

# Know when to catch the waves of opportunity

SPOT ON | TESTING INSPECTION & CERTIFICATION | JULY 2019

## WHAT'S BEEN HAPPENING AND WHAT'S NEXT

The global M&A market for testing, inspection and certification (TIC) companies is still very active, thanks to strong fundamental growth drivers such as globalization, stricter regulations and an increased focus on safety and quality control. For the coming years, analysts still forecast economic growth; however, valuations of large, listed TIC companies have been slightly impacted by the relatively high degree of uncertainty in the global market. Going forward, we expect to see an ongoing consolidation in the TIC market where companies will increasingly focus on the further digitalization of their product and services offering. In addition, the strong M&A market is driving large TIC players to divest non-core assets in order to realize cash to re-invest in the core business.

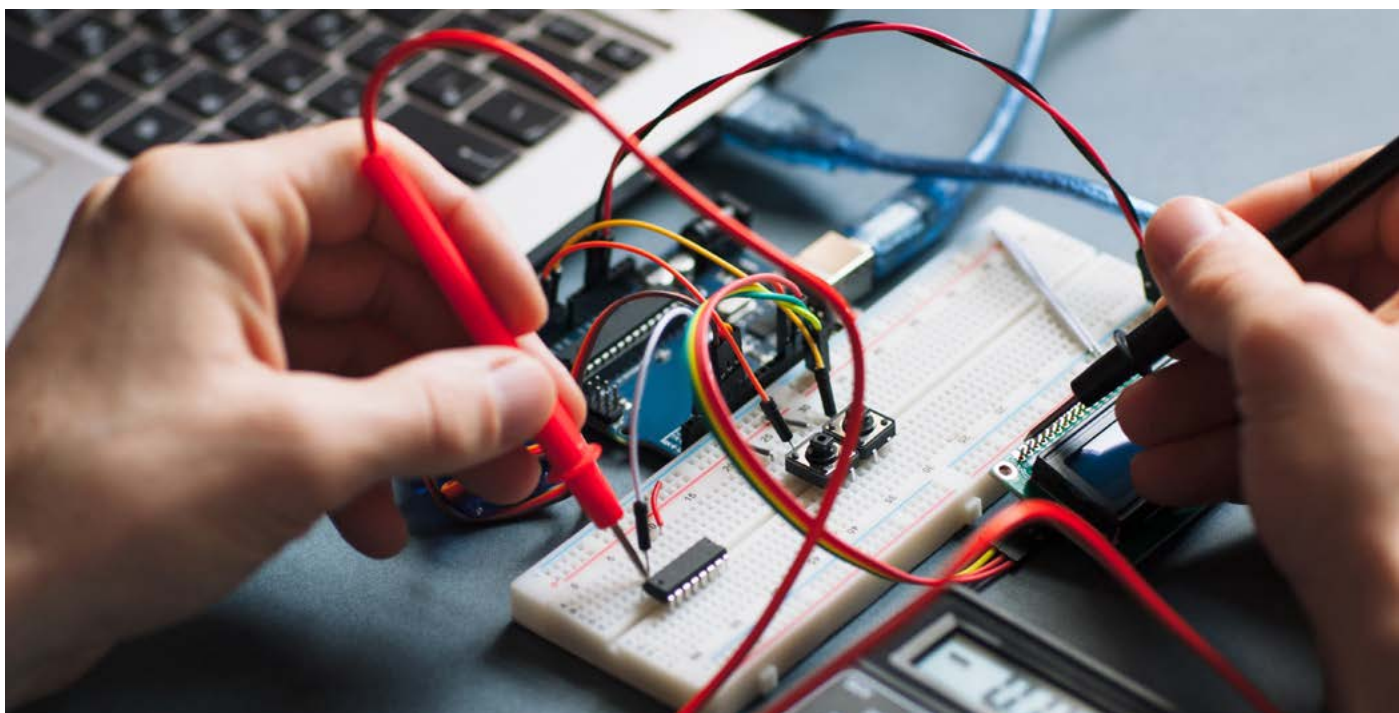
For example, in June 2019, SGS sold Petroleum Service Corporation—a subsidiary active in the handling and site logistics service for the petrochemical industry—to a US-based private equity investor. Other examples include the sale of Shield Group Nederland by Kiwa and the sale of Kema by DNV GL (pending deal).

