

## Clipped wings

Half the world's nuclear reactors are expected to be closed by 2030. Now that it has access to this decommissioning opportunity via EDS, it is surprising to see Silverdell taking a seemingly conservative approach to its growth strategy. A cautious stance towards acquisitions and a promised dividend point to a focus on near-term secure EPS growth in contrast to a more aggressive growth strategy that could generate greater value over time.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/10	56.7	2.56	0.9	0.0	15.0	N/A
09/11	59.7	3.05	1.4	0.0	9.7	N/A
09/12e	78.0	4.66	1.2	0.16	10.9	1.2
09/13e	140.7	13.97	2.8	0.41	4.9	3.0

Note: \*PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

## Huge potential awaits

Now that the £20.6m acquisition of EDS has been completed, Silverdell is able to offer not just a maintenance and asbestos removal service, but a complete end-to-end decommissioning, asset disposal and land reclamation service. Given the need for this type of service around the world, Silverdell is well positioned to become a global leader should it so choose.

## The business has increased in scale, but can go further

Through acquisitions and organic growth, Silverdell has more than doubled its revenues and EPS in the past 18 months. The company is bidding on several significant contracts, one of which could double the order book from its current £209m level. Yet we raise a question over its strategy. It is strengthening its position in the UK and Canada and exploiting a large contract in Australia, while bidding on some other pieces of business, mainly in Europe. The opportunity to become the dominant leader in high-hazard support services could materialise if management commits investment of an appropriate scale.

## Valuation: Now clearly undervalued

Over the past 12 months, the share price has barely moved, yet earnings per share will double in 2013 over the 2011 level. On multiples, Silverdell trades at half or less of the level of the market. Our DCF suggests a value of 31p/share and at this level the company would trade in line with or above its peers and in line with the market.

For the second time in four months, we are upgrading our forecasts for 2013 (an 18% increase in EPS) and beyond, though we are trimming 2012 figures following the trading update. If the current bids convert, we could see the order book increase in size dramatically, with further upgrades resulting. Clearly Silverdell may fail to convert any of these bids, but the discount the company currently trades at more than compensates for this risk.

## Support services

8 October 2012

Price 13.5p  
Market cap £42m

Shares in issue 313.2m  
Free float 77%  
Code SID  
Primary exchange AIM  
Other exchanges N/A

### Share price performance



%	1m	3m	12m
Abs	1.9	(5.3)	24.1
Rel (local)	(2.0)	(8.8)	6.5
52-week high/low		14.62p	8.25p

### Business description

Silverdell provides industrial services in hazardous or regulated environments. Its core offerings are asbestos removal and decommissioning of plant for global corporations. It also provides testing services on a consultancy basis.

### Next events

Final results December 2012

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## Investment summary: A clear opportunity to grow

### Company description: End-to-end services

Silverdell provides industrial companies with a full service to maintain during life and dismantle at the end of life, facilities in high-hazard, regulated environments. Operating in high-hazard environments such as nuclear and defence establishments has high barriers to entry, which reduces competition and supports margins, while work is routinely multi-year framework contracts giving good order book visibility.

Silverdell has followed a successful buy-and-build strategy, ending most recently with the acquisition of EDS, which doubled the size of the company. The message from management is that the company will now consider small acquisitions, probably in the consultancy division, and focus on strengthening the UK, Canadian and Australian businesses, along with some limited European activity. This will generate safe sequential EPS growth. With more investment, the company has the opportunity to be a global leader by some margin. Greater investment could create longer-term value, albeit perhaps at the risk of slowing or diluting near-term EPS growth.

### Valuation: Now clearly undervalued with 31p/share fair value

We use a DCF and economic profit model to arrive at a 31p/share fair value. 12 months ago, the shares traded at 11p/share with prospective EPS of 1.2p. Today they trade at 13.5p/share with prospective EPS of 1.2p, rising to 2.8p next year. This follows the acquisition of EDS, which has transformed the size and prospective growth rate of the company.

Silverdell trades at a P/E of just 4.9x for 2013, falling to 4.5x the following year. This compares to 10.7x for the FTSE All-Share or 9.3x for the FTSE Small Cap ex Investment Trusts index for the same period. We can see no justification for Silverdell to trade at half or less the P/E multiple of the market. The company currently trades on a forecast EV/EBITDA of 2.5x compared to the FT All-Share multiple of 7.8x and the FTSE Small Cap ex Investment Trust index multiple of 5.9x.

### Financials: Strong balance sheet supports future growth

As a result of the use of shares rather than debt to fund the £20.6m EDS acquisition, the balance sheet looks sound. September 2012 net debt is expected to be between £6m and £7m and we anticipate that this will be fully repaid by the end of the next financial year.

