



# NORTH AMERICAN TESTING, INSPECTION, CERTIFICATION & COMPLIANCE (TICC) UPDATE

DECEMBER 2021

# Sector expertise through industry focus.

## Select Recent Harris Williams TICC Transactions

 has been acquired by 	 has been acquired by 	 has been acquired by 	 has been acquired by 	 has been acquired by 
 has been acquired by 	 has been acquired by 	 has received significant growth investment from 	 has been acquired by 	

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## Harris Williams Testing, Inspection, Certification & Compliance (TICC) Sector Focus Area

### Buildings & Infrastructure

- Design Review
- Commercial, Residential and Civil Inspection
- Project and Construction Management
- Construction Materials Testing
- Structure Integrity Analysis

### Consumer

- Product Failure Analysis
- Environmental Impact Testing
- Consumer Products Testing
- Trade Certification and Auditing
- Expert Witness Services

### Energy

- Oil, Fuel, Liquids and Chain of Custody Testing
- Energy Infrastructure Inspection and Testing
- Integrity Management
- Corrosion Monitoring
- Production Analytics and Measurement

### Environmental

- Stormwater Management
- Emissions Monitoring and Testing
- Soil, Water and Air Testing
- Environmental Consulting
- Industrial Hygiene

### Food & Agriculture

- Pesticide, Soil and Seed/Crop Testing
- FDA Audit and Compliance
- Chemical and Nutritional Testing
- Food Production Assessments
- Food Contaminant Testing

### Life Sciences

- Pharmaceuticals Testing
- Medical Device Testing
- Ecological Toxicology
- Residue and Analytical Chemistry
- Soil, Plant and Animal Metabolism

### Power & Utilities

- T&D Inspection and Testing
- Electrical Inspection and Testing
- Renewables Testing and Inspection
- In-Plant Inspection
- Reliability Services

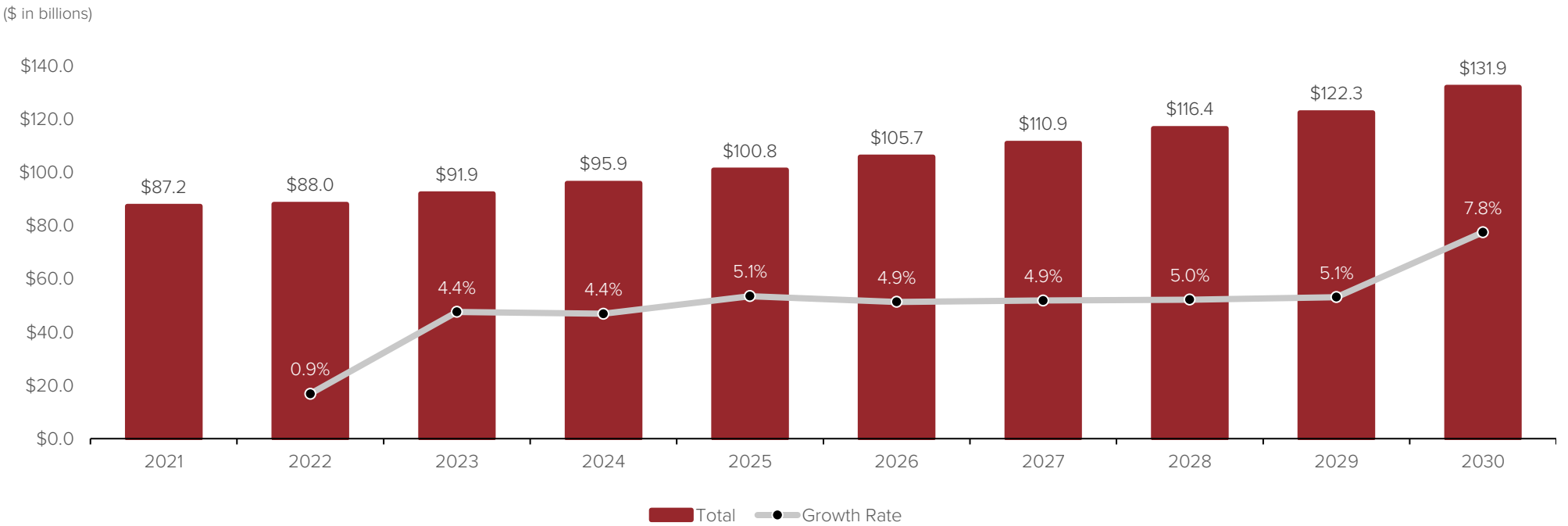
### Transportation & Aerospace

- Supplier and Supply Chain Audits
- Third-Party Assessments
- Performance Management Services
- Aerospace and Automotive Parts Testing
- Manufacturing Inspection

