

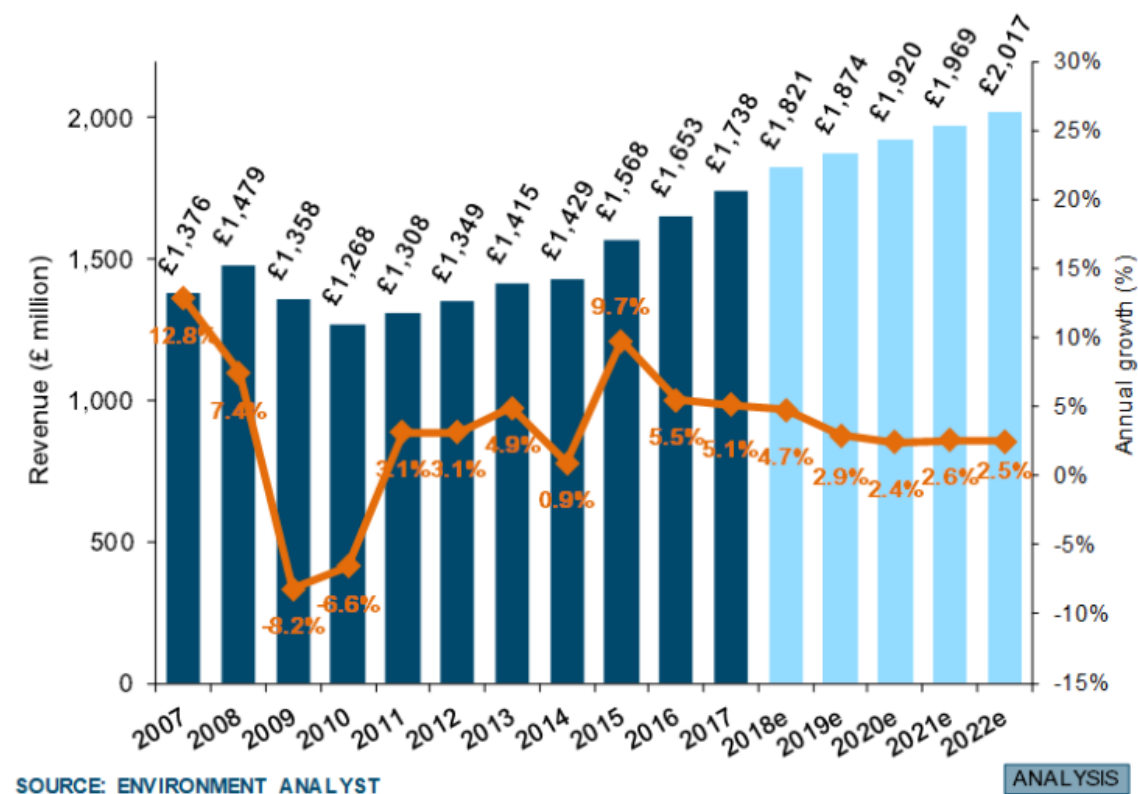
PRESS RELEASE

17 January 2019

UK Environmental consulting defies Brexit worries

The UK environmental consulting (EC) market grew by 5.1% during 2017 to reach £1.74bn and is set for a similar 4.7% increase when figures are finalised for 2018, according to the latest research report published by Environment Analyst. Infrastructure opportunities, increased public sector spend and more effective management structures forged during the fires of the last recession are helping consultancies to feel confident in the face of Brexit and in seeing continued solid organic growth.

Figure 1: UK EC market and revenue growth 2007-2022e



The report is based on the financial statistics and detailed company profiles of the leading peer group of 28 EC practices based in the UK, as well as *Environment Analyst's* wider annual company survey results. It finds that the 'Top 28' together account for a dominant 71% share of the EC market (based on gross revenues in FY17 before any sub-contracted fees). Of the Top 28, five companies recorded substantial growth (>20%) in their EC revenue during this period while a further three saw growth in the region of 10-20%. Only six firms saw revenue decline during the period.