The company has confirmed that there will be a first dividend this year and we forecast a 1.2% yield, or 0.16p/share. This 25% pay-out ratio should increase given the forecast cash generation.

**Exhibit 1: 2013 forecast changes**

	2013 revenues (£m)	2013 EBITDA (£m)	2013 EPS (p)
Old	130.34	13.8	2.2
New	140.74	16.3	2.8
Change	8.0%	18.3%	27.3%

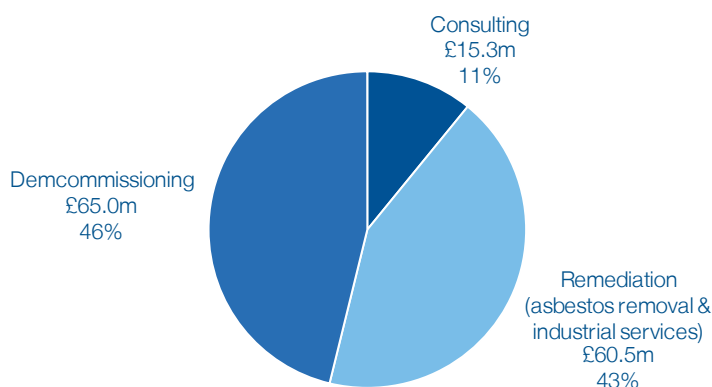
Source: Edison Investment Research

We are trimming our 2012 forecasts in light of the recent trading update, but we are upgrading our 2013 figures to reflect the large contracts out for tender at the moment. Converting just one of the largest ones alone could double the order book from its current £209m level.

## Silverdell: A global leader in dismantling

Silverdell is a global leader in the end-to-end provision of disinvestment services. It offers companies a range of services from maintenance to demolition. Historically, it was focused on the management and removal of asbestos in the UK market. It then expanded its range of products to include broader industrial services (scaffolding and access), the testing of water, soil etc and consultancy. It is now the largest specialist support services company in the UK and its key differentiator is that it operates in high-hazard regulated environments such as nuclear and defence establishments. It recently doubled its size and form via the acquisition of EDS, a company that undertakes the disinvestment (ie taking down and removing) of facilities, again in high-hazard environments such as oil refineries. The company is cash generative and plans to pay a maiden dividend in 2013, the size range of which has just been announced to be between 0.15p and 0.20p per share. The range of services now on offer is as follows:

Exhibit 2: Silverdell 2013e revenue split



Source: Edison Investment Research

### Decommissioning

Following the purchase of Euro Dismantling Services Ltd (EDS), Silverdell is one of the world leaders in the provision of decommissioning services. It offers a broad range of services including:

- Decontamination: the removal and disposal of hazardous chemicals and contaminated materials, with scale ranging from individual vessels to entire plants.
- Demolition (using conventional, remote and controlled explosive techniques) and dismantling (the 'un-building' of structures, often with recovery of assets in mind).
- Decommissioning: a turn-key solution including asset recovery, land regeneration, planning and legislation compliance. EDS has been chosen to decommission nine out of 11 of the last oil refineries around the world since 1994.
- Land remediation: reclaiming contaminated sites, recycling and reusing excavated materials.

EDS has global reach, a blue-chip client base (eg Rio Tinto, Exxon Mobil and Rolls-Royce) and has a particular expertise and strong reputation in the field of nuclear decommissioning. EDS is capable of handling demolition, decontamination, dismantling and asbestos removal in the nuclear industry. This is a field that shows promising growth, but is highly regulated and controlled, which creates high barriers to entry for competition. EDS has historically generated revenues of between £46m and £54m, with EBITDA margins of between 6% and 12% in contrast to Silverdell's 7% margins.

## Asbestos removal (reported under the Remediation segment<sup>1</sup>)

Silverdell's heritage is that of an asbestos removal company. While the remediation of asbestos now accounts for less than half of revenues and it is largely a UK-focused activity, it remains the foundation of the company. Silverdell offers the following services:

- Surveys: asbestos legislation requires building owners to identify asbestos and manage the risks in their premises by carrying out a survey identifying the location, type, volume and condition of any asbestos-containing materials.
- Asbestos management: Silverdell offers management development, budget preparation and resource planning, project management, reporting, risk assessment, action plans and asbestos register compliance.
- Removal: this is the bread and butter of the business. Silverdell can handle projects ranging from small up to large multi-million pound contracts, offering bespoke removal services and supplying all the required documentation afterwards. The asbestos is carefully bagged up and disposed of in one of a handful of authorised hazardous waste landfill sites in the UK. These sites are not owned or run by Silverdell.
- Training: through its operating unit SAFE Training (which technically sits in the consulting division), Silverdell offers a range of courses applicable to management or staff. As well as training on asbestos, SAFE Training also provides courses on a variety of topics related to environmental hazards such as the handling of Legionella.

