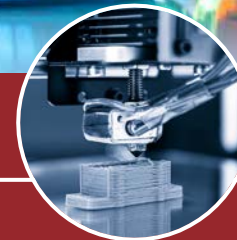


Testing, Inspection, Certification & Compliance (TICC)

Market Observations and Performance Following Past Disruptions

July 2020



HARRIS WILLIAMS TICC INTRODUCTION

HW TICC SECTOR FOCUS AREA

BUILDINGS & INFRASTRUCTURE

- Design Review
- Commercial, Residential and Civil Inspection
- Project and Construction Management
- Construction Materials Testing
- Structural 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

HW TICC CONTACTS

Luke Semple

Managing Director
lsemple@harriswilliams.com
 Office: 804-915-0158

Brian Lucas

Managing Director
blucas@harriswilliams.com
 Office: 804-932-1323

Erik Szyndlar

Managing Director
eszyndlar@harriswilliams.com
 Office: 415-217-3418

Ian Thomas

Director
ithomas@harriswilliams.com
 Office: 804-932-1384

SELECT RECENT HW TICC TRANSACTIONS

has been acquired by

has been acquired by

has received significant growth investment from

has been acquired by

has acquired

has been acquired by

has been acquired by

has been acquired by

CURRENT MARKET OBSERVATIONS AND INSIGHTS

OBSERVATIONS

ECONOMIC OUTLOOK

- Economists and industry analysts expect a meaningful decline in GDP in Q3 2020, while they debate the shape and timing of the recovery.

BUYER SENTIMENT

- The desire to invest remains—buyers are actively seeking to deploy capital.
- Despite economic uncertainty, financial sponsors have record levels of capital to deploy, and many are communicating that they are “open for business” while acknowledging that high-quality deal flow will be limited.
- As capital markets stabilize, companies with strong liquidity positions will be well positioned to pursue acquisitions that accelerate growth.

DEBT MARKETS

- In contrast to the first half of 2020, debt markets have shifted to a risk-off mentality.
- Concerns over liquidity and funding availability contribute to uncertainty regarding the duration of the COVID-19 risk-mitigation focus.

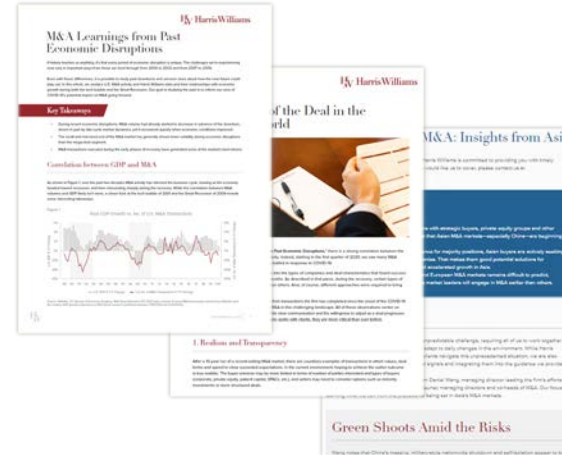
M&A VALUATIONS

- Companies that prove their ability to weather the current circumstances will receive significant interest and garner premium valuations.

LATEST HW MARKET INSIGHTS



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RECENT PUBLICATIONS:

M&A Learnings from Past Economic Disruptions

The Nuances of the Deal in the COVID-19 World

COVID-19 and M&A: Insights from Asia



OPPORTUNITIES IN TESTING, INSPECTION, CERTIFICATION & COMPLIANCE

[\(click for link\)](#)

INSIGHT INCLUDES:

- Key North American TICC market segments—key services, size, growth drivers and outlook
- Addressable market size, growth drivers and outlook
- Recent trends in M&A focus for strategic buyers and financial investors
- Segment taxonomy and M&A history
- Public and private companies in market landscape

KEY TRENDS DEFINING TODAY AND THE FUTURE

Regardless of recent economic and global challenges, the TICC sector is supported by strong secular tailwinds that will drive long-term growth across end markets.



INCREASING END-USER DEMAND

- End users are increasingly focused on quality and transparency, demanding that companies selling goods both produce and trade high-quality products in an ethical manner.



AGING INFRASTRUCTURE

- Aging infrastructure across the built environment is driving the need for predictive monitoring/inspection to verify asset integrity and maintain safety.



INCREASING REGULATIONS

- 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.



OUTSOURCING AND PRIVATIZATION

- Cost and risk management pressures drive outsourcing efforts to TICC companies. Management teams increasingly appreciate the independence, impartiality, expertise and integrity inherent in third-party TICC providers.



SHIFT TO LARGER SERVICE PROVIDERS

- Universal geographic service coverage is increasingly desired given the scaled operations of customers and realization of the TICC company value proposition across the continuum of assets.



MARKET FRAGMENTATION

- M&A has been a consistent growth driver historically with significant remaining market fragmentation across sub-verticals.

MARKET DYNAMICS

As TICC sector participants find themselves in uncharted circumstances testing the parameters and strengths of their solutions, they have started implementing strategies to deliver long-term value.



EVOLUTION OF TECHNOLOGY

- TICC sector participants are working on business continuity solutions by promoting remote audits and virtual classrooms.
 - Remote audits are being utilized to review critical customer procedures, processes and systems.
 - Virtual classrooms are being utilized to continue meeting customers’ safety and compliance needs while eliminating in-person interaction and standard travel time and expenses.



