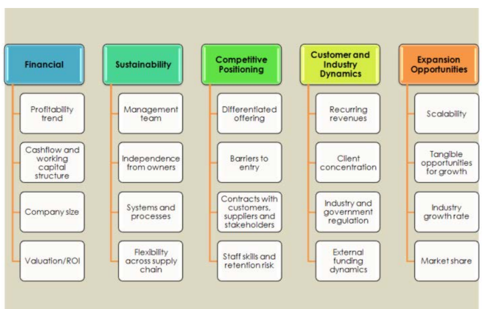
1. The extent to which the company's income derives from **recurring revenues**. The valuation of a company is significantly enhanced when its revenues are largely predictable and reliable. This may be the case where a company's income is:

- *Contracted* – which may be the case for a forklift hire business who's assets are rented on long term leases or an IT provider with infrastructure maintenance contracts.
- *Non-contracted annuity* – like a provider of a proprietary components (consumables or spare parts) for a popular product such as the provider of proprietary cartridges for waterless urinals.
- *Significant repeat business with high switching costs* – as is the case with many accounting practices or a manufacturer that holds significant specific know-how regarding their client's products.
- *Loyalty revenues* – which may include membership based businesses such as a sporting or entertainment company that possess a significant portfolio of members (ideally who have made a material investment in their membership or equipment).

2. The degree of **client concentration** associated with the company's revenues. Where a company derives a large proportion of its revenues from relatively few customers, its income may be highly volatile subject to the fortunes of its clients. This issue may be partly mitigated when the company's revenues are secured by long-term contracts to "blue-chip" clients.

3. **Industry and government regulation** may be a double edged sword. It may serve as a significant barrier to entry by requiring specific licensing or registration (eg registered training organisations, childcare centres etc) but similarly exposes the industry to the risk of changing regulations. As such, companies that are highly regulated are more attractive when they have clear strategies to address possible changes to regulations. These may include strategies for revenue mitigation (such as a company that has a large proportion of its revenues dependent on government funding) as well as cost mitigations (such as a regulated company that is exposed to cost increases related to the implementation of new national standards).

4. Any specific **external funding dynamics** may also impact on the desirability of an industry. Certain industries enjoy improved or at least well established funding arrangements with lending institutions. This makes it easier for acquirers to access funding and as such enhances the desirability of such industries. Examples include: medical centres (which may be able to attract up to 100% LVR when acquired by a practicing doctor), child care centres and management rights (which have established LVRs with certain banks).




We also leverage the "5 pillars" when we assist a Company to prepare for exit **(**Scancorp's Business Exit Services Overview**)**.

While very few Companies excel in all 20 characteristics, we find the "5 pillars" enables us to readily identify the strengths and weaknesses of a business.

We can then work with the Company's owners and management to address the key issues and prepare the Company to optimise sale within 12-18 months.

Click here for more information regarding **Scancorp's Business Exit Service Offerings**.

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## Market Insights

**Family businesses face succession crisis**

As research on the succession strategies of family business grows, it is becoming clearer that an emerging crisis looms. Recent research conducted by Swinburne University, the Australian Research Council and Pitcher Partners included some of the oldest and most established family businesses within Australia – some of which are in the top 500 private companies list. This research concluded that around 75% of business owners have no exit strategy. Too many family businesses assume that the children will take over the business, which is putting many large family businesses at risk.

This was followed by research undertaken by BDO who found that 93% of the family businesses they surveyed intended to transfer wealth within the next five years - but only 39% said they have a succession plan in place.

Succession is becoming a significant issue of concern as baby boomers prepare to exit their businesses. The lack of a succession plan was also linked to the fact that many family businesses do not have external advisers or an advisory board to assist with strategic planning.

BDO partner Susan Rix stated that "over 70% of family businesses have not professionalised their management or governance structures and are yet to engage in the difficult process of "letting go" of management and board control."

While succession planning is often thought of only in the context of transferring a business within a family, a succession plan should consider all of:

- *Divestment:* the outright sale of the business to a third party
- *Merger:* merging the business with another in the same or adjacent industry
- *Acquisition:* expansion of the business by acquiring another business (with a strong management team who could operate the combined business)
- *MBO:* the sale of the business to the management team and employees
- *Asset sale:* the closure of the business and sale of its assets

While most owners of non-family businesses seek expert external advice when they are seeking to exit, family businesses often do not. This is despite the fact that family businesses have the added complexities associated with the relationships between stakeholders. As such, family businesses that are considering exit would benefit from independent external advice.

Scancorp and its alliance partners specialise in the advice, planning and preparation of business exit. For more information contact: marcus.salouk@scancorp.com.au.

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## Other News

- $200 million funding to boost Aussie start-ups
- The Phenomenon of Industry Cycles
- Mobile ads driving profits
- Australia's Top 10 Socially Innovative Brands 2013

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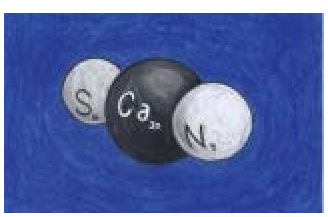
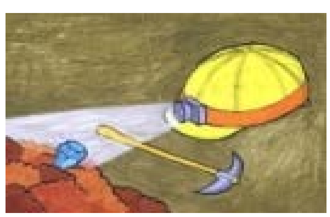



## Featured Investment

### Skip Bin Hire

* Established 28 years

* Provides a broad range of waste removal services



## Featured Investment

### Concrete Pumping Services

* Business and exceptional freehold

SCAN

Scan Business Brokers

## Our Mission

We provide the highest quality advisory services and solutions, previously inaccessible to the including: asbestos, green, tyres, contaminated soils and general waste

* Established portfolio of clients with significant repeat and referral clients
* 8 fully equipped trucks and a ute in the vehicle fleet
* Various skip bins including: 2, 3, 4, 5, 6, 8 and 10 $m^3$
* Average revenues over past 5 years: $1.8M
* Average EBIT over past 5 years: $396k
* Like for like plant, equipment and vehicle value: $2.2M
* **Total investment:** $1.8M

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* Established 40 years
* Long-term relationships with leading construction companies
* Focus on commercial construction in SEQ
* Operated under management
* Average revenues 2009-2012: $3M
* Exceptional value – offered for sale at below replacement value of plant and equipment
* **Total investment:** $1.5M
* **Optional freehold**: 18,000$m^2$ available for $2.1M @ 9.1% net yield

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small to mid market.

## Our Vision

To be the leading boutique provider of advisory services to fellow small and medium companies.

## Our Services and Capabilities

Scancorp's Business Exit Service
Offerings
Scancorp Capabilities
Sellability Score

## Last Newsletter

March Newsletter