In the second quarter of 2019, Oaklins played yet another role in the robust M&A TIC market, where it advised Building Envelope Technologies' shareholders in the sale of the company to Phenna Group. Further insight on this deal can be found on page 4 of this newsletter.

“We are seeing ongoing activity in the global TIC M&A market, where large TIC companies are using the high valuation multiples in the current M&A market to divest their non-core assets in order to bring more focus into their activities. In addition, we have noticed that market players are making more and more acquisitions of technology companies in order to be prepared for the digitalization wave that is also rolling across the global TIC market.”

**ARJEN KOSTELIJK**  
OAKLINS TIC SPECIALIST  
AMSTERDAM, THE NETHERLANDS





# Developments

As global trade, regulatory requirements and outsourcing have grown, so has the demand for TIC services. Over the last ten years, the TIC market has grown, on average, approximately 8% per annum.

However, the recent relatively high degree of uncertainty regarding the economic outlook impacts the valuations of large, listed TIC companies (median EV/EBITDA multiple of 11.7x as per June 2019 versus 12.7x as per January 2018). While the European economy is expected to grow for the eighth consecutive year in 2020, the pace of growth will be relatively moderate compared to the high rates in recent years. Certain factors pose risk for further high economic prosperity, including unstable US policy, the Chinese economy—which may be slowing down more than expected—and global financial markets and emerging markets that seem vulnerable to abrupt changes in risk climate and growth expectations. In addition, European M&A activity slowed down due to Brexit. However, the European M&A market can benefit from the weakening of the euro, which provides increasing opportunities for foreign investors to invest in Europe and which—along with attractive

valuations, a positive growth outlook and lower political uncertainty relative to the US—makes Europe an even more favorable market.

## DIGITALIZATION IN THE TIC MARKET

Traditionally, TIC businesses focused on, amongst other services, verifying and testing new or installed hardware, such as cars and machinery, as well as food testing and related medical analyses. As is also visible in other industries, we see a changing role for the traditional TIC business in the future as emerging digital technologies will also ask for a larger role in providing specific TIC services. For example, as mobile payments, connected cars and connected devices become more commonplace, software testing and inspection will become as important as hardware testing and inspection are today.

The increasing focus on digitalization increases the need for TIC players to form partnerships and make acquisitions of companies that already have these digital capabilities in-house. For example, TÜV SÜD strengthened its capabilities in the cybersecurity space by acquiring Acertigo, a firm engaged in compliance services for the payment card industry. In addition SGS entered into a partnership with Glenfis, an IT systems and services certification company. Furthermore, LabCorp has invested in HealthVerity, a technology and software tools developer for the integration of patient datasets.

We expect TIC players to make additional transactions in this area in the coming period, opening the door to further consolidation.

## OVERVIEW OF NOTABLE TRANSACTIONS IN Q2 2019

We have divided 17 notable transactions into three different groups:

### 1. FOOD AND ENVIRONMENTAL

- In May 2019, **Mérieux NutriSciences Corporation**, a US-based company engaged in providing evaluation services for food safety, quality and nutrition programs, acquired **Institut Kirchhoff Berlin**, a Germany-based company providing chemical, physical, molecular biological and microbiological studies, for an undisclosed consideration
- In May 2019, **Cotecna**, a Switzerland-based provider of testing, inspection and certification services, acquired Italy-based **Neutron**, a safety laboratory that provides chemical, biochemical, microbiological, physical and sensory analysis for food products, supplements, cosmetics and pharmaceutical products, for an undisclosed consideration
- In May 2019, **Palatine Private Equity**, a UK-based private equity firm, along with the management of **Lucion Services**, a UK-based testing, inspection and certification company focusing on hazardous materials, with expertise in the asbestos compliance market, acquired the company in a management buy-out transaction for an undisclosed consideration
- In May 2019, **Matrix Sciences**, a US-based operator of testing laboratories, acquired **Contract Testing**, a Canada-based sensory testing and research firm, for an undisclosed consideration
- In April 2019, **Bureau Veritas**, a listed France-based company engaged in providing conformity assessment, compliance evaluation and certification services to various industries, acquired **Shenzhen Total-Test Technology**, a China-based company engaged in food

testing, with both on-site and off-site capabilities, for an undisclosed consideration