Silverdell is differentiated from the many other asbestos removal companies in the UK, both by its size (estimated at between one third and one half as big again as its nearest competitor) and its ability to operate in high-hazard regulated environments such as nuclear power stations and defence establishments. Most of the business has historically been UK focused, although the acquisition of EDS takes the business international. The UK business is low growth (c 1-3%) at a 25% gross margin.

## Industrial services (reported under the remediation segment)

At the end of last year, Silverdell employed John Potts, an experienced operator in the industrial services industry, to develop this part of the business. The term industrial services is a broad, catch-all phrase encompassing most of the activities that take place in industry, apart from manufacturing or construction. The market size is estimated at between £1bn pa and £4bn pa, although Silverdell's estimate of £5bn pa can be justified by including offshore (oilrig) work and activities such as scaffolding, which could equally be defined as construction work. We note that offshore work is not in Silverdell's plans as it does not yet have the skills to work in this arena. One of the largest contracts it is bidding for at the moment is at the Grangemouth refinery site, which could add a £200m 10-year framework contract to Silverdell's order book, doubling its size. Currently, industrial services is a small part of the business (we estimate it to be £5-6m of turnover).

There are three principal categories of activity within the sector.

- Insulation

Work in insulation is in three sub-categories:

- a. Thermal insulation: required by most large industries such as oil refineries, generators and any activity that requires the storage of hot materials, liquids or gases.
- b. Acoustic insulation: used where it is necessary to control sound levels.
- c. Cryogenic insulation: similar to thermal insulation, but maintaining products at low temperatures, eg liquid natural gas needs to be maintained at -170°C.

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<sup>1</sup> Asbestos removal and industrial services form the Redemption segment. In aggregate, this operates at a gross margin of approximately 24%.

- Scaffolding.

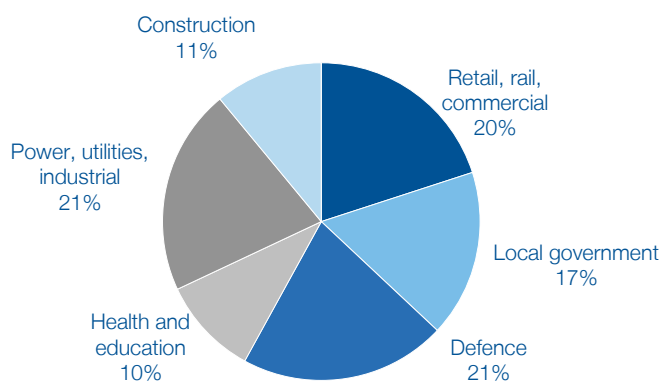
Scaffolding services are divided into the traditional tube and fitting technology and system scaffolding, which assembles like a jigsaw. System scaffolding is more costly (capex and rental) but faster to erect.

- Industrial coatings.

Industrial coatings covers a broad range of activities such as shot blasting, painting by hand and painting by spray. The coating may be a traditional paint or even a hot metal spray or internal lining/insulation.

EDS also offers a range of services such as industrial cleaning and waste management: from standalone tank and vessel cleaning to large-scale drain and sewer cleaning, together with the safe handling and disposal of waste.

**Exhibit 3: H112 remediation segment revenue split**



Source: Silverdell

## Consulting

The consultancy division acts not only as a revenue generator in its own right, but also creates cross-sell opportunities and forms the glue for some of the end-to-end services Silverdell now provides. It offers a range of surveying, analysis and compliance services.

- Surveying: the range of surveying services reaches well beyond asbestos into water (Legionella risk) and energy (Energy Performance Certificates – EPC) and bulk sampling.
- Consultancy and analysis: generally focused around asbestos, this relates to the monitoring of procedures to ensure that contractors operate in line with regulatory requirements. It also covers the clearance for and issue of certificates, documentation, permits and checklists.
- Occupational hygiene: including noise monitoring, air monitoring, environmental quality (including humidity and lighting) and hazardous substances' assessment and testing.
- Fire safety: risk assessments, policy and procedure consultancy, fire emergency plans and evacuation drills.
- Training: a legal requirement of an asbestos management plan.

The consultancy division operates under four brands: Redhills, A H Allen, RDS Asbestos and SAFE training. It trades at a 45% gross margin and has an organic growth rate of approximately 13%.

## Strategic review: Clipped wings

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Silverdell offers a service that very few other companies can offer. This is a truly end-to-end service in high-hazard regulated environments. This gives it a huge opportunity to grow globally. Yet it appears to be focusing on near-term growth backed by modest acquisitions going forward, rather than making fast-track larger-scale investments that could potentially boost market share and accelerate growth at a faster pace further down the line.