AUTOMATION AND ADAPTATION OF NEW TECHNOLOGIES

- Rapid introduction of new technologies and TICC equipment is continuing to shape how services are provided across all major end markets.
- Increasing prevalence of robotics and other automated technologies that provide increased operational efficiencies reduces reliance on human labor requirements to deliver services.



SATISFYING CRITICAL CLIENT DEMAND

- With a focus on delivering services that are “essential,” TICC players are establishing themselves as a resilient force irrespective of the broader pandemic.
- Businesses are reviewing their scheduling procedures to minimize the in-person interaction of their employees with one another and with external parties to ensure continuity of laboratory, field and office staff.



VENDOR NEGOTIATIONS AND SERVICE BUNDLING

- Select industry participants are working with vendors to allow for renewal timing extensions related to annual certification cycles that require field personnel until such time that deploying field resources is safe.
- TICC players can strategically bundle services for customers in an effort to maximize the perceived value proposition.



INDUSTRY CONSOLIDATION

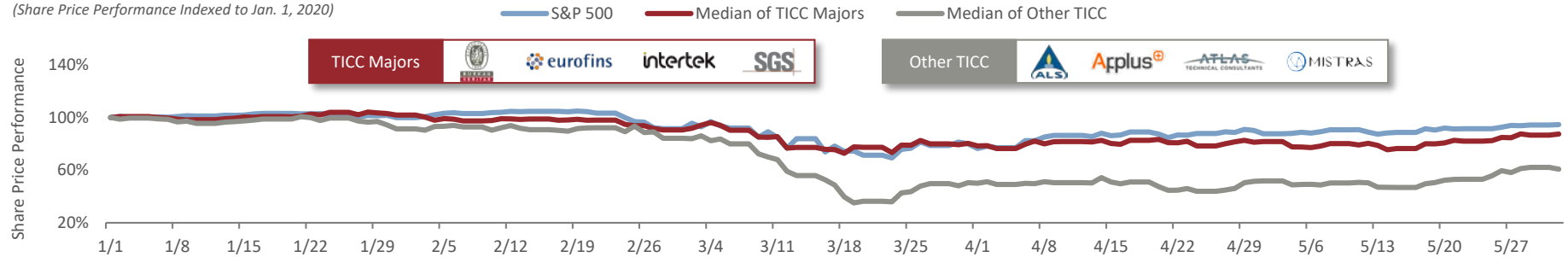
- Industry players are evaluating strategic opportunities to acquire less diversified players who will benefit from becoming a part of a larger organization better suited to sustain current market shocks.

RECENT MARKET PERFORMANCE

The TICC majors (Bureau Veritas, Eurofins, Intertek and SGS) have performed in line with the S&P 500 through 2020.

MARKET PERFORMANCE (2020 YTD)¹

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



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



On Apr. 23, Bureau Veritas reported Q1 revenue: “slight organic decline in our revenue, our operations demonstrated the resiliency of the Group’s worldwide portfolio and footprint. The COVID-19 crisis mostly impacted our Chinese operations. Elsewhere, the pandemic will have a very significant impact from Q2 onwards. For the year as a whole, it would be premature to have any firm view at this stage.”



On Apr. 28, Eurofins released its Q1 Management Update noting strong year-to-date performance. The vast majority of Eurofins’ laboratory testing services are deemed essential for many critical supply chains and, therefore, have been allowed to continue operating through social distancing practices. However, during this level of uncertainty, the group intends to be very frugal with its capex, M&A and operating expenses.



On May 21, Intertek released its year-to-date trading results through Apr. Management believes the company delivered a resilient trading performance through its business model, geographic and business line diversity, and disciplined approach to execution. However, Intertek noted that as the current pandemic continues to evolve, it is too early to quantify the impact of COVID-19.



The group’s most recent financial communication was on Jan. 28 (FY 2019 results), several weeks before COVID-19 became a major global concern. Since then, SGS has not communicated on the matter, not even at its Annual General Meeting on Mar. 24. SGS plans to announce its half-year results on Jul. 21.

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



ALS reported a total revenue decline of 9% in Apr. 2020 primarily due to economic shutdowns making sample collection difficult. ALS’ diversified portfolio of businesses and geographies has proved resilient during the COVID-19 pandemic to date.



Applus had a good start to the year up until the middle of March when the financial effect of the statutory measures to contain the spread of the coronavirus started to severely impact its operations. All four divisions were affected to varying degrees.



Atlas has taken a wide range of actions in response to the COVID-19 pandemic, including an estimated \$8 million to \$10 million of savings in 2020 from cost-mitigation measures. The company has suspended its 2020 guidance.



