BRERETON AND COMPANY, INCORPORATED
Private Investment Banking

The Changing Landscape of Permanent Facilities Services: What Lies Ahead?

Permanent Facility Services Industry Reporter - Volume No. I - February 2003

Introduction to the Brereton Permanent Facility Services Reporter

The *Brereton Industry Reporter* is a quarterly journal designed to assist management and investors in the Permanent Facility Service industries (see definition below). The journal attempts to address and explain current and anticipated market influences, investor sentiment and the valuation implications of the economic environment; including private company acquisition activity. By introducing quarterly data and highlighting critical market issues, we hope that the *Brereton Industry Reporter* can help management and investors gain effective insight into the valuation and organization of their business.

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Executive Summary

The permanent facilities services industry has experienced dramatic changes over the past two decades. Hundreds of institutions have been consolidated, restructured, or newly formed. Business entities have come to realize that maintaining a well-managed and highly efficient facility is critical to success. New technologies, security issues and health concerns also have had a major impact on the importance of and need for facility professionals in organizations. Facility managers have witnessed an increase in their responsibilities for providing a safe and effective workplace for employees.

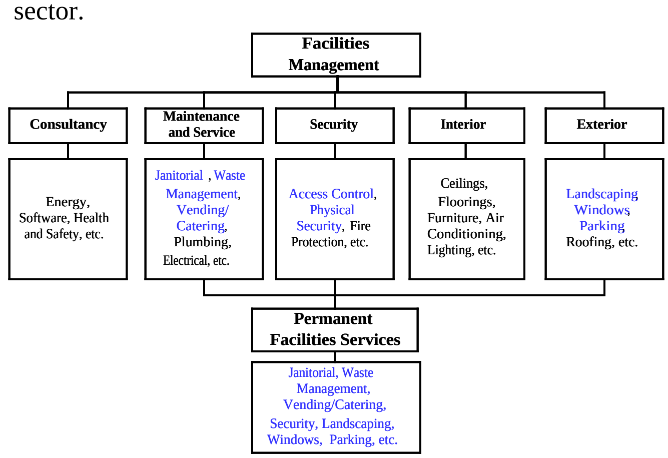
While the facilities management industry has a tremendous opportunity to grow stronger and play an even more dominant role in fueling economic activity, it is facing many challenges, particularly for small to middle market sized firms. A weak economy has had a significant effect on this cyclical industry, and pressure from limited pricing power and wage inflation remains very real. ***Additionally, major one-stop, multi-service organizations are gaining an ever increasing market shares as consolidations and growth capital distributions are concentrated within a few leading firms.***

In this quarter's issue, we will address these trends and also provide an update on how these and other topics are influencing the valuation and merger activity of the sector.

We would like to invite your insight on these or other industry related topics. Our contact information is on the back cover.

Permanent Facilities Services Defined

General facility management is the practice of coordinating the physical workplace with the people and work of the organization. It integrates the principles of business administration, architecture and the behavioral and engineering sciences. ***We define "Permanent Facilities Services" as a subset of facility management that encompasses persistent, contractual services that generate a predictable revenue stream.*** While these services incorporate a consulting component, they are primarily labor and management intensive tasks. ***(Examples include: Janitorial Services, Landscaping, Security, etc.)*** The chart below is certainly not comprehensive, but it should provide a general guideline as to how we envision the "Permanent Facilities Services" sector.



Industry Trends: Outsourcing on the Rise

Do businesses favor more outsourcing in a rocky economy? Recent evidence says yes. Outsourcing has become a critical tool for corporations responding to choppy economic times, according to a report from a business intelligence firm, Cutting Edge Information. The world's top companies have moved beyond using outsourcing to shore up weakness to profiting from outsourced relationships. In the last year we have witnessed multitudes of top companies such as General Electric, General Motors, IBM, Disney, Pfizer and Microsoft employ increased outsourcing support to maintain their focus on critical core competencies and drive bottom-line profits, even in a down economy.

With facilities work becoming increasingly complex, more and more companies are outsourcing their permanent facilities management functions. This enables them to gain a degree of specialized expertise they could not achieve in-house. Also, outsourcing often provides a fixed cost approach to facilities management, as well as ultimately reducing overall facilities management expenses.