### Moving from asbestos removal to an end-to-end service

Under the guidance of part-owner (18.3%) Marwyn Investments, Silverdell has followed and continues to follow a buy-and-build strategy. This has resulted in a number of acquisitions, several in the field of consultancy and most recently the purchase of EDS to take the company into the field of dismantling and decommissioning. However, we understand from management that future strategic moves in the near term are unlikely to be of the scale of EDS. The company has also developed the build element of the strategy with the hiring of John Potts (an industry veteran) to develop the industrial services (particularly scaffolding and access) side of the business. What management has achieved at Silverdell is more than just growing the business. It has now formed a unique business to support large industrial companies when their manufacturing sites/facilities come to the end of their natural life. Whether it is an oil refinery, defence establishment or nuclear power station, Silverdell now has the capability to maintain the site during its working life and when it is shut down it can then decommission, dismantle, dispose of resalable assets and reclaim land so that it can be sold on.

### The acquisition of EDS doubled Silverdell's size

EDS was bought in June 2012 for £20.6m (£15m up front in cash and shares, up to £3.6m of earn out and £2m of acquired debt). It contributed approximately £60m of revenues and £6m of EBITDA, roughly doubling the size of Silverdell from a £65m revenue company to one of a pro-forma £130m of sales. At the time the deal closed, we estimated that the deal was earnings accretive by 37.5% for Silverdell. As we discuss below, we are now raising our forecasts. The acquisition brought several benefits: it made the business global; it gave Silverdell scale and a track record in the decommission market; and it offers cross-selling opportunities.

There is limited cost synergy between the two companies. There will be some group-wide synergies (ie HR and IT) and these are likely to take another 15 months to complete, but there are few operational synergies. Silverdell historically has generated its revenue with very low capex, but with 900 staff. By contrast, EDS generates similar revenues with just 200 people but on higher capex. EDS has also historically managed to negotiate cash payments early in a contract, while Silverdell's business tends to be working-capital intensive as it pays its staff weekly, but gets paid on 30-90 day terms.

### Getting strong when the competition weakens...

Following this buy-and-build strategy, Silverdell has rapidly developed from a company largely focused on asbestos removal in the UK into a company that is capable of operating globally and offers an attractive end-to-end service. Few other companies are able to offer the full range of services from the initial consultancy through dismantling (including asbestos removal, should it be needed) on to land reclamation and asset disposal (sale of equipment and assets to recoup costs for the customer) on a global scale. There are companies able to offer parts of this range such as Hertel, but these competitors are finding market conditions difficult and SiteServ was recently forced to sell its business because its debt burden was unsustainable.

### ... with few limits to the scope of its geographic opportunity...

The growth opportunity for Silverdell is now enormous, largely as a result of the EDS acquisition. The previous owner of EDS did a good job of expanding the horizons of the company to establish it in Canada and win a large Exxon Mobil contract in Australia. However, it never expanded to embrace its global potential. In addition to the existing markets of Canada, the UK and Australia, the company has won or is bidding for smaller pieces of business around Europe.

Decommissioning of nuclear power stations is Silverdell's key opportunity. Half the world's reactors are expected to be closed by 2030<sup>2</sup>, pointing to the decommissioning of some 200 reactors, of which more than 150 are in Europe, where the opportunity is estimated at \$81.5bn. The European Commission estimates the current cost of decommissioning to be between \$200m and \$1,150m per reactor.

One of the most significant opportunities lies in Germany. In 2011, after the Fukushima disaster, Chancellor Merkel announced the decommissioning of all 17 of its nuclear power stations by 2022. The process is likely to be announced in the next two to three years and rests largely on how the state will finance the substitutes. The four operators of nuclear power stations have set aside €32.5bn for the decommissioning. Silverdell is very well placed to bid for this nuclear decommissioning work, given its strengths operating in high-hazard, highly-regulated environments, offering a turnkey solution: putting up the scaffolding, removing asbestos (and there is often plenty of asbestos in nuclear power stations), dismantling, safely disposing of contaminated equipment and finally reclaiming land.

### ... yet it chooses the safe strategic option.

In order for Silverdell to win these large 'reputational risk' contracts, the company needs to have an established presence in countries where nuclear projects are to come up for bidding. This may be a small operating unit in the country (established from scratch or acquired) or simply a small sales force on the ground, lobbying at the highest level to let the relevant authorities know of the capabilities of Silverdell. This presence may need to be in place for two to three years before the contract comes up for bidding, to ensure that the authorities understand the skills present in Silverdell and so that the representatives of Silverdell can understand best how to bid (as prime contractor or as part of a syndicate).

The main downside to this strategy is that it costs money. Salaries need to be paid for some years before the big contracts are landed. It is a strategy of building for the future at a cost today.