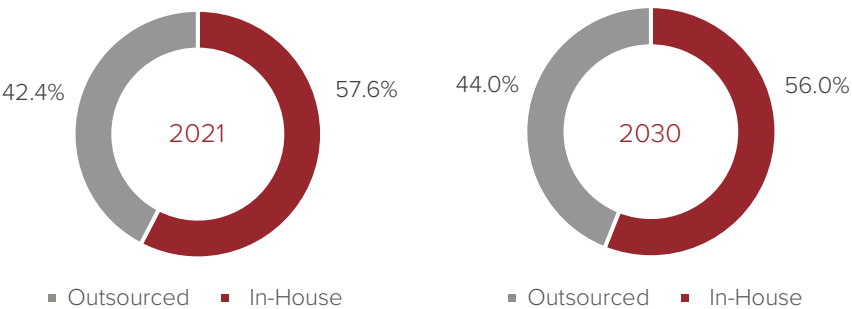
# Large and growing market opportunity.

The North America Testing, Inspection & Certification market was valued at \$87.2 billion in 2021 and is expected to demonstrate sustained growth over the next decade.

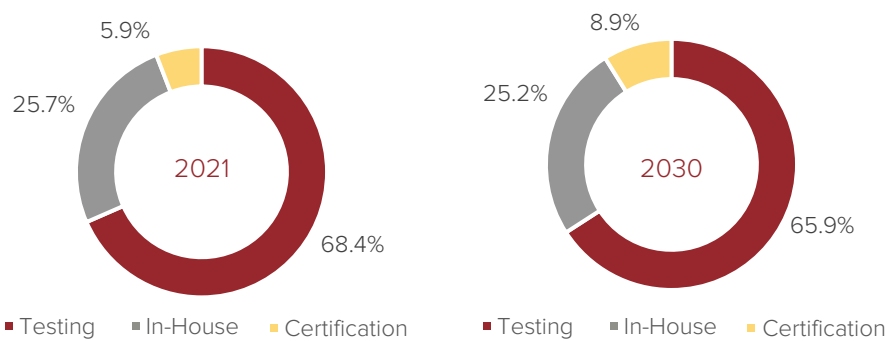
North America Testing, Inspection & Certification Market Forecast<sup>1</sup>



By Sourcing Type<sup>1</sup>



By Service Type<sup>1</sup>









1.) Magna, North American Testing, Inspection and Certification Market Databank

# Understanding the North American TICC landscape.

Companies in the TICC sector provide a wide range of essential services, from auditing and inspection, to testing, verification, quality assurance and certification. The TICC sector is supported by strong secular tailwinds that will drive long-term growth across end markets.

## North America Testing, Inspection, Certification & Compliance Market Overview

Services	Value Proposition	Key Trends	
<b>Testing</b> <ul style="list-style-type: none"> <li>Laboratory- or field-based testing that involves testing materials, components and finished goods in order to assess compliance with specifications set by customers, accreditation bodies or regulatory authorities.</li> </ul>	<b>Cost Efficiency</b> <ul style="list-style-type: none"> <li>Maintaining in-house expertise capable of managing and servicing complex equipment is costly for companies.</li> <li>Outsourcing TICC solutions enables clients to service their products/service/system while minimizing costs.</li> </ul>	 <b>Increasing End-User Demand</b>	End users increasingly focused on quality and transparency, demanding companies produce and trade high-quality products in an ethical manner.
<b>Inspection</b> <ul style="list-style-type: none"> <li>On-site examination of products, components or the built environment to determine compliance with specifications set by customers, accreditation bodies or regulatory authorities.</li> </ul>	<b>Liability Management</b> <ul style="list-style-type: none"> <li>As companies attempt to reduce environmental, personnel-related and financial liabilities, they are increasingly outsourcing to specialists.</li> </ul>	 <b>Aging Infrastructure</b>	Aging infrastructure across the built environment is driving the need for predictive monitoring/inspection to verify asset integrity and maintain safety.
<b>Certification</b> <ul style="list-style-type: none"> <li>The provision by an independent body of written assurance (a certificate) that the product, service or system in question meets specific requirements. Certification is also known as third-party conformity assessment.</li> </ul>		 <b>Increasing Regulations</b>	New or evolving government regulations and industry standards often create the need for new or more frequent testing and/or inspection and associated TICC activities.
<b>Compliance</b> <ul style="list-style-type: none"> <li>Services to assist companies in establishing practices and monitoring status of or progress toward being in accordance with existing regulations, guidelines, or specifications.</li> </ul>	<b>Access to Specialized Workforce</b> <ul style="list-style-type: none"> <li>TICC service customers across end markets are subject to an aging and retiring workforce, limiting their abilities to perform solutions in-house.</li> </ul>	 <b>Outsourcing and Privatization</b>	Cost and risk management pressures drive outsourcing efforts and increase appreciation for the independence, expertise and integrity inherent in third-party TICC providers.
		 <b>Shift to Larger Service Providers</b>	Universal geographic service coverage increasingly desired given customers' scaled operations and realization of the TICC company value proposition.
		 <b>Market Fragmentation</b>	M&A has been a consistent growth driver historically with significant remaining market fragmentation across sub-verticals.