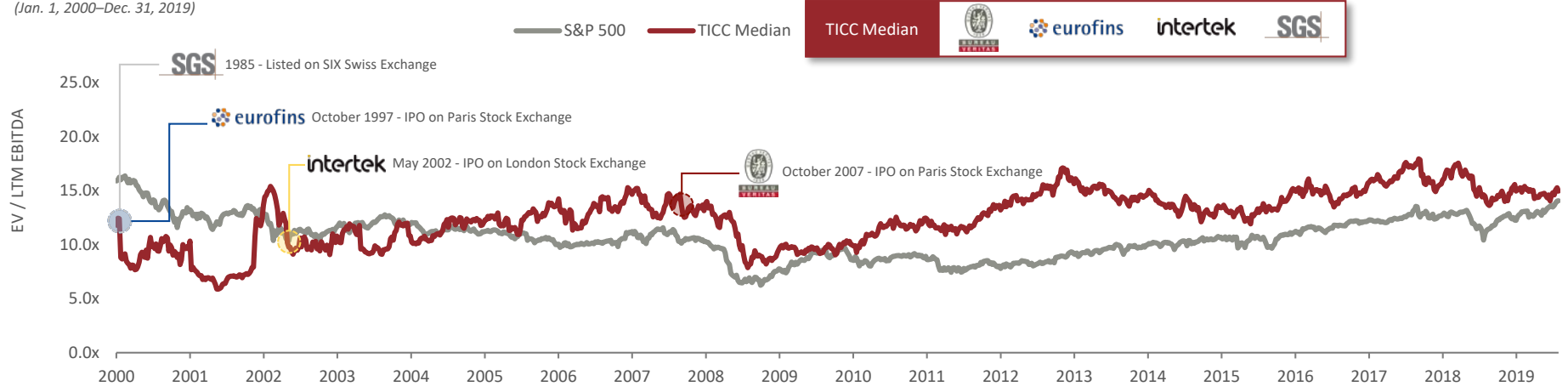
While Q1 revenue exceeded forecasts, Mistras stated that given the economic uncertainty, the company anticipates revenues for the Q2 of 2020 to decrease up to 30% from the prior period’s level.

HISTORICAL PERFORMANCE

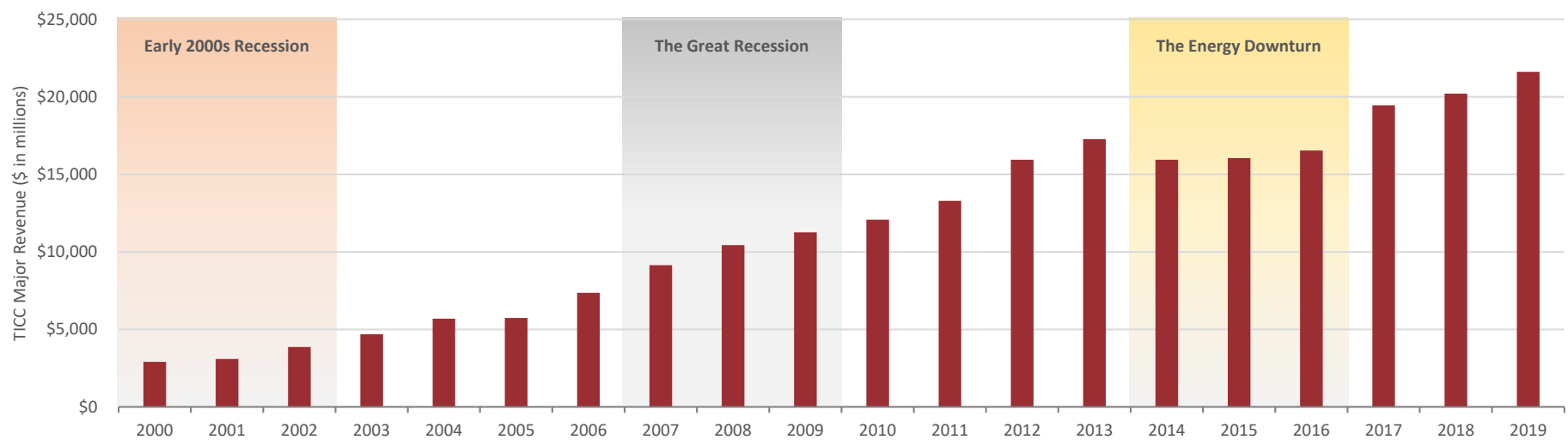
In the last two decades, the TICC majors have displayed resilience and growth through economic and commodity cycles.

HISTORICAL TRADING PERFORMANCE (2000–2019)¹

(Jan. 1, 2000–Dec. 31, 2019)



HISTORICAL FINANCIAL PERFORMANCE (2000–2019)¹



1. S&P CapIQ

HISTORICAL M&A ACTIVITY

M&A has remained a consistent growth driver for the TICC majors through economic cycles, though activity did experience a meaningful drop off in 2009.

NUMBER OF M&A ACQUISITIONS (2000–2019)¹

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
NA	NA	NA	5	3	6	6	5	16	15	1	8	11	14	7	8	9	9	9	6	5	118
eurofins	3	3	1	1	1	8	10	3	6	3	1	2	20	10	17	21	27	60	50	26	273
intertek	7	5	1	2	2	12	7	16	14	3	7	5	6	7	3	4	3	2	4	1	111
SGS	1	2	3	5	5	7	8	7	14	2	10	22	18	12	10	10	19	12	8	11	186
Total	11	10	10	11	14	33	30	42	49	9	26	40	58	36	38	44	58	83	68	43	688