According to a recently released study co-sponsored by FMLink and Encompass Global Technologies, eight facilities management functions are being outsourced by at least 45% of respondents, with custodial and housekeeping being outsourced by a whopping 72% of respondents. These figures define a "definite trend toward more outsourcing in recent years," concludes the survey report.

Most Frequently Outsourced Facility Management Functions	
1. Custodial and Housekeeping	72%
2. Design and Architecture	65%
3. Landscape Maintenance	63%
4. Major Moves	54%
5. Security	51%
6. Preventative Maitenance	50%
7. Engineering	46%
8. Utilities Maintenance	45%

Source: FRLink and Encompass.
**Categorized as Permanent Facilities Services.*

Note: FMLink survey respondents represent various industries, with annual operating budgets averaging approximately five million.

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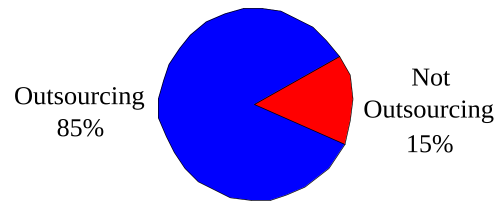

Survey results of 155 attendees at a IFMA World Workplace Conference, 2001.

The survey further suggests that facilities management outsourcing hasn't yet crested. Within two years, 27% of respondents said "that they likely would be outsourcing at least one additional function that they are not outsourcing at present." The most likely candidate to join the outsourcing ranks over the next two years: preventive maintenance, picked by 40% of the group of respondents who anticipated increased outsourcing.

Here's a more detailed look at the survey's findings:

Why Outsource? The two most important reasons stated for outsourcing were 'cost savings' and 'the need for special skills, services or tools/equipment'. 'In-house staff reduction,' the third most frequent rationale for FM outsourcing, was mentioned by significantly less respondents.

What's Spent on Outsourcing? The average percentage of the annual FM operating budget spent on outsourcing is 38%, the survey found. That marked a 6% increase from the level recorded two years ago.

What's Most Likely to Remain Outsourced? The three "least likely services to be brought back in-house" are the same three now most frequently outsourced: custodial and housekeeping, design and architecture, and landscape management.

Where Are Outsourcing's Greatest Savings? The greatest number of survey respondents reported cost savings in the three most frequently outsourced services.

How Are Outsourcing Contractors Selected? "Competitive procurement" ranked as the most influential source for contractor selection. "Prior experience with the contractor" and "referrals" were respectively ranked the second and third most influential sources for contractor selection.

How Are Outsourcing Contractors Evaluated? The most important way to evaluate the contractor's performance was through direct oversight by the in-house FM staff, said the survey report. Three other reasons were listed as secondary: regular meetings with the contractor, staff surveys and/or customer complaint files, and performance-based measures.

What's the Most Difficult Aspect of Outsourcing? "Selecting the right contractor" finished first here, cited by 39% of respondents. Ranked next, with 17%, was "managing the contractor," followed by "writing the proposal to select the contractor," with 13%.

Performance Based Contracts?

Facilities management outsourcing really began when suppliers skilled at performing one type of service - security or cleaning, for example - suggested to their clients that they could do more. This approach, of course, is still one that is seen today. However, the client often perceives this as purchasing an expert in one service and a manager of sub-contractors for others. The integrated, seamless approach to services is still missing.

Over recent years the supply side began to realize this and started to create facilities management organizations where the emphasis was on management and not contracting. ***Thus, some of the large players in the market are now seen offering a more universal, value-added approach. We have noted many suppliers feeling the need to expand their repertoire and size through mergers, acquisitions and joint ventures.*** The move upstream in terms of the scope of what is outsourced is matched by the new ways of looking at the contract itself - performance based contracts and the concept of the 'serviced' office. There are increasing examples of performance contracting and a risk transfer approach to outsourced facilities management.

It is clear that the management of facilities is not the 'core' business of most companies and many clients are starting to think about setting up a performance based contract with a leading supplier and saying "I want a serviced office which fulfills the following outcomes..."

The approach presents a challenge to the client side as it has to be prepared to transfer risk and also to be definitive about the service outcomes it requires (not often easy for many organizations who do not sufficiently understand the services they currently receive or the cost base). Truly innovative clients will see the opportunity to expand the scope to include desktop provision and IT support ("you just rent the office, we provide the building, the mail, the IT, the cleaning, the catering, the secretarial resources, etc."). ***It also places a challenge on the supplier to break away from the traditional way in which facilities management services are performed and the ways in which they are paid for, to think more creatively and to "put our money where our mouth is."*** The growth of consortia to handle the different service characteristics is bound to follow.