# TICC taxonomy.

The following groupings can include activity across various sub-sectors/end markets, each with a varying level of attractiveness and fragmentation.

## TICC Industry Market Segments

	Buildings & Infrastructure	<ul style="list-style-type: none"> <li>Commercial, Residential and Civil Inspection</li> <li>Outsourced Building Management</li> <li>Construction Materials Testing</li> </ul>	<ul style="list-style-type: none"> <li>Design Review</li> <li>Structure Integrity Analysis</li> <li>Project and Construction Management</li> </ul>
	Consumer	<ul style="list-style-type: none"> <li>Consumer Products Testing</li> <li>Environmental Impact Testing</li> <li>Expert Witness Services</li> </ul>	<ul style="list-style-type: none"> <li>Product Failure Analysis</li> <li>Trade Certification and Auditing</li> </ul>
	Energy	<ul style="list-style-type: none"> <li>Oil, Fuel, Liquids and Chain of Custody Testing</li> <li>Energy Infrastructure Inspection and Testing</li> <li>Corrosion Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Production Analytics and Measurement</li> <li>Integrity Management</li> </ul>
	Food & Agriculture	<ul style="list-style-type: none"> <li>Chemical and Nutritional Testing</li> <li>FDA Audit and Compliance</li> <li>Food Contaminant Testing</li> </ul>	<ul style="list-style-type: none"> <li>Food Production Assessments</li> <li>Pesticide, Soil and Seed/Crop Testing</li> </ul>
	Environmental	<ul style="list-style-type: none"> <li>Emissions Monitoring and Testing</li> <li>Environmental Consulting</li> <li>Industrial Hygiene</li> </ul>	<ul style="list-style-type: none"> <li>Soil, Water and Air Testing</li> <li>Stormwater Management</li> </ul>
	Life Sciences	<ul style="list-style-type: none"> <li>Antibody Drug Conjugate Testing</li> <li>Ecological Toxicology</li> <li>Medical Device Testing</li> </ul>	<ul style="list-style-type: none"> <li>Pharmaceuticals Testing</li> <li>Residue and Analytical Chemistry</li> <li>Soil, Plant and Animal Metabolism</li> </ul>
	Power & Utilities	<ul style="list-style-type: none"> <li>Electrical Inspection and Testing</li> <li>In-Plant Inspection</li> <li>Reliability Services</li> </ul>	<ul style="list-style-type: none"> <li>T&amp;D Inspection and Testing</li> <li>Renewables Testing and Inspection</li> </ul>
	Transportation/ Aerospace	<ul style="list-style-type: none"> <li>Third-Party Assessments</li> <li>Aerospace and Automotive Parts Testing</li> <li>Manufacturing Inspection</li> </ul>	<ul style="list-style-type: none"> <li>Performance Management Services</li> <li>Supplier and Supply Chain Audits</li> </ul>

# Current market landscape.

Market participants provide industry-specific testing, inspection and certification-based services across a wide range of industry verticals.