M&A ACQUISITION SPEND (2000–2019)¹

(\$ in millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
NA	NA	NA	\$99	\$18	\$49	\$202	\$63	\$287	\$467	\$39	\$752	\$97	\$317	\$220	\$792	\$111	\$210	\$186	\$168	\$78	\$3,726
eurofins	6	10	4	3	9	49	73	97	48	31	12	211	102	116	387	695	222	1,730	1,480	192	\$5,475
intertek	3	1	1	13	49	85	68	200	147	48	63	738	63	191	71	353	47	35	517	22	\$2,717
SGS	7	28	37	27	171	76	195	67	181	10	325	117	188	111	118	107	196	41	62	186	\$2,251
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	\$14,170

Early 2000s Recession

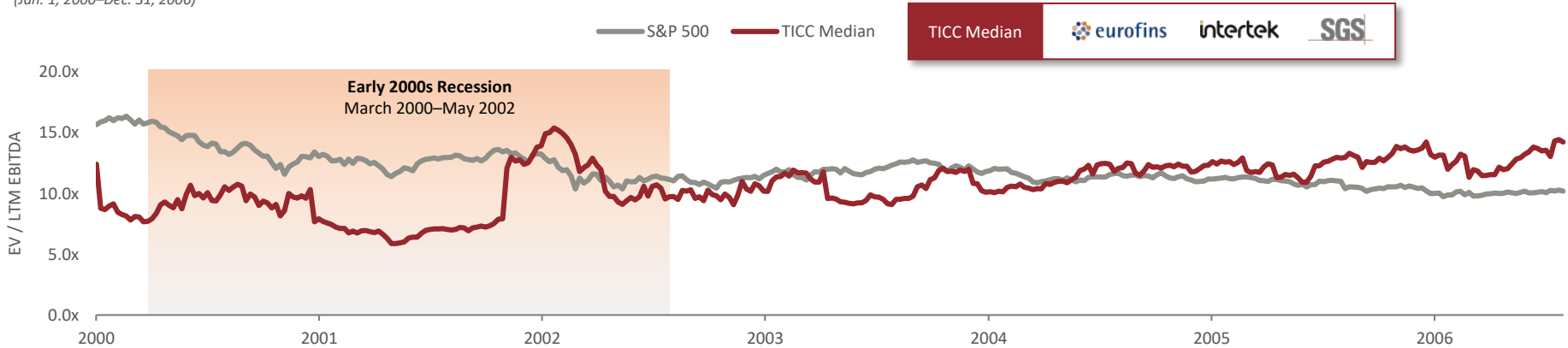
The Great Recession

The Energy Downturn

EARLY 2000s RECESSION

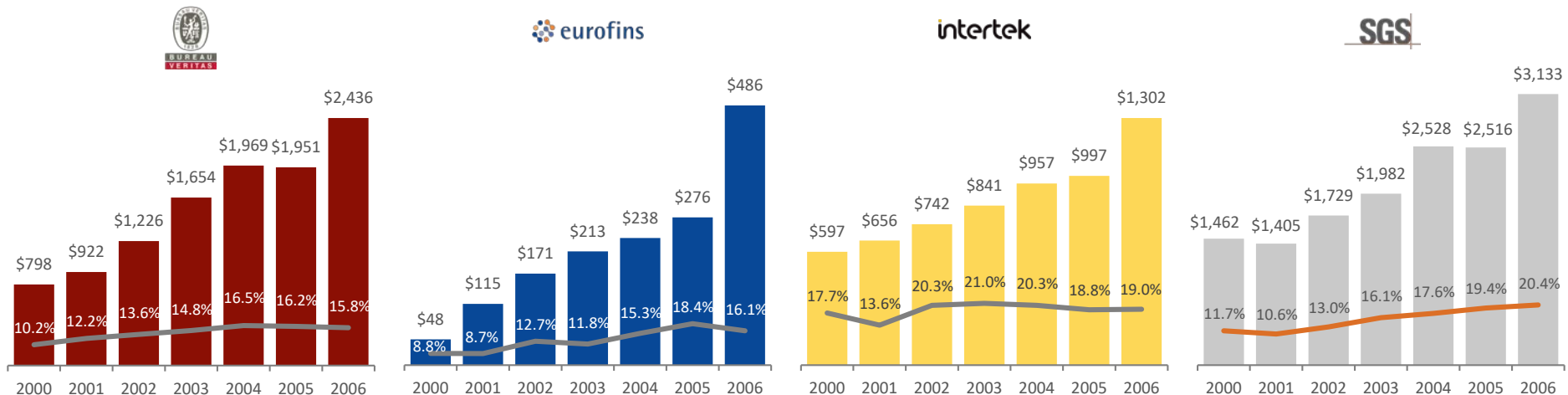
TRADING PERFORMANCE (2000–2006)¹

(Jan. 1, 2000–Dec. 31, 2006)



2000–2006 FINANCIAL PERFORMANCE¹

(Revenue and EBITDA Margin; \$ in millions)