- In April 2019, **LDC Managers Limited**, a UK-based mid-market private equity firm, along with the management of **Shield Group Nederland**, a Netherlands-based company engaged in providing statutory inspection services, acquired the company in a management buy-out transaction, from **Kiwa**, for an undisclosed consideration
- In April 2019, **SUEZ**, a listed France-based company engaged in drinking water distribution, wastewater treatment and waste management activities, acquired the China-based environmental and analytical testing business from **ALS Limited**, a listed Australia-based company that is engaged in the provision of technical testing and inspection services, for a total consideration of US\$57m

### 2. BUILDING, INDUSTRIAL AND PRODUCTS

- In June 2019, **SGS**, a Switzerland-based verification, testing and certification company, sold **Petroleum Service Corporation**, the US-based company engaged in handling and site logistics services for the petrochemical, refining, midstream and marine transportation end markets, to **Aurora Capital Partners**, a US-based private equity firm, for a total consideration of US\$335m
- In May 2019, **The SOCOTEC Group** acquired **Société Novatrice d'Etudes et Realisations**, a France-based non-destructive testing and industrial control/monitoring specialist, for an undisclosed consideration

- In May 2019, **ICR Integrity**, a UK-based company developing and delivering composite repair products for the oil, gas, petrochemical, refinery and power industries, and a portfolio company of **Graphite Capital Management**, acquired **Sky-Futures Partners**, a UK-based provider of unmanned aerial vehicles for the oil and gas inspection services industry, for an undisclosed consideration
- In May 2019, **First Reserve**, a US-based private equity firm, along with the management of **IRISNDT**, a Canada-based company providing non-destructive testing, inspection, engineering, heat treatment, rope access and software solutions, acquired an undisclosed majority stake in IRISNDT in a management buy-out transaction for an undisclosed consideration
- In May 2019, a consortium led by **Andera Partners** and **Omnès Capital**, two France-based private equity firms, along with the management of **SPHEREA Test & Services**, a France-based provider of simulations and electronic tests and related solutions for the aerospace, defense, energy and transport sectors, acquired the company in a management buy-out transaction for an undisclosed consideration
- In April 2019, **The SOCOTEC Group**, a France-based company engaged in providing management consulting services to health, security and environment sectors, acquired **Butler & Young Group**, a UK-based built environment compliance consultancy group, for an undisclosed consideration

### 3. HEALTHCARE

- In May 2019, **PathGroup**, a US-based company that provides anatomic, clinical and molecular pathology services, acquired **Pathologists Bio-Medical Laboratories**, a US-based provider of pathology services, for an undisclosed consideration
- In April, **Envigo**, a UK-based company engaged in providing pre-clinical and non-clinical biological safety research services through its research models and services business, agreed to acquire the research products business of **Covance**, a subsidiary of **LabCorp**, for a total consideration of US\$110m in the form of a note receivable. Covance is a drug development services company that develops and carries out pre-clinical and clinical trials of potential commercial drugs. Concurrent to this transaction, **LabCorp**, a US-based clinical laboratory services company that provides diagnostic, drug development and technology-enabled solutions, agreed to acquire the non-clinical contract research services business of **Envigo** for a total consideration of US\$595m. Therefore, the net implied cash consideration was US\$485m
- In April 2019, **LabCorp** acquired **HealthVerity**, a US-based developer of technology and software tools for the discovery and integration of optimal patient datasets, for a total consideration of US\$7m