## TICC Market Participant Taxonomy

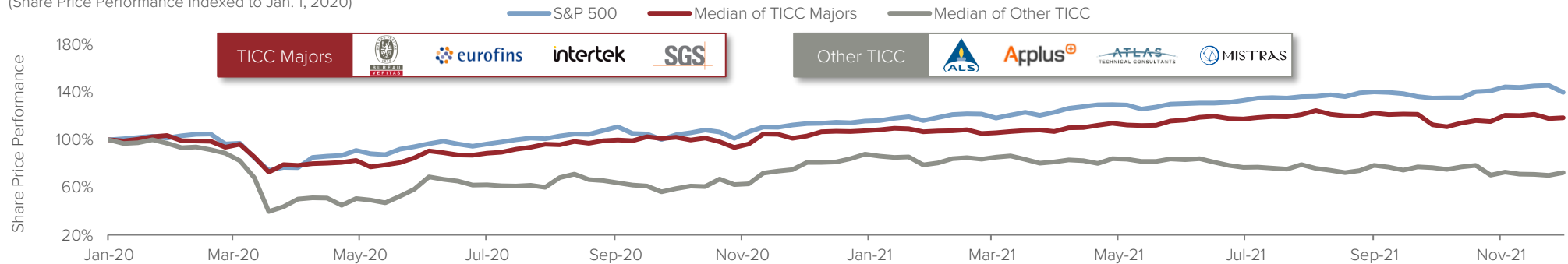




# Market performance shows TICC majors performing in line with S&P 500 out of the COVID-19 pandemic.

## MARKET PERFORMANCE (2020-2021 YTD)<sup>1</sup>

(Share Price Performance Indexed to Jan. 1, 2020)



## WHAT HAVE THE TICC MAJORS SAID ABOUT COVID-19 IMPACTS?



- Based on the excellent half-year performance, considering tough comparables in the second half, and assuming no severe lockdowns in its main countries of operation due to COVID-19, Bureau Veritas now expects for the full year 2021 to achieve strong organic revenue growth, improve the adjusted operating margin, and generate sustained strong cash flow



- The strong growth of the Core Business in the first half of 2021 comes in part from a faster recovery than expected. At the time of FY 2020 results publication, we estimated that EUR 250m revenues had been lost in FY 2020 due to the impact of COVID-19 lockdowns and travel restrictions and the objective was to recover these revenues by 2022. It appears that these revenues have been largely recovered now, earlier than forecast



- All of us at Intertek are truly energized by the Quality Assurance growth opportunities moving forward as the COVID-19 global pandemic has made the case for Total Quality Assurance clearer and stronger for our clients. The exciting structural growth drivers in the \$250 billion global Quality Assurance Market pre-COVID-19 now include a wide array of new opportunities in many areas, including more outsourcing opportunities.



- We recognize that in these uncertain times, prompted by COVID-19, on-site audits may present real risks and challenges to organizations around the world. If on-site audits and inspections are not possible, our advice is to go remote

## WHAT HAVE OTHER TICC PROVIDERS SAID ABOUT COVID-19 IMPACTS?



- COVID-19-related opportunities were developed, including testing for the presence of COVID-19 in waste water and humans as well as the creation of surface testing kits for use in our clients' workplaces. These service offerings have created new revenue streams



- The organic revenue is recovering well with the recovery commencing from the third quarter of last year with gradual quarterly improvements in organic revenue change until this current second quarter of 2021 where there has been a material increase in organic revenue change due to the exceptionally soft comparable period.



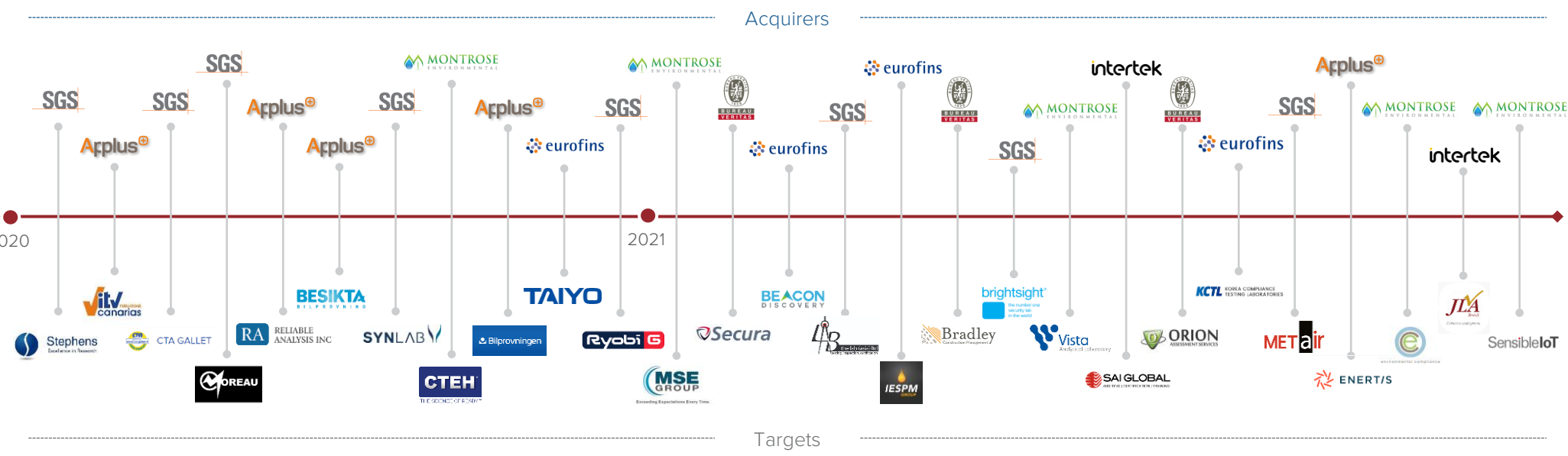
- "I'd say we're very close back to pre-COVID level...I will tell you that we have active positions open in industrial hygiene now currently because of anticipated growth and expansion of those services into Q3 and Q4. So very close to pre-COVID levels. We might be right back out where we were, but anticipated growth in that in Q3 and Q4." – Joe Boyer