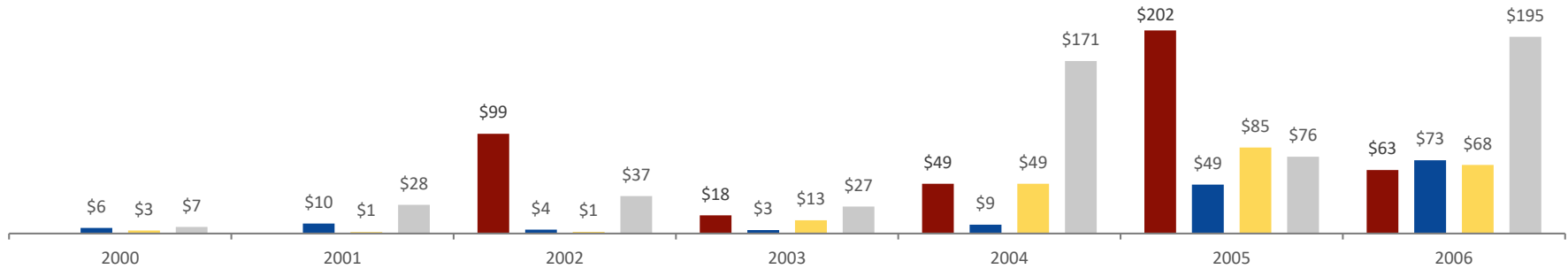


EARLY 2000s RECESSION (CONT.)

M&A ACTIVITY (2000–2006)¹

(Acquisition Spend; \$ in millions)

■ Bureau Veritas ■ Eurofins ■ Intertek ■ SGS



Number of Acquisitions¹

	2000	2001	2002	2003	2004	2005	2006
Bureau Veritas	0	0	5	3	6	6	5
eurofins	3	3	1	1	1	8	10
intertek	7	5	1	2	2	12	7
SGS	1	2	3	5	5	7	8

NOTABLE ACQUISITIONS



March 2005



TEV: NA
Country: U.S.



March 2006

Focus Biolnova

TEV: NA
Country: France



November 2005



TEV: \$35 million
Country: U.S.



September 2006



TEV: NA
Country: U.K.

August 2002

U.S. LABORATORIES

TEV: \$83 million
Country: U.S.

April 2005

Direct Laboratories

TEV: NA
Country: U.K.

May 2004



TEV: \$27 million
Country: U.S.