This brings us to Silverdell's current strategy. While the company took the brave step to buy EDS (a company the same size as Silverdell was), management's message now is that the strategy is to focus on the development of the UK market (the bread and butter) and the strong position in Canada, leverage the large Exxon Mobil contract in Australia (by hiring permanent management in that country), pick off some contracts in Europe and generally service existing customers when they ask to be followed overseas. Within the buy-and-build strategy, the company will also consider further small acquisitions (presumably when it is confident it has bedded in EDS), and these are likely to be in the field of soil and water testing, to fit in the consultancy division. This is a strategy that should deliver steady EPS growth year-on-year. It is a relatively low-risk, confidence-inspiring strategy. If it is successful in some of the bids it is currently tendering for the substantial increase in order book, it should result in an impressive increase in revenues. This is certainly a defensible strategy.

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<sup>2</sup> Source: GlobalData: Nuclear Reactor Decommissioning Industry – Global market size and competitive landscape analysis to 2030.



However, we do not detect from management a strategy to invest in an international sales force and acquisition of businesses to specifically nurture and access international opportunities. On a projected 2013 EBITDA of some £16m, an annual investment of £2-5m in sales people to develop new markets should result in a good return over a five to 10 year timeframe. The market for decommissioning nuclear reactors in Europe is valued at \$81.5bn and Europe represents nearly 74% of the global total<sup>3</sup>, so this is the region that merits substantial attention and investment. A 5% market share of this European decommissioning would amount to revenues of £2.5bn, or nearly £150m pa between now and 2030.

EDS has returned operating profit margins of between 3.6% and 10.7% over the past three years. Redhall Group, another operator in this market (though carrying out new build as well as decommissioning), has returned margins of between 4.9% and 8.2% over the same period in its energy division. However the capital requirements are not great. While privately run, EDS generated ROCE of between 18% and 150% in the past two years. This gives us some confidence that a scaling up of the business would generate value for shareholders.

## Short-term EPS growth or long-term value creation

The strategic options are simplistically to invest for long-term growth or to restrain investment in the interest of growing earnings in the short term. Silverdell has had a bumpy recent past, with severe economic difficulties and a choppy relationship with Barclays, its last corporate bank. We question now whether the ownership structure is a constraint. The main catalyst to Silverdell's recovery is a company called Marwyn Investments. Marwyn runs a portfolio of companies, generally employing a buy-and-build strategy often involving consolidation of an industry to generate value (usually successfully). Marwyn's preferred exit strategy is via a trade sale. Although it only owns 18.3% of Silverdell, it holds one of the four board positions and strongly influences Silverdell's strategy.

Ultimately, Silverdell's potential is constrained by its strategy and not by opportunity. The message from Silverdell is that it will leverage off existing territories for now and does not plan significant acquisitions in the short to medium term. For maximum long-term value creation, it would invest in a five to 10 year strategy for dominance of the nuclear decommissioning market rather than focus on near-term EPS growth that may make it more attractive to a trade buyer. To do this, Silverdell needs to have the confidence of a shareholder base that is likely to be supportive of a long-term growth strategy.

## Sensitivities

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The range of scenarios for our Silverdell forecasts is wide and defined by two key factors. Firstly, success in converting bids into contracts and secondly, the company's strategy for future growth.

- The company is currently bidding on at least six contracts. One of these alone could double the £209m order book, and another three collectively could also double it. 2013 revenues could reach £180m if all bids convert, but equally we might cut our revenues back in the event that all bids fail.
- As we have discussed earlier, the current strategy is to concentrate on the UK, Canada and Australia with opportunistic expansion into Continental Europe. Should the board decide to embrace the huge global opportunity for end-to-end decommissioning services, we could see short-term forecast EPS come down and outer-year forecasts rise.
- Industry growth will be a key factor in the revenue outcome. Currently, maintenance work is harder to come by and competition is fierce, as facilities management companies move across to look for

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<sup>3</sup> Source: GlobalData: Nuclear Reactor Decommissioning Industry – Global market size and competitive landscape analysis to 2030.



this work to shore up their own revenue lines. However, the prospects for work in the high-hazard regulated environments such as nuclear facilities look good.

- Marwyn has historically exited investments via trade sales. It is possible that if the share price hits a sufficient level, it may choose to exit in a form that could result in an offer for the whole company.
- Barclays Bank still holds warrants representing some 3.7% of the company's shares. Each warrant can be exercised at 5p until June 2017.

## Valuation

If we value Silverdell in isolation (using DCF or EVA) or by comparison with the market and its peers, the company appears to be undervalued. The market has not yet appreciated that the scale of the business is now much bigger and the growth opportunity greater. Our fair value of 31p would see Silverdell trading at a market EV/EBITDA and a market cap of nearly £100m.