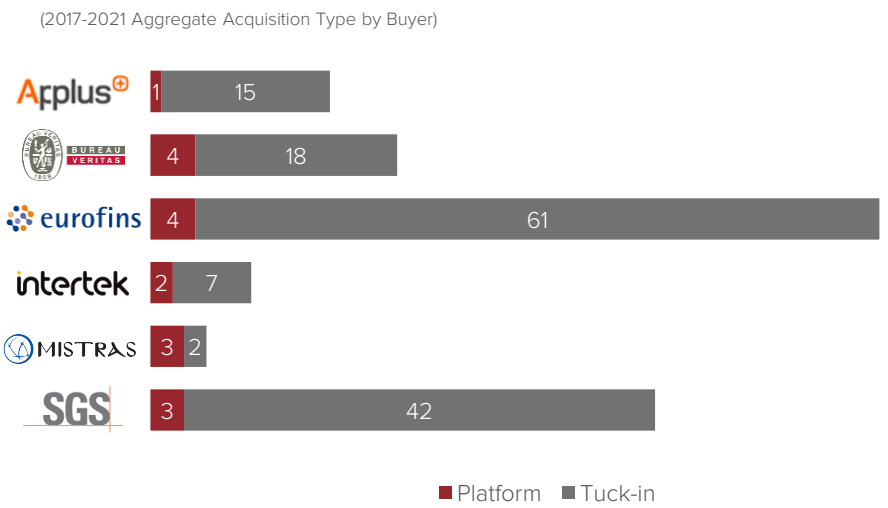
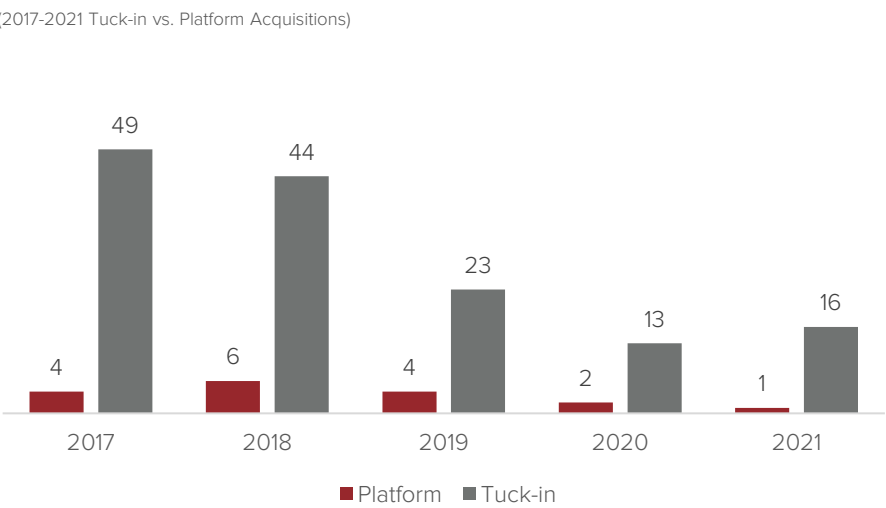
- The Company's business has been recovering over the past four quarters, from the low experienced in the second quarter of 2020, when the effect of COVID-19 was most impactful to its financial results.