August 2005

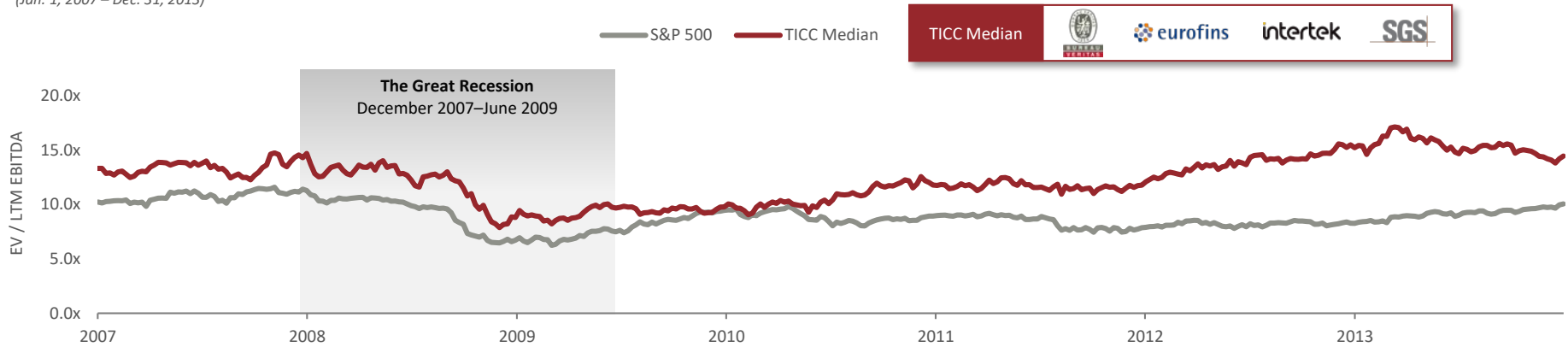


TEV: \$20 million
Country: France

THE GREAT RECESSION

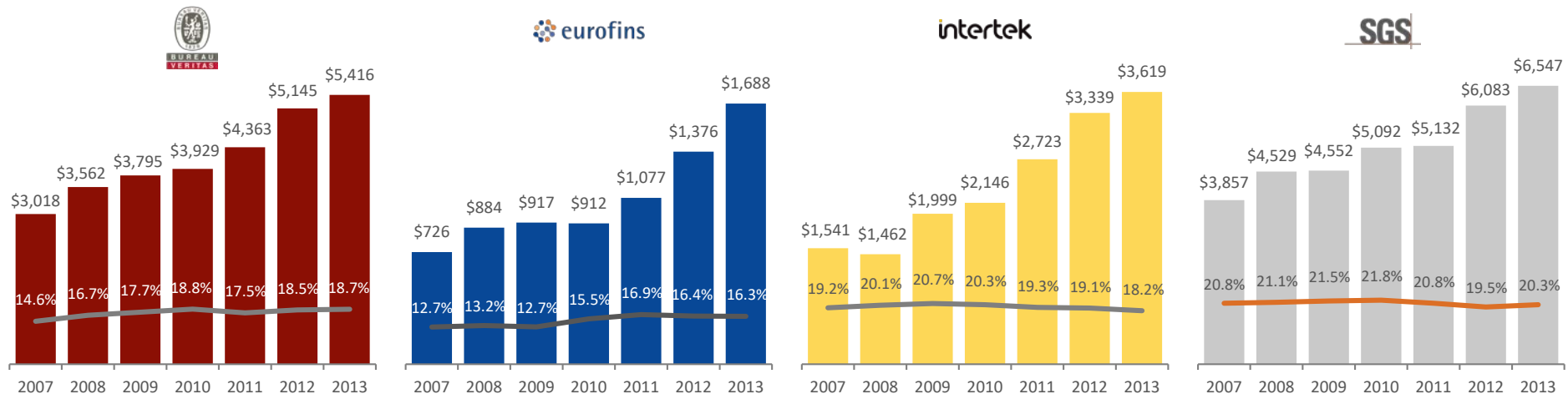
TRADING PERFORMANCE (2007–2013)¹

(Jan. 1, 2007 – Dec. 31, 2013)



2007–2013 FINANCIAL PERFORMANCE¹

(Revenue and EBITDA Margin; \$ in millions)

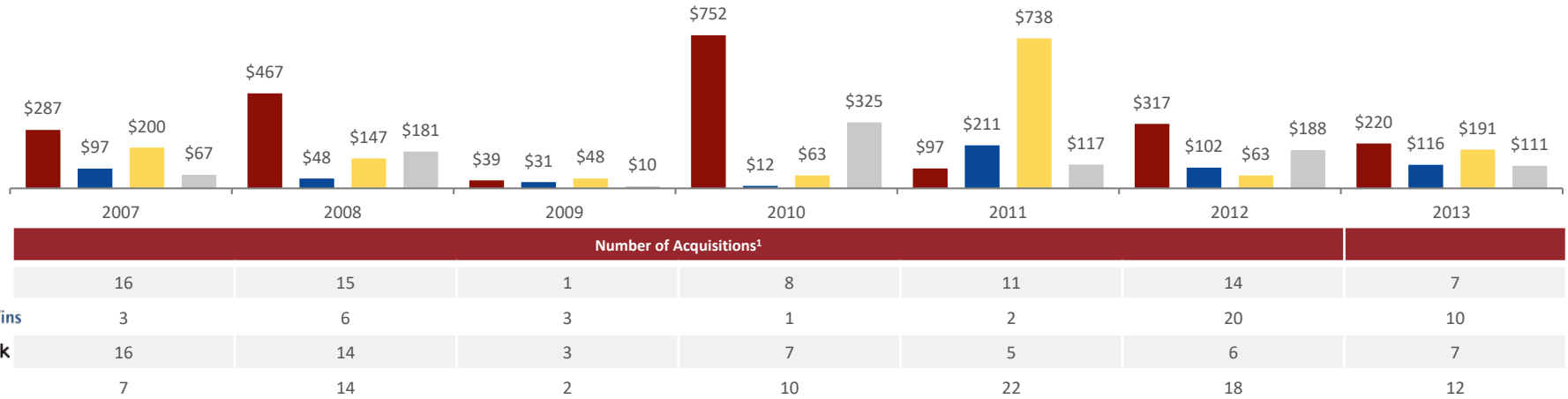


THE GREAT RECESSION (CONT.)

M&A ACTIVITY (2007–2013)¹

(Acquisition Spend; \$ in millions)

■ Bureau Veritas ■ Eurofins ■ Intertek ■ SGS



NOTABLE ACQUISITIONS



September 2010



TEV: \$698 million
Country: U.K.



April 2011



TEV: \$200 million
Country: U.S.



April 2011



TEV: \$734 million
Country: U.K.



December 2011



TEV: \$41 million
Country: U.S.

May 2008



TEV: \$417 million
Country: Australia

September 2008



TEV: NA
Country: U.S.

September 2008



TEV: \$39 million
Country: U.S.