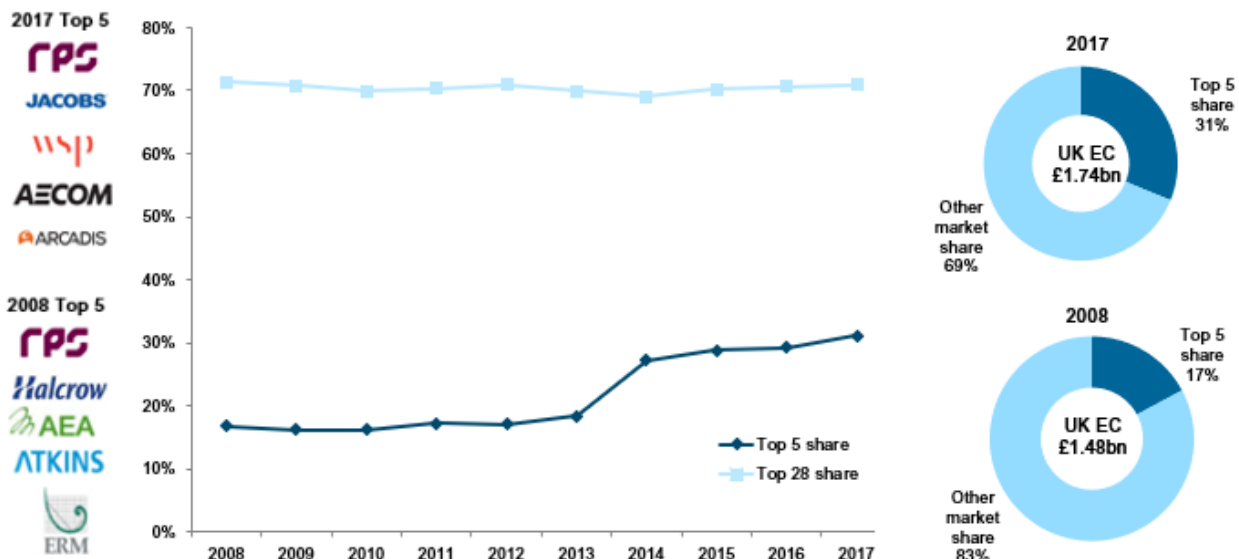
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The top five environmental consulting firms – **RPS**, **Jacobs**, **WSP**, **AECOM** and **Arcadis** now hold a combined c31% share of the market - up from 29% the previous year thanks to **Jacobs'** purchase of rival **CH2M** for \$2.9bn which created a 74,000-strong global engineering and professional services giant. The acquisition also thrust **Jacobs'** into second position, up from fifth in last year's report ([EA 18-Jan-18](#)).

It's worth noting that in 2008 the Top 5 only accounted for approximately 17% of the total market highlighting the impact of consolidation we have seen over the last decade (Figure 2). There has been significant flux and M&A activity impacting the top tier in recent years. Indeed of the Top 5 players from the 'class of 2008', only **RPS** remains in the same form in the Top 5 today, with the 2008 number two **Halcrow** having since been subsumed by **CH2M** and later **Jacobs**.

Figure 2: UK EC market share 2008-2017: Top 5 vs Top 28



In 2017 alone, no less than four of the Top 28 changed ownership - as a result of **Wood's** takeover of **Amec Foster Wheeler**, **SNC-Lavalin's** purchase of **Atkins**, Japanese firm **CTI Engineering's** acquisition of **Waterman** and **Jacobs'** mega-merger with **CH2M**. The majority of acquisitions involving the Top 28 were made by firms with very little pre-existing presence in the UK EC market such as **CTI Engineering's** purchase of **Waterman** or **SNC-Lavalin's** move for **Atkins**. But at the same time, the Top 28 collectively were still achieved a solid organic growth in the EC space of 5.2% that year, which rises to 5.4% when acquired revenues from M&A made outside of the Top 28 are also factored in.