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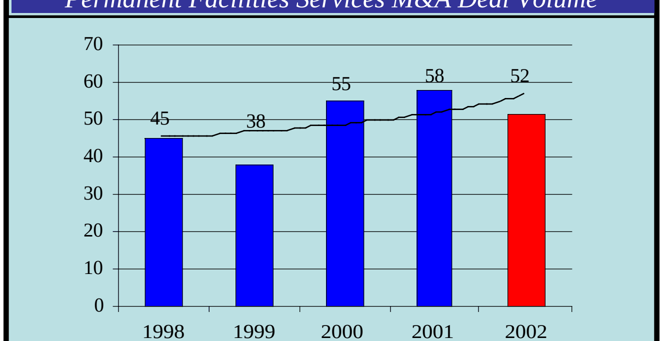
Mergers and Acquisitions Review

Facility services firms are presently adapting to the opportunities and challenges created by the recent economic downturn and increased focus on operating efficiency. ***Due to the labor and management intensive nature of most permanent facility services, consolidation often can provide significant operating efficiency improvements and revenue generating synergies.*** The strongest firms are expanding business into other sectors through acquisitions, taking advantage of new opportunities to increase their product diversity, market share, and profitability. These firms are being rewarded for such actions through expanded valuations and higher credit ratings. (ARAMARK alone has completed nine acquisitions in the last two years)

The last few years have seen increased M&A activity in facilities services, despite a tumultuous equity market and a difficult economic climate dampening overall activity. The more reliable, predictable revenue streams of certain facility services activities have proven even more desirable for both strategic and financial buyers. Plus, permanent facilities services represents a huge (~$220 billion), fragmented market that is still dominated by small "mom and pops" and a few regional players.

While year to date 2002 has shown a slight contraction, we see continued consolidation throughout 2003. A world of lower general economic growth will likely refocus management teams across the globe on maximizing ROE to compensate. ***Thus, the relevance of consolidation, acquisitions, and divestitures as tools to maximize profitability is likely to increase.***

Permanent Facilities Services M&A Deal Volume



Source: Mergerstat.

Mergers and Acquisitions Review (Continued)

As the facilities services industry continues to consolidate, there will be increasing economies of scale for larger and more established companies. Currently, the majority of businesses in the industry are under $10 million in size and typically lack the accounting, inventory, and account tracking systems of the larger consolidators. These standardized systems facilitate efficiencies in operation and improvements in information transfers. ***There are significant cost advantages for larger companies relative to their smaller counterparts. Examples of these cost benefits include increased purchasing power and centralized advertising and marketing costs, which result in improving margins and increasing profitability.***

As smaller companies combine becoming components of a larger entity, recruiting management personnel is significantly facilitated, allowing companies to develop the infrastructure necessary to support growth going forward.

We believe several other catalysts also point to an increase in Permanent Facilities Services M&A activity:

Economic Outlook

ÿ *Many buyers are expected to look towards acquisitions as a means of driving earnings*

ÿ *Several parties may explore sales in the face of increasingly difficult outlets to raise adequate expansion capital*

ÿ *Consensus developing that we are moving towards recovery*

Capital Markets

ÿ *Divergence in valuations among large and small firms is further differentiating winners from losers*

ÿ *Rating agency considerations are increasingly important – and ratings and scale are highly correlated*

ÿ *The protected, reliable revenue stream of contracted services provides an attractive hedging platform in uncertain economic times*

Universe of Buyers and Targets

ÿ *Recent situations suggest realization by sellers that the universe of premier, viable buyers is shrinking*

ÿ *Very few larger players have achieved complete service diversification*

ÿ *While the number of mid and small sized industry players has been reduced in recent years, they still remain abundant*