## Case study



has been acquired by



**Phenna Group**  
Trust Integrity Confidence

M&A SELL-SIDE

Business Support Services/Private Equity

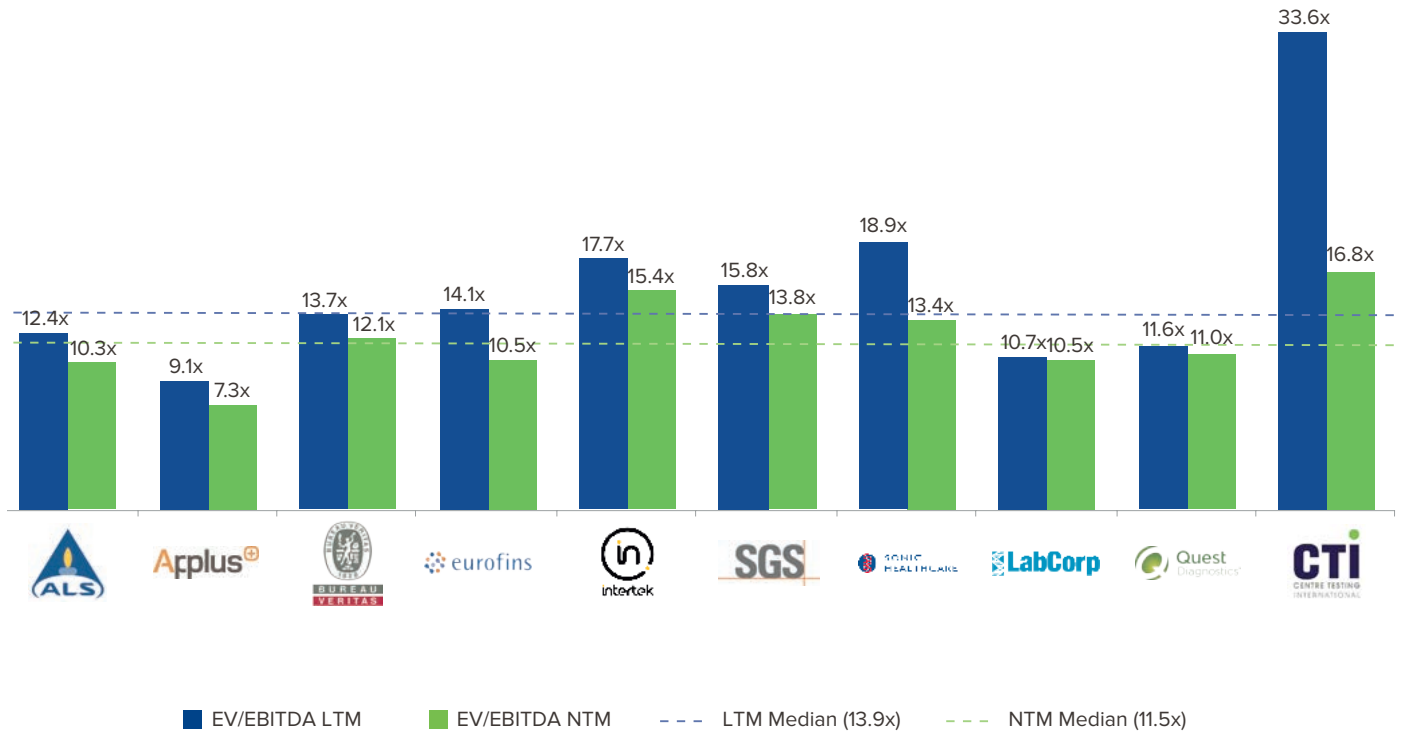
**The founder of Building Envelope Technologies has sold the company to Phenna Group.**

In the second quarter of 2019, Oaklins completed its second TIC deal of the year. In this transaction involving multiple Oaklins offices, we advised the shareholders of Building Envelope Technologies (BET) in the sale to Phenna Group. BET is an Ireland-based accredited testing laboratory providing independent third-party testing and certification services for the construction industry.