Although there was only one major takeover impacting the the Top 28 last year, that of **Stantec's** purchase of **Peter Brett Associates (PBA)**, SLR saw the entry of new financial partner **Charterhouse Capital** and other smaller-scale M&A activity by and impacting the Top 28 continued apace. Stantec's position in the UK EC rankings will also receive a boost next time round

from its other UK purchase in 2018, that of hydrogeology specialist, **ESI**. In addition to Stantec, both **Temple** and **RSK** were acquisitive in 2018, buying up firms to enhance and broaden their service offerings, notably in the area of ecology. Meanwhile, other UK-based international EC players - including **ERM**, **RPS** and **SLR** - sought to invest in M&A to boost their Australian EC offering.

But interestingly, overall global EC revenues achieved by the Top 28 saw a slightly more modest increase of 4.0% to total £9.5bn, compared to their domestic market growth (of 5.4%), a trend which has been observed for the last three consecutive years.

The importance of infrastructure

Continued strong demand for environmental services supporting infrastructure & development clients, in tandem with a resurgence in public sector receipts, enabled the EC sector to once again outperform GDP and offset any Brexit-induced uncertainty. Revenue from I&D projects jumped 20% in 2017, equivalent to an extra £80m in EC revenues. In particular, opportunities associated with the High Speed 2 rail line, Highways England's first road investment strategy and the government's enhanced commitment to house building are keeping the sector in rude health.

Nevertheless, a somewhat unexpected dip in EC spend from the regulated industries (water, energy and waste management sectors combined), and a less surprising fall in spending from manufacturing, industrial and extraction clients put the breaks on overall market growth rates. Interestingly, this is the first time since 2014 that any of the major client sector groupings assessed in the UK EC market study have seen significant declines.

EA's findings suggest the UK EC sector is developing quite a reliance on I&D clients with over two-thirds of the additional revenue added in 2017 from this source - without which market growth would have virtually flat at just 0.3%. So the next few years will be crucial to the ongoing success of the industry with the state of public finances post-Brexit likely to impact the support given to major infrastructure projects. Nevertheless, the national infrastructure and construction pipeline remains at an encouraging £413bn, and with the government's promise that "austerity is coming to an end" it has a clear ambition to spend its way out of Brexit troubles, which should keep prospects there for the future.

Indeed, the return of public sector spending over the last three years has helped to bolster EC growth rates of late. Revenue sourced from central government and its agencies, as well as local authorities, grew by 11.3% in 2017 to approximately £340m - its highest value since 2010. And this important sub-sector is expected to grow again by around 5.5% in 2018 with the work programmes relating to Brexit requiring external support.

Outlook favourable yet uncertain

The impasse surrounding Brexit in Westminster and the fragility of Theresa May's government, makes market forecasting even more tricky. But our own projections for the UK EC sector are based on the assumption that a deal will be agreed.

There are tangible reasons to be optimistic about the future of the environmental services sector at large. The continued strong pipeline of infrastructure projects, will continue to act as the biggest driver moving forward. The recent actions by the government in releasing its Clean Air Strategy, Resources and Waste Strategy for England and the tabling of the draft Environmental Principles and Governance Bill during 2018/19 have also helped allay any fears of a bonfire of red-tape post-Brexit.

As a result *EA* expects the EC sector to have grown by around 4.7% in 2018 once the figures are finalised, and by a slightly more constrained 2.9% for the current year as the UK's exit from the EU is expected to put some spending decisions on hold - but still very respectable in the face of such uncertainty going into 2019. This is in fact an improved outlook from the last year's report, with a lifting of the five-year compound annual growth rate going forward at 3% between 2018 and 2022 from the figure twelve months ago of 2.5%.

Assistant Editor of EA's UK Market Intelligence Service and co-author of the report, Ross Griffiths, said: "During this time of huge political and economic hiatus for the UK, the ability of the UK EC sector not only to show resilience, but to record organic growth and outperform the UK economy is extremely positive.