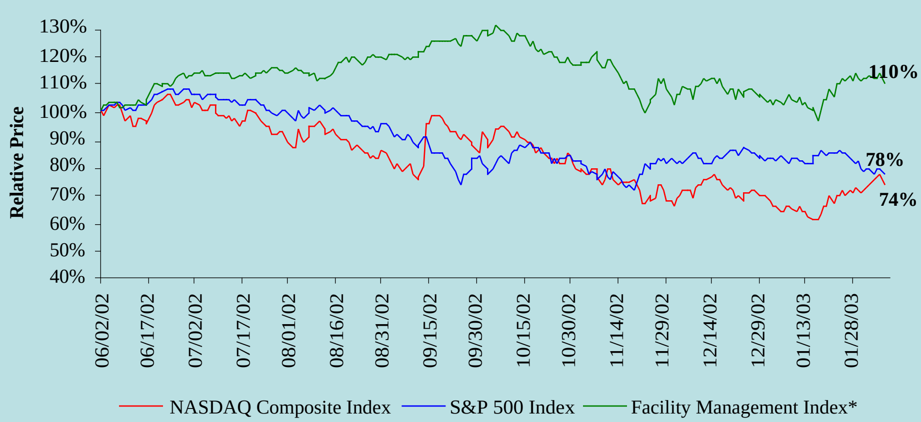
Valuation Review

In the last twelve months, the equity markets have been challenging for investors. Muted economic indicators and concern over the health of consumer sentiment has led some to posit the probability of a sluggish recovery or even the possibility of a double dip recession.

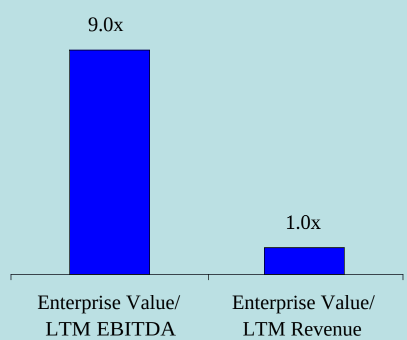
While facilities services could not be classified as counter cyclical, due to their relatively consistent, defensive nature, facilities management companies tend to outperform in troubled markets. In the last year, as can be seen from the chart below, facilities management stocks have held true to that theory.

In particular security focused operations have supported the segment. We anticipate continued operating performance and takeover speculation to support prices in the coming year.

Last Twelve Months Price Performance



Public Trading Multiples



- Facility Management Index mean figures.*
- Enterprise value equals equity market value + net debt + preferred stock.
- Last twelve months as of 12/02.

** Facility Management Index includes: ABM, AMBF, AW, CHB.L, CPC, ECL, EME, ESVN, GW, IDSA, MRGO, RMK, ROL, RTOKY, SVM and TMCO.*

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Selected Relevant Permanent Facility Services Mergers and Acquisitions

Custodial/Housekeeping Services

Announced Date	Buyer Name	Target Name	Ownership Type	Target LTM Financials Revenue	Target LTM Financials EBITDA	Transaction Type	Acquisition Purpose
9/10/2002	Angelica Corporation	Central Georgia Health Systems Inc., Selected Assets	Private				Horizontal
8/13/2002	TTI Holdings Of America Corp	Steam Cleaning USA Inc.	Private			Private Company Acquisition	Financial
7/31/2002	ARAMARK Corporation	Aim Service Co Ltd.	Public	$ 519.7		Divestiture	Horizontal
6/12/2002	ABM Industries, Inc.	Lakeside Building Maintenance Inc	Private	$ 160.0		Private Company Acquisition	Horizontal
5/10/2002	Private Group Led By Hohenwarter	Morris Maintenance Inc	Private			Private Company Acquisition	Financial
3/5/2002	Medline Industries, Inc.	Angelica Corporation	Division		$ 32.7	Divestiture	Horizontal
10/4/2001	ARAMARK Corporation	ServiceMaster Company	Division	$ 1,904.2	$ 410.9	Divestiture	Horizontal
8/7/2001	Compass Group PLC	Crothall Services Group	Private			Private Company Acquisition	Horizontal
6/19/2001	Applied Chemicals Pty Ltd	National Service Industry	Division		$ 23.8	Divestiture	Horizontal
6/19/2001	International Chemicals Sales & Supply LLC	National Service Industry	Division		$ 23.8	Divestiture	Horizontal
5/14/2001	CLARCOR Inc.	MPW Industrial Service Group, Inc.	Division		$ 15.8	Divestiture	Horizontal
4/27/2001	Straightline Optical Service Inc	MPW Industrial Service Group, Inc.	Division		$ 15.8		Horizontal
4/17/2001	Bank of America Corporation	Kellermeyer Building Services	Private			Private Company Acquisition	Financial
4/5/2001	ABM Industries, Inc.	CarpetMaster Cleaning	Private			Private Company Acquisition	Horizontal
3/26/2001	American Sanitary, Inc.	ABM Industries, Inc.	Division	$ 44.0	$ 41.8	Divestiture	Horizontal

