

## Professional and Support Services Sector Focus

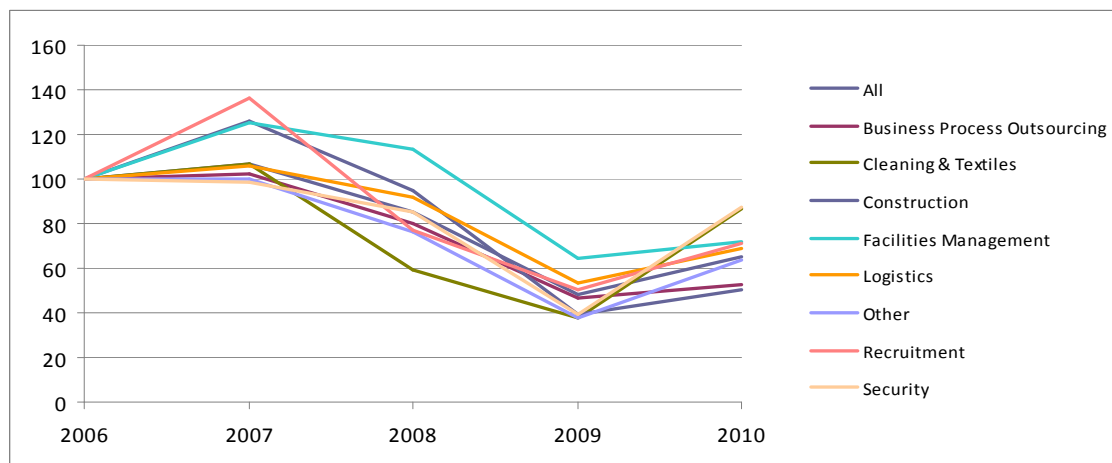
### Foreword

Welcome to the 2010 edition of the Critchleys Professional and Support Services Sector snapshot. Over the years Critchleys has gathered enough market intelligence and have acted for enough support services related businesses to make us an 'expert' in this field. This snapshot should not be used as an investment tool; it merely depicts our sentiment of the issues and concerns affecting the industry.

### Market Overview

- Since our last report all sub-sectors have shown some recovery in terms of value, but are still struggling to get up to 2006 levels.
- Average revenues have increased for the majority of the sectors since our last report, although average operating margins have decreased as competition to retain market share has intensified.
- Average market capitalisation as well as current and forecast Price-to-Earnings ratios (P/E) have increased in light of more positive data being released.
- The graph below shows every sector within Support Services fell by at least 50% from their peak share price. Recovery has differed depending on the extent the downturn has had on the individual sector, coupled with less pessimistic data now being released.

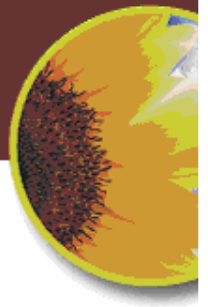
The graph below shows the median benchmarked price index (rebased at 100 in 2006) for various subsectors of the Support Services sector.



### Key Quoted Support Service Related Sectors (FTSE and AiM)

Support Services Sector	Average Revenue (m)	Average Operating Margin	Average Market Cap (m)	Average P/E	Average Fcst P/E
All	£120	3.8%	£32	8.3	9.3
Business Process Outsourcing	£79	4.4%	£39	8.8	9.7
Cleaning & Textiles	£954	3.4%	£677	10.1	10.2
Construction	£362	5.8%	£123	7.4	13.0
Facilities Management	£420	5.0%	£153	8.9	9.6
Logistics	£975	2.3%	£188	9.0	8.2
Other	£10	3.4%	£9	8.6	8.3
Recruitment	£101	2.5%	£21	7.1	9.7
Security	£24	5.4%	£9	6.5	5.2

Source: Digital Look – all data is the sector Median



## Issues Affecting the Market

- The downturn and the tightening of available credit available has meant that major consolidators are slowing down. This said there are still excellent opportunities for surviving firms with leaner cost bases to consider; either acquiring targets or to start grooming their businesses for sale by a larger consolidator. There continues to be in essence a gap in expectation between buyer and seller as sellers may well refuse to accept a lower price when potentially in a few years time the market values will return. What we are seeing is a strong shift in the amount of deferred or contingent consideration offered as part of any transaction, and it is this form of structure that is driving transactions.
- Pressure on margins: due to intensive competition increasing price pressure will remain for the medium term.
- Entrepreneurs' Relief lifetime limit has been doubled to £2m, creating a further tax saving for entrepreneurs looking to realise their investment in SME's.
- Agency Workers Directive and other legislation: the threat of EU legislation remains over the recruitment industry and with it the prospect of ever increasing bureaucracy and red tape.
- 2010 Budget: for high earners there are a few issues to consider in the future with the confirmation of previous proposals for a higher rate of tax and reduction of pension tax relief for those earning over £150,000, and the loss of personal tax allowances for those earning over £100,000. These factors may create opportunities for tax planning which our tax team would be happy to explore some of these with you.
- Support Services based businesses are predominately people based businesses and therefore in difficult time redundancies are a way of life. Expert opinion should always be sought in any planned redundancy as the consequences if done wrong can be expensive and time consuming.
- Taxation: Tax issues affecting contractors (IR35 etc) as always remain an issue.
- The withdrawal of the staff-hire concessions has meant that hiring agency workers in certain sectors (financial services, education and charities) can now be more expensive in terms of VAT.
- VAT – Professional Support Services. From 1 January 2010 the VAT treatment for many cross-border services changed, and coupled with the VAT rate change on the same day, caused some system headaches in adapting to the changes.
- Critchleys Angel Community: We have recently launched our own Angel Community with the aim to hopefully link funding opportunities (from all sectors not just Technology) to entrepreneurial individuals. For more details see our website [www.critchleys.co.uk](http://www.critchleys.co.uk).

## How Can Critchleys Help?

Critchleys act for a high number of support services based companies in helping them achieve their goals and aspirations throughout their lifecycle, from seed capital through to AiM Flotation. In addition, the following service lines provide business advice for our clients in the Support Services sector

- Business Support: audit, accounting, payroll and advice
- Corporate Finance: Fund raising; acquisitions; due diligence; expert valuations and disposals
- Taxation advice including compliance and structuring; share options; VAT
- HR: expertise in HR advice