"Growth in 2017 exceeded our expectations as spending on transport and energy infrastructure schemes has kept environmental consulting practices busy. However, while these contracts provide a size and scale not matched anywhere else, it is worth noting that other sectors are showing signs of fragility in the current climate. If the additional revenue supplied from infrastructure and development clients in 2017 was removed market growth would have been flat."

Nevertheless, with EC managers more likely to complain about a shortage in skilled staff than a shortage in billable work, and recruitment hitting a nine-year, post-recession high, we believe the fundamental drivers for growth remain in place for 2018/19."

HEADLINE FINDINGS

Other key findings in the latest UK EC market report include:

- The UK EC market is now 17.5% or £260m above its peak value pre-recession (2008) in current terms but remains £137m below in real terms indicating the market has not yet quite fully recovered
- Together the Top 28 employ some 12,300 environmental consultants, undertake around 43,800 contracts per year and record revenue in excess of £1.2bn. The average contract value for the Top 28 is £28k
- Top 28 EC staff recruitment higher than ever with an additional 833 environmental consultants added in 2017 – equivalent to year-on-year growth of 7.3% – but average revenues per head earned fell by 1.7%
- EIA & sustainable development remains the highest earning service area in the EC market accounting for 16.2% of revenue; followed by water quality & resources management (14.6%); then ecological/landscape services (13.4%). In terms of annual growth, the environmental management & compliance service area led the sector in 2017 with growth of +15%, followed by water quality & resources management (+12%) and ecological/landscape

services (+9.2%). Contaminated land and remediation was the only service area to record a decline (-5.0%)

- Infrastructure & development clients contribute to 28.4% of the UK EC market, with the next biggest spender being the regulated industries (27.4%) and then government (20.1%). Revenue earned from I&D has increased by £179m since 2013, indicative of the boom in this area. Revenues earned from the extractive, manufacturing and processing work fell by 9.7% in 2017 against a backdrop of still fluctuating oil prices
- Environmental consulting still seems a good place to be for multi-service providers - with the majority of the Top 30 EC practices forming part of larger multidisciplinary planning, design and/or engineering firms. The Top 28's aggregated EC revenues grew by +5.4% in 2017, outperforming their wider group businesses (+4.3%)
- SMEs in the sector, in contrast, are experiencing more difficult times with the average revenue per head for smaller firms (those with <£10m EC revenues) at c£76k compared to the £100k for the larger firms (>£10m). The average contract value is also almost 80% lower for smaller firms at c£5.7k

Figure 3: Top 28 UK EC ranking 2017

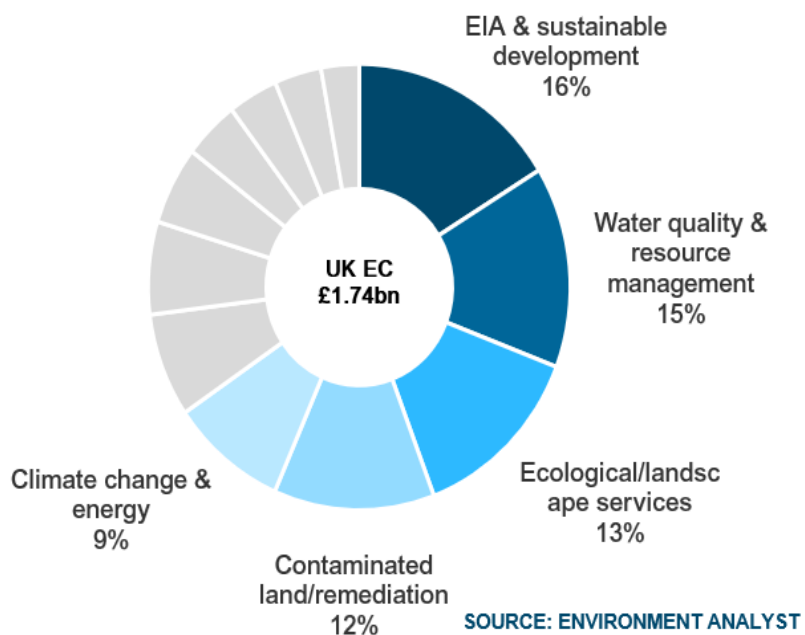
	Rank 2017	Share change
RPS Group	1	→
Jacobs (inc. CH2M)	2	↑
WSP	3	↑
AECOM	4	→
Arcadis	5	↓
Mott MacDonald	6	↑
RSK Group	7	→
Environmental Resources Management (ERM)	8	↓
SNC-Lavalin Group	9	↓
Ramboll	10	↓
Arup	11	→
SLR Consulting	12	→
Ricardo Energy & Environment	13	↓
Wood, E&IS	14	→
WYG Environment	15	↓
Stantec	16	↑
Royal HaskoningDHV	17	→
Bureau Veritas	18	→
JBA Consulting	19	→
Golder	20	→
Capita Real Estate & Infrastructure	21	↓
Wardell Armstrong	22	↓
Temple Group Management	23	↑
Black and Veatch	24	↑
Peter Brett Associates	25	→
Cefas	26	→
Waterman Infrastructure & Environment (CTI)	27	→
Anthesis Group (inc Sustain)	28	→

