

# Waste management can be attractive - British industry leader, Biffa, to be acquired by Energy Capital Partners for £1.3bn

## Introduction

On September 27<sup>th</sup>, 2022, the US-based, private equity firm Energy Capital Partners announced the end of the buyout negotiation of the British waste-management company Biffa Plc for £1.3bn (ca. €1.5bn). The deal is valued at 410 pence per share, or 28 per cent more than the FTSE 250 group's closing price of 325 pence per share on the day before the original June proposal had been revealed. The final agreement is worth 7.9 per cent less per share than the initial offer in June, which Biffa's board said it was "inclined to recommend" to shareholders.

Ken Lever, chair of Biffa, described the deal from the view of the board as a compelling opportunity, particularly amid the weakening economic environment.

## About Energy Capital Partners

Founded in 2005, Energy Capital Partners is a prominent US investor in infrastructure critical to decarbonization. Their primary assets include those for sustainability, efficiency, and dependability across a variety of energy-related technologies.

Currently, the firm has over \$26bn in capital commitments, more than 600 limited partners globally, and is invested in more than 20 operating equity portfolio companies. Despite a low public profile, the company has been recently increasing its bets in businesses that help reduce carbon emissions and make infrastructure more sustainable. Last year, ECP bought the scrap-tire recycler Liberty Tire Recycling LLC and this year it acquired Restaurant Technologies Inc., a provider of systems that help restaurants manage cooking oil supplies and disposal. With the Biffa deal, ECP will be looking to realise the planned synergies and push on with its green-oriented portfolio.

## About Biffa

Founded in 1912, Biffa is a waste management company headquartered in High Wycombe, England. Throughout the United Kingdom, it offers collection, dumping, recycling, and special waste services to local authorities, as well as to industrial and commercial clients. It became the second-largest trash handling company in the UK as of 2017 and as such is traded on the London Stock Exchange as a part of the FTSE 250 Index.

For FY 2021, Biffa generated revenue of ca. £1bn, EBITDA of £44.2m and net profit of -£40.5m. With over 10 000 employees and ca. 2 900 collection vehicles, the company carries out essential operations every day to support the UK circular economy including collection, surplus redistribution, recycling, treatment, disposal, and energy generation.

## Strategic rationale

As mentioned previously, the price of the transaction was valued at approximately 410 pence per share, which, while being a 28% premium over the closing price of 325 pence per share after the initial June tender offer sent out by ECP, still rests ca. 8% below the initial price offered of 445 pence per share in June. When Biffa first acknowledged the unsolicited offer in June, it also made known that it was the subject of an inquiry by HM Revenue and Customs, which may potentially cost it up to £153 million.

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The board had reached the conclusion that, should a firm offer be made on terms identical to those in the proposal, it would be inclined to propose it to Biffa shareholders, subject to the agreement of additional customary terms and circumstances. According to the board, it balanced ECP's proposal against Biffa's independence "with regard to the fundamental value of Biffa as well as the likely value to be created by the sustained delivery of its strategy." This assessment considered all the risks the business is exposed to, including the ongoing negotiations between HMRC and Biffa over the landfill tax inquiry.

A comparable recent transaction in the waste-management industry is that of the waste broker Reconomy. Originally founded in 1994, it was bought by EMK Capital in 2017 wherein it began an ambitious expansion strategy that has helped it grow into one of the largest waste operators across the UK. Because the company had and has the potential for significant transformational expansion, the trash broker has grown its revenues massively under private equity ownership over the past five years, with a sizable portion of that expansion being fuelled by acquisitions. This hopes to set a replicable plan for ECP as it attempts to make good on integrating the observable synergies of Biffa into its portfolio.

The emergence of the ESG agenda, the ongoing number of deals, the success of the big players, and the retreat of some historically active trading participants are all factors driving an increase in private equity interest. Some markets, like those for water, electricity, and gas, are mature, making them more challenging to enter. This is what has thus far, and most likely will continue to make waste an attractive synergy for any ESG portfolio, especially considering the low valuations currently experienced across the economy.

## **Deal structure**

The transaction will be carried out through Bidco, a recently created entity controlled by ECP. The funds required by Bidco for the deal will be raised in two ways: through an equity injection by ECP and a term loan of £100mn to cover the acquisition cost and refinance certain Biffa Group liabilities.

Furthermore, ECP will provide Bidco with a multi-currency revolving credit facility in the amount of £225mn, which will be used primarily for Biffa's working capital needs. Since the acquisition is being completed through a front company, a common practice in the private equity market, it is difficult to predict what form of funds ECP will employ for the transaction. However, we know that the equity injection could be financed by a £200mn short-term loan from Barclays Bank, with the financial institution asserting that sufficient cash resources are available to pay for Biffa.

Soros Fund Management LLC and Global Alpha Capital Management, both of which own a combined 14% of the company, were among the most important shareholders who said they will accept the acquisition. Interestingly, after the transaction was announced on September 28th, Biffa's stock was acquired by the trading divisions of banks such as Bank of America, Barclays, and JP Morgan, with all of them currently owning roughly 15% of the 306mn shares listed on the LSE.

## **Outlook**

The UK Government's plans to increase plastics recycling and re-use, eliminate avoidable waste, and achieve 65% municipal waste recycling by 2035, combined with its commitment to invest £18bn in the circular economy, will significantly increase the UK waste management market, valued at £9bn in 2022, in the coming years.

ECP has invested in energy transition, environmental infrastructure, and sustainability-focused enterprises for nearly two decades. However, by acquiring Biffa, the fund will enter a new sector instead of its previous investments

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in renewables, energy storage, and natural gas generating. ECP's plan for long-term growth and value creation will profit from Biffa, a firm with great development potential because of a strong national brand, wide service coverage, an experienced management team, and a rising market with high entry barriers.

Biffa intends to expand in the fragmented I&C collections industry through acquisitions and mergers, which are critical to the company's plan to become the biggest garbage collector in the UK, with sector-leading margins and returns on capital. The corporation has recently been involved in the acquisition of waste collector Viridor for £130.8mn in August 2022. With the current economic outlook, Biffa could benefit from private ownerships and from newly injected PE liquidity which will be used to improve the long-term strategic value of Biffa's businesses for the benefit of all stakeholders, as well as future opportunities for Biffa, such as growth in green investments and its acquisition pipeline.

## **Conclusion**

As the circular economy becomes a higher priority for the UK government, and consumers become more concerned about climate concerns, the acquisition of Biffa by ECP appears to be a strategic gamble on an appealing sector with long-term prospects.

With the board of directors advising in favour of the transaction, stating that it represents a compelling opportunity for shareholders amid a weakening economic environment, the deal becomes yet another example of a public company being taken private in the turmoil of inflationary pressures and high-interest rates.

TAGS: Biffa, Energy Capital Partners, private equity, LSE, UK, France, waste management

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