December 2010

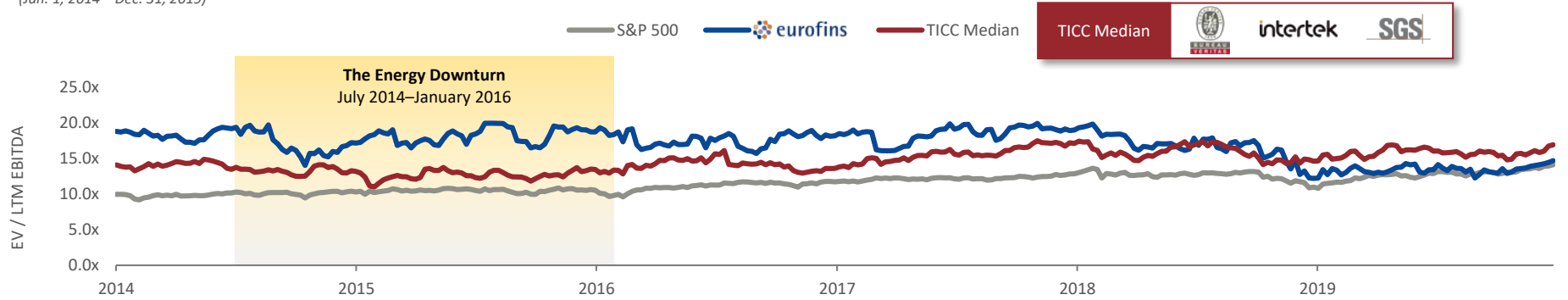


TEV: \$238 million
Country: Spain

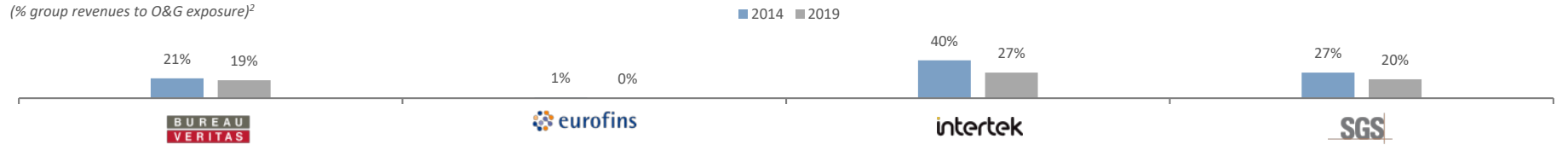
THE ENERGY DOWNTURN

TRADING PERFORMANCE (2014–2019)¹

(Jan. 1, 2014 – Dec. 31, 2019)

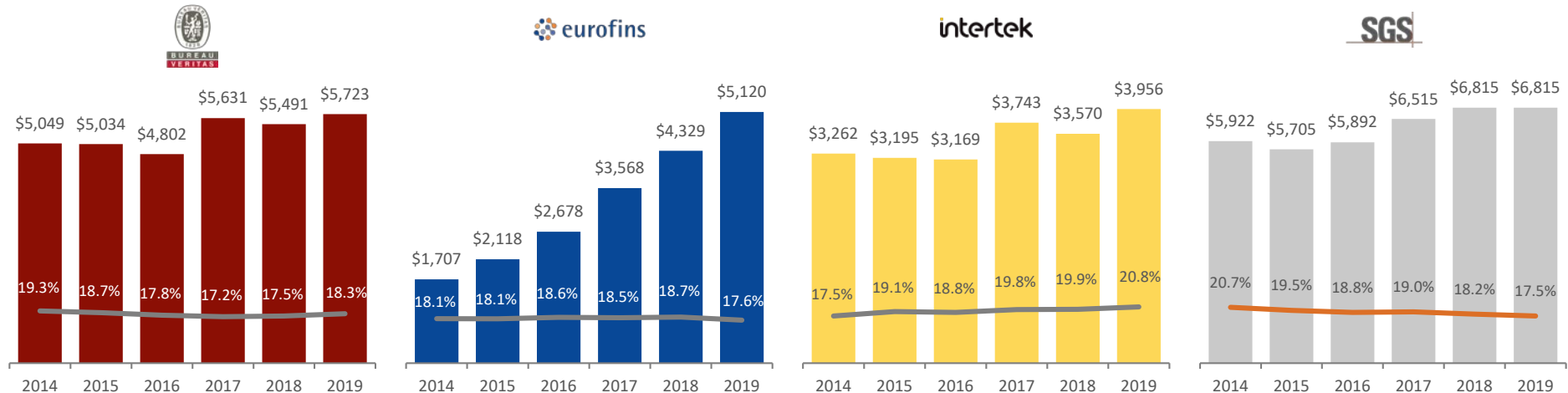


(% group revenues to O&G exposure)²



2014–2019 FINANCIAL PERFORMANCE¹

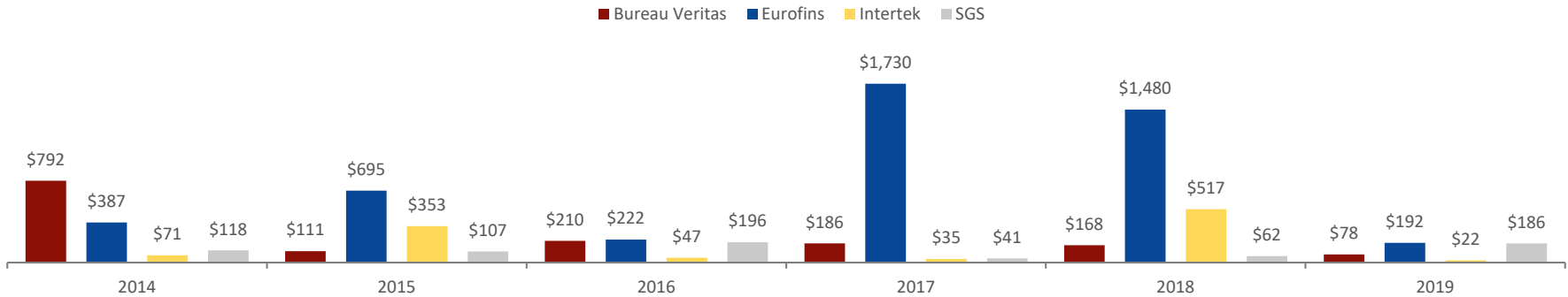
(Revenue and EBITDA Margin; \$ in millions)



THE ENERGY DOWNTURN (CONT.)

M&A ACTIVITY (2014–2019)¹

(Acquisition Spend; \$ in millions)



Number of Acquisitions¹

	2014	2015	2016	2017	2018	2019
Bureau Veritas	8	9	9	9	6	5
Eurofins	17	21	27	60	50	26
Intertek	3	4	3	2	4	1
SGS	10	10	19	12	8	11

NOTABLE ACQUISITIONS



March 2018



TEV: \$124 million
Country: U.S.