Waste Management Services

Announced Date	Buyer Name	Target Name	Ownership Type	Target LTM Financials Revenue	Target LTM Financials EBITDA	Transaction Type	Acquisition Purpose
10/21/2002	Stericycle, Inc.	Bridgeview Inc.	Private			Private Company Acquisition	Horizontal
7/12/2002	DDJ Capital Management	Waste Systems Int'l, Inc.	Division		$ 1.8	Divestiture	Financial
7/8/2002	Northeast Maryland Disposal Authority	Brambles Industries Ltd.	Division			Divestiture	Horizontal
7/2/2002	IESI Holdings Corporation	Advance Waste Management Services / L-Ray Garbage Disposal	Private			Private Company Acquisition	Horizontal
5/6/2002	Waste Industries USA, Inc.	Georgia Waste and Recycling Service, L.L.C.	Private			Private Company Acquisition	Horizontal
1/23/2002	Gundle/SLT Environmental	Waste Management, Inc.	Division	$ 200.4	$ 2,952.0	Divestiture	Horizontal

Security/Guard Services

Announced Date	Buyer Name	Target Name	Ownership Type	Target LTM Financials Revenue	Target LTM Financials EBITDA	Transaction Type	Acquisition Purpose
10/30/2002	First Reserve Corporation	The Pittston Company	Division		$ 311.6		Horizontal
10/15/2002	SPX Corporation	Vance International, Inc.	Private			Private Company Acquisition	Conglomerate
3/18/2002	ABM Industries, Inc.	Foulke Associates Inc.	Private			Private Company Acquisition	Horizontal
2/14/2002	ABM Industries, Inc.	Triumph Security Corporation	Private			Private Company Acquisition	Horizontal

Landscaping Services

Announced Date	Buyer Name	Target Name	Ownership Type	Target LTM Financials Revenue	Target LTM Financials EBITDA	Transaction Type	Acquisition Purpose
8/13/2002	The Scotts Company	Centex Corporation	Division		$ 831.5		Horizontal
7/10/2002	The Davey Tree Expert Company	National Shade L.P.	Private			Private Company Acquisition	Horizontal
6/28/2002	L&M Enterprises	Richdell Construction Inc	Private			Private Company Acquisition	Horizontal
5/9/2002	United Industries Corp.	Schultz Company	Private	$ 93.0		Private Company Acquisition	Horizontal
3/11/2002	Edwards & Kelcey	Aikenhead & Odom	Private			Private Company Acquisition	Horizontal

Catering/Vending Services

Announced Date	Buyer Name	Target Name	Ownership Type	Target LTM Financials Revenue	Target LTM Financials EBITDA	Transaction Type	Acquisition Purpose
10/24/2002	ARAMARK Corporation	Fine Host Corporation	Public		$ (0.2)	Public Company Acquisition	Horizontal
8/8/2002	ARAMARK Corporation	Travers Food Service Ltd.	Private			Non-US Company Acquisition	Horizontal
7/31/2002	ARAMARK Corporation	Aim Service Co Ltd.	Public	$ 519.7		Divestiture	Horizontal
6/25/2002	Clayton, Dubilier & Rice, Inc.	Brake Bros. PLC	Public	$ 2,014.2		Non-US Company Acquisition	Financial
3/26/2002	Texas Pacific Group	The Swissair Group	Division	$ 1,873.8		Divestiture	Financial
3/6/2002	Compass Group PLC	Bon Appetit Management Company	Private	$ 279.0		Private Company Acquisition	Horizontal
2/11/2002	Greater Northwest Research and Development Group Inc	ADL Inc.	Private			Private Company Acquisition	Financial
1/14/2002	Littlefield Corporation	Liberty Catering Inc.	Private			Private Company Acquisition	Horizontal

Other Services

Announced Date	Buyer Name	Target Name	Ownership Type	Target LTM Financials Revenue	Target LTM Financials EBITDA	Transaction Type	Acquisition Purpose
1/14/2002	Central Parking Corp.	Park One of Louisiana LLC.	Private			Private Company Acquisition	Horizontal

**Source: Mergerstat, company research.*

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Please give us a call. Our initial discussions and analysis are strictly confidential and complimentary.

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Food Industry Reporter

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