### DCF suggests a fair value of 31p per share

We forecast value principally using a DCF. Our equity cost is 13%, we model out explicitly for 20 years and then assume a 2% long-term growth rate. This suggests a fair value for Silverdell should be nearer 31p/share than the current 13.5p/share. The table below shows a sensitivity of this valuation to both the assumed cost of equity and the terminal growth rate assumption.

Exhibit 4: Fair value sensitivity table								
		<----- Terminal Growth Rate ----->						
	p/share	-2%	-1%	0%	1%	2%	3%	4%
<Cost of equity>	16.00%	0.18	0.19	0.21	0.22	0.24	0.26	0.29
	15.00%	0.19	0.21	0.22	0.24	0.26	0.29	0.31
	14.00%	0.21	0.22	0.24	0.26	0.29	0.31	0.35
	13.00%	0.22	0.24	0.26	0.29	<b>0.31</b>	0.35	0.4
	12.00%	0.24	0.26	0.29	0.31	0.35	0.4	0.45
	11.00%	0.26	0.29	0.31	0.35	0.4	0.45	0.53

Source: Edison investment Research

Our Economic Profit Model indicates that the company will return to a positive spread (ROCE-WACC) of 5.8% by the year ending September 2013, after a -5.1% spread in 2012.

### Relative multiples

Silverdell trades at a P/E of just 4.9x for 2013, falling to 4.5x the following year. This compares to 10.7x for the FTSE All-Share or 9.3x for the FTSE Small Cap ex-Investment Trusts index for the same period. There is no justification for Silverdell to trade at half or less the P/E multiple of the market. The company currently trades on a forecast EV/EBITDA of 2.5x compared to the FTSE All-Share multiple of 7.8x and the FTSE Small Cap ex-Investment Trust index multiple of 5.9x. Once again, a multiple of half that of the market clearly indicates that Silverdell is undervalued. It is hard to find sensible companies comparable to Silverdell. Most are either much larger, much smaller or privately owned. InterServ is delisting as it has sold its assets. Mitie Group (market cap c £1bn) trades at a forward P/E of 12x and an EV/EBITDA of 8.2x. Cape PLC (market cap c £300m) trades at a P/E of 7.0x and an EV/EBITDA of 5.1x. Hertel (a Dutch company) is privately held.

### Dividend yield

This year will be the first year Silverdell pays a dividend, to be announced in December at the time of the full-year results. We forecast an annualised yield of 1.2% giving 0.16p for 2012.

## Financials

We trim our 2012 EBITDA by 9% to bring it in line with the recent guidance. We upgrade our 2013 forecasts to reflect the large opportunity that Silverdell has in the global decommissioning market. The company is bidding on several contracts, one of which could double the order book on its own. The company is cash generative and should pay down all debt by the end of the September 2013 year, leaving the option for more dividends, more acquisitions or simply a more aggressive growth strategy.

### Earnings upgraded

Silverdell's historic focus, largely on asbestos removal in the UK, made it sensitive to economic activity. The decline in the building sector has also been a negative driver. Offsetting this, the company has made acquisitions to diversify its revenue base and geographical coverage. It has also expanded organically into adjacent activities such as scaffolding and access.

However, the acquisition of EDS not only doubled the size of the business, but opened up the opportunity to access large projects globally. This has turned the company from a business seeking small contracts in a competitive environment into one that seeks large, multi-year contracts in markets that have high barriers to entry. We are therefore upgrading our forecasts, but see scope for further increases if large contract opportunities are successfully converted.

**Exhibit 5: Upgrades to 2013 forecasts**

	2013 revenues (£m)	2013 EBITDA (£m)	2013 EPS (p)
Old	130.34	13.8	2.2
New	140.74	16.3	2.8
Change	8.0%	18.3%	27.3%

Source: Edison Investment Research

Margins benefit from the consolidation of EDS over the next 18 months as group-wide functions are integrated. In 2013 there is also the benefit of the cost-reduction exercise undertaken at the half-year point in 2012. This reduced staff by 22 at a cost of £600k, but with £1.4m pa savings as a result.

At the end of October the company expects the order book to stand at over £200m with over 75% of revenues scheduled to fall in 2013. Silverdell is currently bidding on six large contracts. One of them is a 10-year industrial services framework contract at the Grangemouth refinery worth £200m, effectively doubling the order book. Another three taken together would, if won, again double the order book.

### Cash flow: Room for a more aggressive strategy

EDS is more capex-intensive than Silverdell's traditional asbestos remediation business. As such, we should expect capex to rise from the historic £0.3-0.6m range to something nearer to £1.5-1.8m pa in the future. We are still looking for a net cash generation of £7.8m in 2013 after paying out £0.35m in dividends. This indicates that the company could be more generous than we forecast on dividend and also be more progressive with its growth strategy.