# Strategic buyers have relied heavily on inorganic growth, focusing primarily on smaller tuck-in acquisitions.

Select Strategic TICC Investments since 2020<sup>1</sup>



Strategics Predominantly Focused on Tuck-in Acquisitions<sup>1</sup>





# M&A has remained a consistent growth driver for TICC majors.

NUMBER OF M&A ACQUISITIONS (2000–2021)<sup>1</sup>

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
HARRIS WILLIAMS	NA	NA	5	3	6	6	5	16	15	1	8	11	14	7	8	9	9	9	6	5	0	3	146
eurofins	3	3	1	1	1	8	10	3	6	3	1	2	20	10	17	21	27	60	50	26	26	13	312
intertek	7	5	1	2	2	12	7	16	14	3	7	5	6	7	3	4	3	2	4	1	0	1	112
SGS	1	2	3	5	5	7	8	7	14	2	10	22	18	12	10	10	19	12	8	11	6	6	198
Total	11	10	10	11	14	33	30	42	49	9	26	40	58	36	38	44	58	83	68	43	32	23	768

M&A ACQUISITION SPEND (2000–2021)<sup>1</sup>

(\$ in millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
HARRIS WILLIAMS	NA	NA	\$99	\$18	\$49	\$202	\$63	\$287	\$467	\$39	\$752	\$97	\$317	\$220	\$792	\$111	\$210	\$186	\$168	\$78	\$0	\$41	\$4,196
eurofins	6	10	4	3	9	49	73	97	48	31	12	211	102	116	387	695	222	1,730	1,480	192	204	238	\$5,919
intertek	3	1	1	13	49	85	68	200	147	48	63	738	63	191	71	353	47	35	517	22	0	660	\$3,375
SGS	7	28	37	27	171	76	195	67	181	10	325	117	188	111	118	107	196	41	62	186	576	113	\$2,939
Total	\$15	\$40	\$142	\$61	\$279	\$412	\$399	\$651	\$843	\$128	\$1,153	\$1,164	\$670	\$638	\$1,368	\$1,266	\$676	\$1,991	\$2,227	\$478	\$780	\$1,052	\$16,429

Early 2000s Recession

The Great Recession

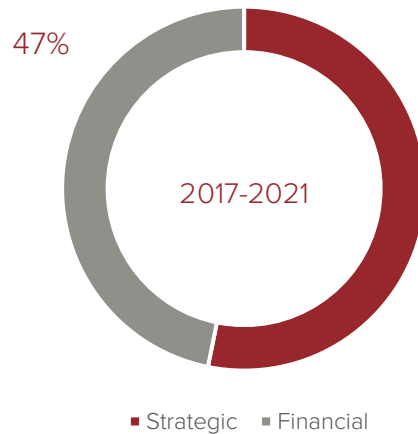
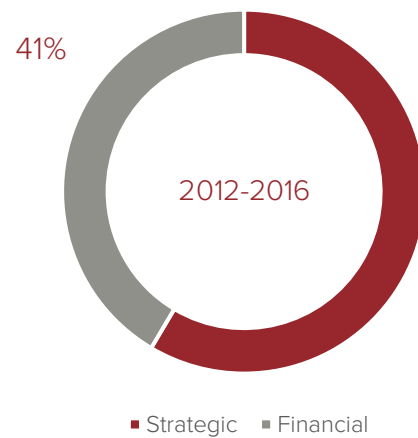
The Energy Downturn