FURTHER INFORMATION

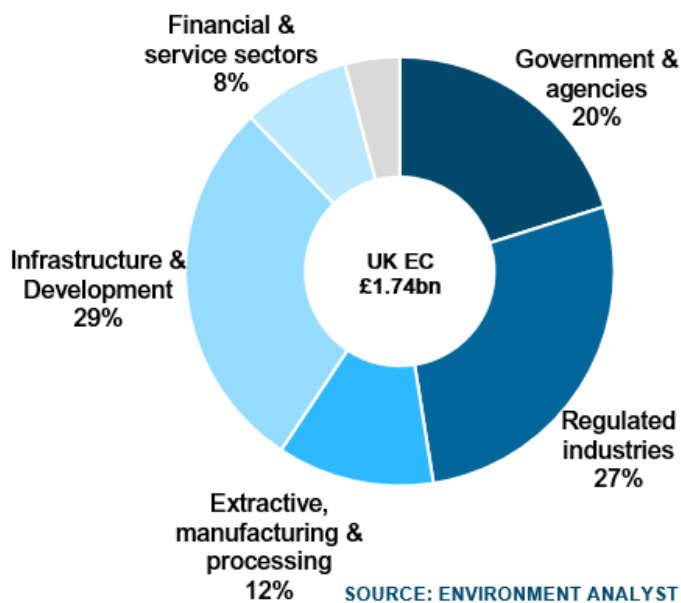
1. The *Market Assessment of the UK Environmental Consulting Sector* and *UK Competitor Analysis* reports form part of Environment Analyst's 2018/19 UK Market Intelligence Service – for further information (including a full list of contents and figures, and sample company profile download) see www.environment-analyst.com/uk-mis/
2. The report is based on core financial figures and strategic information collated through an annual research process in collaboration with the environmental consultancy companies – via market surveys, phone/face-to-face interviews with senior executives, and publicly-available annual reports/accounts and websites. The 28 profiled firms have all had the opportunity to review their company profiles and core financial statistics
3. The report is part of Environment Analyst's 2018/19 UK Market Intelligence Service. The full service includes this market assessment; company profiles of the leading 28 environmental consultancies updated throughout the year; the results of a UK market trends survey issued each summer; bi-annual reports on market drivers, service area opportunities, client sector opportunities and company insights; and weekly environmental services business news, as well as regular topical Insight features and reports.
4. *Environment Analyst Ltd* (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
5. For further inquiries about accessing the report, please contact the sales team on tel: +44 (0)203 637 2191 and email: ea.sales@environment-analyst.com. For editorial queries please contact Liz Trew on email: liz@environment-analyst.com, tel: (0)1743 818 2106

The graphics featured here are provided for publication:

UK environmental consultancy market share by service area, 2017



UK environmental consultancy market share by client sector, 2017



Infographic: The ‘Top 28’ by UK EC market share