### Balance sheet: Room for more acquisitions

By the end of FY12, we forecast net debt of £6.4m. Given the forecast £7.8m of cash coming in during 2013, we expect the company to close that year with net cash of £1.4m. This is after paying dividends and the first of two earn outs for EDS. Management must show that it can successfully bed in EDS, but may be tempted by further acquisitions in the field of consultancy and particularly in the area of soil analysis and water analysis (testing for Legionnaires' disease).

## Exhibit 6: Financial summary

	£'000s	2009	2010	2011	2012e	2013e	2014e
Year end 30 September		IAS	IAS	IAS	IAS	IAS	IAS
<b>PROFIT &amp; LOSS</b>							
<b>Revenue</b>		<b>59,509</b>	<b>56,674</b>	<b>59,696</b>	<b>78,000</b>	<b>140,735</b>	<b>147,941</b>
Cost of Sales		(44,897)	(41,974)	(43,364)	(56,188)	(103,453)	(108,681)
Gross Profit		14,612	14,700	16,332	21,813	37,282	39,260
<b>EBITDA</b>		<b>2,272</b>	<b>3,936</b>	<b>4,086</b>	<b>6,013</b>	<b>16,282</b>	<b>17,185</b>
<b>Operating Profit (before GW, except &amp; int amortisation.)</b>		<b>1,480</b>	<b>3,235</b>	<b>3,561</b>	<b>5,113</b>	<b>14,232</b>	<b>14,885</b>
Goodwill Amortisation		(6,544)	(601)	(30)	(100)	(400)	(400)
IFRS 2 charges		(613)	(130)	(555)	(1,474)	(1,000)	(1,051)
<b>Operating Profit</b>		<b>(5,677)</b>	<b>2,504</b>	<b>2,976</b>	<b>3,539</b>	<b>12,832</b>	<b>13,433</b>
Net Interest		(1,190)	(672)	(514)	(450)	(257)	28
<b>Profit Before Tax (norm)</b>		<b>290</b>	<b>2,563</b>	<b>3,047</b>	<b>4,663</b>	<b>13,975</b>	<b>14,912</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(6,867)</b>	<b>1,832</b>	<b>2,462</b>	<b>3,089</b>	<b>12,575</b>	<b>13,461</b>
Tax		826	(1,095)	(779)	(1,684)	(4,559)	(4,812)
<b>Profit After Tax (norm)</b>		<b>1,116</b>	<b>1,468</b>	<b>2,357</b>	<b>2,979</b>	<b>9,416</b>	<b>10,100</b>
<b>Profit After Tax (FRS 3)</b>		<b>(6,041)</b>	<b>737</b>	<b>1,683</b>	<b>1,405</b>	<b>8,016</b>	<b>8,649</b>
Average Number of Shares Outstanding (m)		83.1	151.7	155.7	213.9	313.2	313.2
EPS - normalised (p)		1.3	1.0	1.5	1.4	3.0	3.2
EPS - normalised fully diluted (p)		1.2	0.9	1.4	1.2	2.8	3.0
EPS - FRS 3 (p)		(7.3)	0.5	1.1	0.7	2.6	2.8
Dividend per share (p)		0.0	0.0	0.0	0.2	0.4	2.2
Gross Margin (%)		24.6	25.9	27.4	28.0	26.5	26.5
<b>EBITDA Margin (%)</b>		<b>3.8</b>	<b>6.9</b>	<b>6.8</b>	<b>7.7</b>	<b>11.6</b>	<b>11.6</b>
Operating Margin (before GW and except.) (%)		2.5	5.7	6.0	6.6	10.1	10.1
<b>BALANCE SHEET</b>							
<b>Fixed Assets</b>		<b>20,221</b>	<b>19,156</b>	<b>21,867</b>	<b>39,367</b>	<b>40,217</b>	<b>41,092</b>
Intangible Assets		601	0	453	3,453	3,453	3,453
Tangible Assets		2,343	1,999	2,652	10,252	11,502	12,777
Goodwill		16,156	16,156	17,761	24,661	24,261	23,861
Other		1,121	1,001	1,001	1,001	1,001	1,001
<b>Current Assets</b>		<b>17,578</b>	<b>17,398</b>	<b>22,936</b>	<b>23,397</b>	<b>31,212</b>	<b>41,049</b>
Stocks		1,624	998	3,064	4,000	4,000	5,918
Receivables		12,691	12,774	17,305	18,000	18,000	19,232
Cash		2,885	3,626	2,567	1,397	9,212	15,899
Other		378	0	0	0	0	0
<b>Current Liabilities</b>		<b>(13,917)</b>	<b>(11,808)</b>	<b>(15,763)</b>	<b>(17,399)</b>	<b>(17,399)</b>	<b>(19,693)</b>
Trade & Payables		(10,912)	(8,620)	(11,613)	(13,249)	(13,249)	(15,543)
Short term borrowings		(2,848)	(3,117)	(3,793)	(3,793)	(3,793)	(3,793)
Other creditors		(157)	(71)	(357)	(357)	(357)	(357)
<b>Long Term Liabilities</b>		<b>(5,858)</b>	<b>(5,793)</b>	<b>(5,369)</b>	<b>(5,720)</b>	<b>(6,651)</b>	<b>(12,288)</b>
Long term borrowings		(4,700)	(4,777)	(4,038)	(4,038)	(4,038)	(4,038)
Other long term liabilities		(1,158)	(1,016)	(1,331)	(1,682)	(2,613)	(8,250)
<b>Net Assets</b>		<b>18,024</b>	<b>18,953</b>	<b>23,671</b>	<b>39,645</b>	<b>47,378</b>	<b>50,159</b>
<b>CASH FLOW</b>							
<b>Operating Cash Flow</b>		<b>7,486</b>	<b>1,937</b>	<b>235</b>	<b>6,018</b>	<b>16,282</b>	<b>16,329</b>
Net Interest		(1,199)	(869)	(492)	(450)	(257)	28
Tax		(457)	(269)	(628)	(1,684)	(4,559)	(4,812)
Capex		(339)	(288)	(639)	(1,500)	(1,500)	(1,775)
Acquisitions/disposals		(334)	0	(1,348)	(17,000)	(1,800)	(1,800)
Financing		5,264	0	1,823	13,446	0	0
Dividends		0	0	0	0	(351)	(1,282)
Net Cash Flow		10,421	511	(1,049)	(1,170)	7,815	6,687
<b>Opening net debt/(cash)</b>		<b>14,394</b>	<b>4,663</b>	<b>4,268</b>	<b>5,264</b>	<b>6,434</b>	<b>(1,381)</b>
HP finance leases initiated		0	0	0	0	0	0
Other		(690)	(116)	53	0	0	0
<b>Closing net debt/(cash)</b>		<b>4,663</b>	<b>4,268</b>	<b>5,264</b>	<b>6,434</b>	<b>(1,381)</b>	<b>(8,068)</b>