In addition to a comprehensive range of test types, the company also provides consultancy services within its acoustics and sustainability departments. Phenna Group is a UK-based, recently established consolidator in the TIC market. To date, the company has acquired companies in Ireland, the UK and the US.

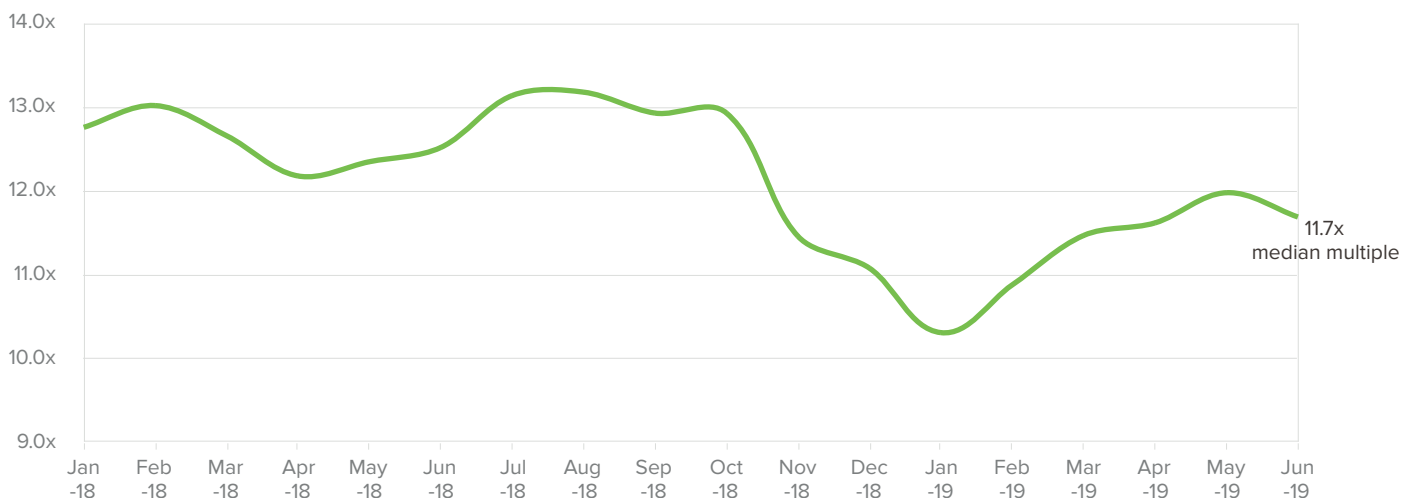
# Market multiples and valuation trends

## CURRENT TRADING MULTIPLES




Source: Infront Analytics, as per 16 June 2019


## HISTORICAL VALUATIONS (EV/EBITDA NTM)



# Decades of experience behind the success of these deals:

 Ambry Genetics

has been acquired by

  
KONICA MINOLTA

US\$1bn  
M&A SELL-SIDE

Healthcare

 cag amned

has sold a majority stake to

 gate invest

M&A SELL-SIDE

Business Support Services/Private Equity

 GENESISGROUP  
COMPLIANCE ASSURANCE

has sold a majority stake to

 Actis  
The positive power of capital

M&A SELL-SIDE

Agriculture/Business Support Services/  
Private Equity

 insitesecurity

has been acquired by

 eurofins

M&A SELL-SIDE

Business Support Services/TMT

 KOAC - NPC

has been acquired by

 kiwa

M&A SELL-SIDE

Business Support Services/Construction &  
Engineering Services/Logistics/Private Equity

 N  
NORKJEMI AS

has been acquired by

 SHIELDGROUP  
keeping the future in shape

M&A SELL-SIDE

Business Support Services/Private Equity

 OMEGAM  
Laboratoria

has been acquired by

 eurofins

M&A SELL-SIDE

Agriculture/Business Support Services

 SEKARGAS

has been acquired by

 HAMILTON POLAND  
WYKONAWSTWO I BADAŃIA LABORATORYJNE


M&A SELL-SIDE

Business Support Services/Private Equity

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## OAKLINS TIC SPECIALIST & AUTHOR



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