August 2018



TEV: \$670 million
Country: U.S.



August 2018



TEV: \$375 million
Country: U.S.



July 2019



TEV: \$116 million
Country: U.S.

January 2014



TEV: \$594 million
Country: Canada

September 2017



TEV: \$780 million
Country: U.S.

November 2015



TEV: \$217 million
Country: U.S.

August 2014



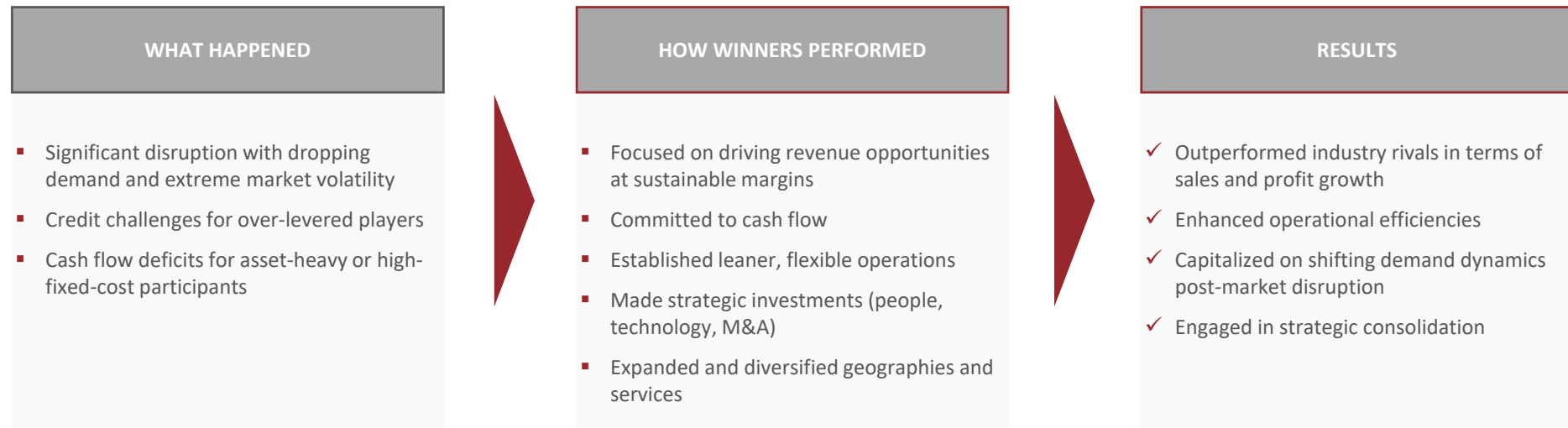
TEV: \$35 million
Country: U.S.

LESSONS LEARNED FROM PAST DISRUPTIONS

While the COVID-19 crisis is very different from the Great Recession and other past disruptions, there are relevant parallels and lessons learned that can be applied to the current uncertain environment.

- The Great Recession challenged TICC participants with tough global market conditions, recessions in many countries and severe contraction in some industries.
- However, forward-thinking players acted quickly to focus on cash flow generation; construct efficient, flexible capital structures; develop fixed/variable cost models, invest in long-term relationships with key partners; evaluate accretive M&A; and capitalize on changing global consumer habits and emerging tailwinds. This enabled a “slingshot effect,” as refocused players stabilized and were quickly able to capitalize on momentum coming out of the downturn.
- Similarly, while the recent oil crisis coupled with the COVID-19 pandemic are different from previous economic recessions or financial crises, companies that create a downturn plan, focus on generating and preserving cash, and invest to capitalize on shifting demand dynamics can use the downturn as an opportunity for renewal and advancement.
- Businesses that act quickly and decisively will not only rebound faster from the current downturn, but also come out of it stronger than they were before.

SUCCESSFULLY NAVIGATING THE GREAT RECESSION



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CONSISTENT RECOGNITION FOR QUALITY



HARRIS WILLIAMS OFFICE LOCATIONS

UNITED STATES

BOSTON

One International Place
Suite 2620
Boston, Massachusetts 02110
Phone: +1 (617) 482-7501

Cleveland

1900 East 9th Street
20th Floor
Cleveland, Ohio 44114
Phone: +1 (216) 689-2400

MINNEAPOLIS

222 South 9th Street
Suite 3350
Minneapolis, Minnesota 55402
Phone: +1 (612) 359-2700

RICHMOND (HEADQUARTERS)

1001 Haxall Point
9th Floor
Richmond, Virginia 23219
Phone: +1 (804) 648-0072

SAN FRANCISCO

575 Market Street
31st Floor
San Francisco, California 94105
Phone: +1 (415) 288-4260

WASHINGTON, D.C.

800 17th St. NW
2nd Floor
Washington, D.C. 20006
Phone: +1 (202)-207-2300

EUROPE

FRANKFURT

Bockenheimer Landstrasse 33-35
60325 Frankfurt, Germany
Phone: +49 069 3650638 00

LONDON

63 Brook Street
London W1K 4HS, England
Phone: +44 (0) 20 7518 8900

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