Source: Edison Investment Research

<b>Contact details</b> 14 Buckingham Street London WC2N 6DF UK +44 (0)20 7389 6800 www.silverdell.plc.uk	<b>Revenue by geography</b> N/A
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CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 10-13e	6.4%	ROCE 12e	6.2%	Gearing 12e	22.2%	Litigation/regulatory	○
EPS 11-13e	25.9%	Avg ROCE 10-13e	8.0%	Interest cover 12e	6.9	Pensions	○
EBITDA 10-13e	42.9%	ROE 12e	9.6%	CA/CL 12e	1.5	Currency	○
EBITDA 11-13e	29.7%	Gross margin 12e	27.4%	Stock turn 12e	18.7	Stock overhang	●
Sales 10-13e	10.6%	Operating margin 12e	6.0%	Debtor days 12e	105.8	Interest rates	○
Sales 11-13e	16.3%	Gr mgn / Op mgn 12e	4.6x	Creditor days 12e	30.1	Oil/commodity prices	○

<b>Management team</b>	
<b>CEO: Sean Nutley</b>	<b>CFO: Ian Johnson</b>

Sean was previously chief operating officer of Silverdell Plc and a board member since 2006, before being promoted to CEO. He joined the company in 1992 as an asbestos removal operative.

Previously, Ian was group finance director of McBride Plc. Ian has also held senior finance roles within Taylor Wimpey Plc, including commercial director for the Taylor Morrison Inc in North America. Ian joined Silverdell in August 2009.

<b>Chairman: Stuart Doughty</b>	<b>Group Managing Director, EDS: Darren Palin</b>
Stuart Doughty previously served as chief executive officer of Costain Group Plc. He has over 40 years' experience in the construction industry, including roles at Alstec Group, Beck & Pollitzer and Kennedy Construction Group.	Darren has worked in the UK and Middle East construction sector for over 25 years and specialised in the decommissioning industry for the last 15 years. Darren was appointed as group managing director for EDS in 2007.

Principal shareholders	(%)
Marwyn Investment Management	18.3%
Andrew McGee	15.8%
Fidelity Worldwide Investment	9.5%
Paul Bell	9.3%
Unicorn Asset Management	4.3%
Mr J Moulton	3.0%
Midas Capital	2.6%

<b>Companies named in this report</b>
Hertel, Cape (CIU LN), InterServ, Mitie (MTO LN), Redhall (RHL LN)

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