The COVID-19 Pandemic

# Private equity continues to increase its presence in the sector in recent years...

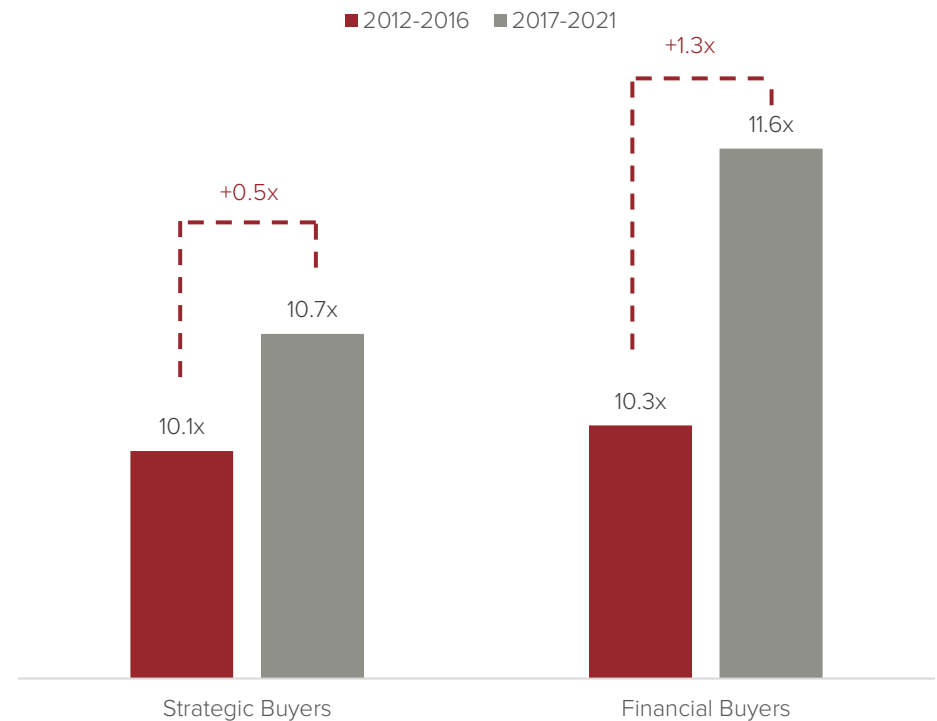
## Robust Private Equity Interest in TICC Platforms...

(% of deals over \$100mm in TEV by buyer type)



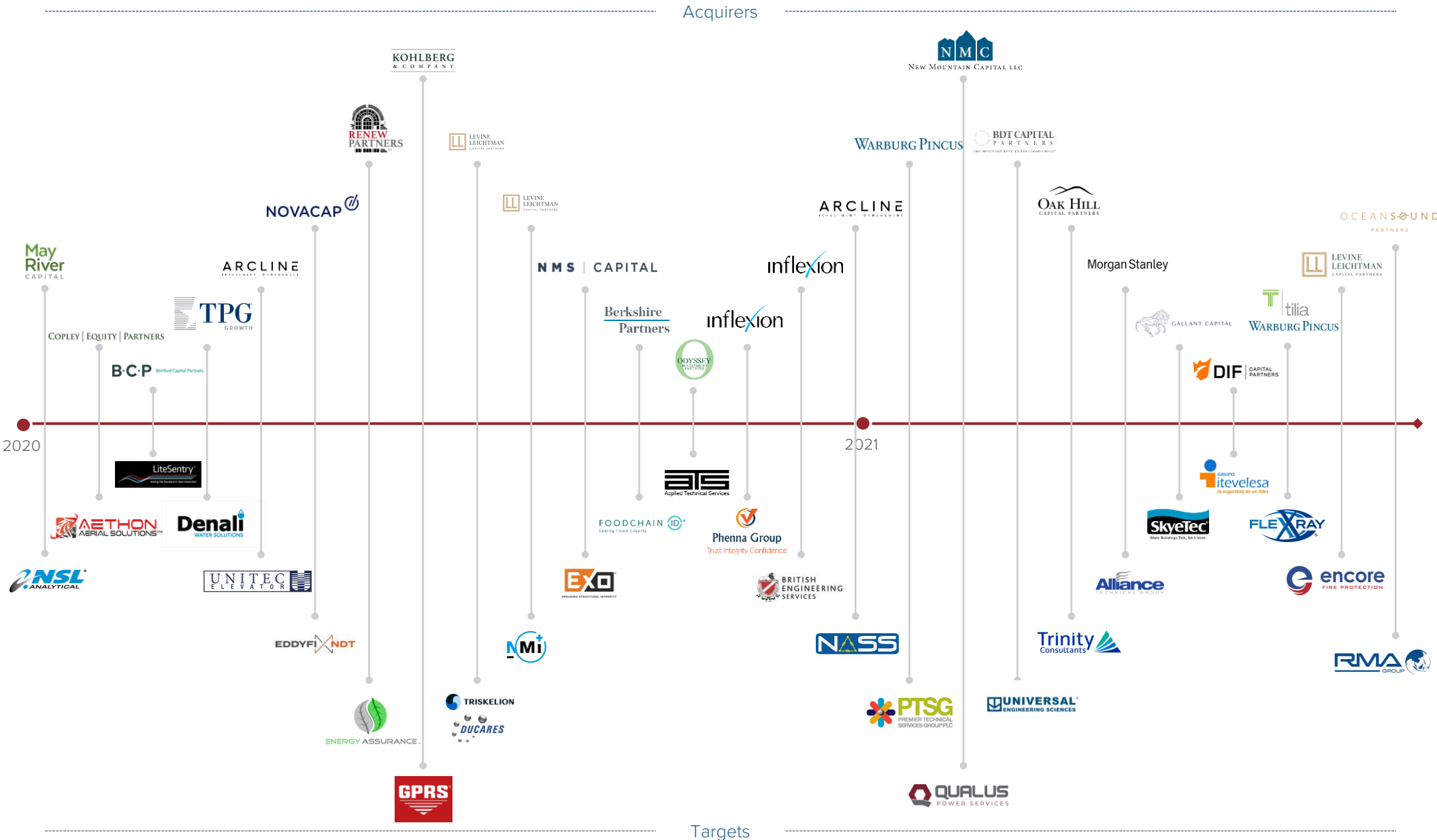
## ...and More Aggressive Valuations

- Financial buyers have been more aggressive in relevant sectors over the past three years
- Median EBITDA multiples across the comparable set of transactions have increased 1.3x for financial buyers over the past nine years while only increasing 0.5x for strategics



# ...and has a long history of building attractive platforms.

Select Private Equity TICC Investments since 2020



# TICC landscape scorecard.

Key Market Segments		Market Drivers	Level of Consolidation	Market Outlook				
	Buildings & Infrastructure	<ul style="list-style-type: none"> <li>Aging infrastructure</li> <li>Non-Residential construction</li> <li>Increased public spending</li> </ul>						
	Consumer	<ul style="list-style-type: none"> <li>Consumer demand</li> <li>FDA regulation</li> <li>Technological innovation</li> </ul>						
	Energy	<ul style="list-style-type: none"> <li>Capital expenditures</li> <li>Maintenance and repair spend</li> <li>Outsourcing penetration rates</li> </ul>						
	Food & Agriculture	<ul style="list-style-type: none"> <li>FDA regulation</li> <li>Foodborne health incidents</li> </ul>						
	Environmental	<ul style="list-style-type: none"> <li>EPA regulation</li> <li>Aging waste infrastructure</li> <li>Rising environmental expenditures</li> </ul>						
	Life Sciences	<ul style="list-style-type: none"> <li>FDA regulation</li> <li>Federal/state reform</li> <li>Pharmacology R&amp;D spend</li> </ul>						
	Power & Utilities	<ul style="list-style-type: none"> <li>Maintenance of existing power plants</li> <li>New, efficient power generation facilities</li> </ul>						
	Transportation/ Aerospace	<ul style="list-style-type: none"> <li>Recalls/adverse events</li> <li>Alternative fuel legislation</li> <li>Supplier/OEM partnerships</li> </ul>						

# Considerations for investors in the North American TICC market.

## What Should Investors Be Looking For?



Critical-path  
service offering



Turnkey solution  
offerings



Depth of customer  
relationships



M&A  
capabilities



Technology-  
enabled  
services



Technical  
expertise



End market  
diversity



Dedicated training  
and workforce  
development



Proven track record  
of organic and  
inorganic growth



Safety  
performance



Sales pipeline  
development and  
conversion



National  
scale

# Our experience.

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# Current market observations and insights.

## OBSERVATIONS

### ECONOMIC OUTLOOK

- The post-COVID economic recovery is expected to continue into 2022 due to recently enacted legislation, the diminishing effects of social distancing, and strong consumer spending.
- Record volume of companies are exploring sales, driven both by changing tax policy and capitalizing on current market conditions.

### BUYER SENTIMENT

- Buyers are minding bandwidth diligently, only engaging in processes where they have a real opportunity to prevail.
- It takes more than a willingness to pay market clearing prices to win processes, and buyers are doubling down on speed and certainty to differentiate in a crowded market.
- Private equity buyers continue to lead the way with over \$1 trillion of uninvested capital looking for quality opportunities.<sup>1</sup>

### DEBT MARKETS

- Debt markets remain highly supportive with leverage levels and pricing now at or above pre-COVID levels across sectors.

### M&A VALUATIONS

- Valuations for high-quality platforms have increased meaningfully in the last 18 months.

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## INSIGHT INCLUDES:

- Key trends defining the North American TICC market through COVID-19
- Historical financial performance through recessions
- Detailed analysis of M&A activity through disruptions of the 21<sup>st</sup> century
- TICC players responding to the pandemic
- Lessons learned from past disruptions



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