

TESTING, INSPECTION AND CERTIFICATION

WHAT'S NEXT?

SELECTED
ACQUISITIONS
& INSIGHTS **2023**

- Analysis of 2023 M&A Dynamics
- Looking forward
- Leading TIC Companies:
Strategies and Outcomes
- New Captains, New Courses:
CEO Transitions and Strategies



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Note: Analysis in this report relates to numbers of deals, not value of deals.

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2023 TIC M&A



By **Talal Yousef**
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Red Swan Partners



TIC firms embrace a lean and strategic portfolio refinement in 2023 while smaller deals keep the TIC sector's heart beating, with PE firms investing with an eye on future gains.

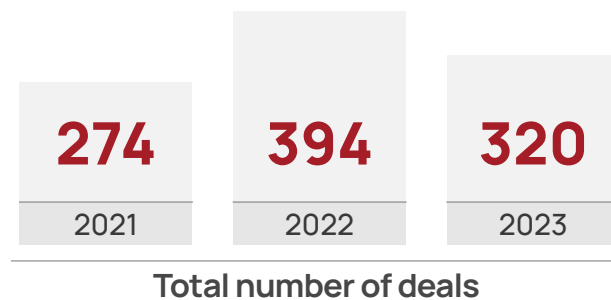
Market Overview

Economic Headwinds and M&A Cooling

2023 picked up where 2022 left off, navigating through economic turbulence caused by uncertainties in Ukraine, stubborn inflation, and a side dish of recession fears. This cocktail of challenges led to a tighter capital environment, taking the fizz out of the once-bubbly TIC M&A scene.

The noticeable absence of larger deals and reduced private equity activity reflected not only the challenging economic environment but also a natural deceleration following a period of fervent deal-making.

This 'deal drought' is a result of a prior flurry of acquisitions, and reflected by a dip in deal numbers—down to 320 from 394 in 2022.



*The 2021 and 2022 deal numbers have been updated in this report to reflect additional transactions identified as a result of our expanded coverage into new geographies. This may result in variances from figures previously reported.

Behavioral Adjustments - TIC firms embrace a lean and strategic portfolio refinement.

The behavior of TIC sector entities, when faced with challenging market conditions, reflects a strategic pivot towards a more streamlined approach. This pivot is exemplified by significant divestitures, such as the sale of **SGS's crop science** operations to **Eurofins**, **Element's** divestment of **Warringtonfire Australia** to **Jensen Hughes**, and **ALS's** offloading of **ALS Industrial** in Australia to **SRG Global**. These moves illustrate a decisive shift towards honing a leaner, more focused portfolio, mirroring a strategic 'Marie Kondo' effect where TIC companies are opting to retain only those assets that 'spark joy' in terms of strategic alignment and profitability.

Meanwhile, PE firms in the TIC space stretched their holding periods, introducing a "hand-me-down" strategy where assets are passed from one fund to another, bypassing the open market. This new practice provides PE both an exit and new investment, without having to look or bid for a new and unknown TIC platform.

Smaller deals keep the TIC sector's heart beating, with PE firms investing with an eye on future gains.

Despite the absence of headline-grabbing deals, the TIC market's heartbeat remained relatively strong, driven by a steady flow of small to mid-sized transactions. These deals, though not as glamorous, can still bring strategic merit to these more reasonable priced assets.

The current market environment has tempered valuation expectations, with listed TIC consolidators exercising increased fiscal prudence, often foregoing deals rather than risking overpayment. Contrarily, PE firms in the TIC sector persist as outliers; they frequently outlay more capital to secure assets, driven by a strategic imperative to bolster their buy-and-build portfolios, even if it means lesser immediate synergies. This approach is underpinned by their long-term view of asset value augmentation.

Key Divestments in 2023:

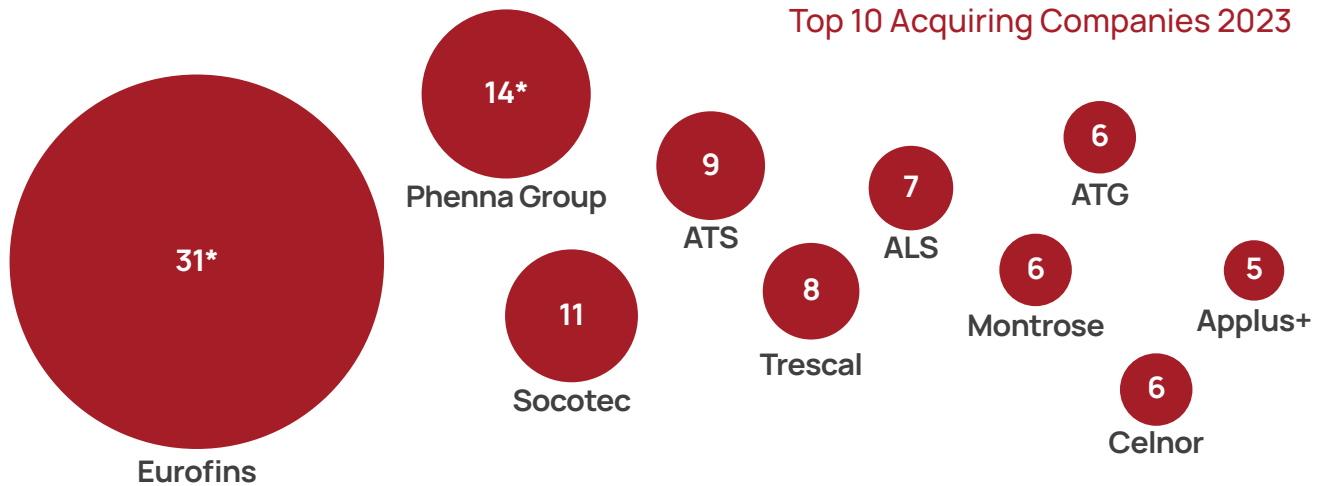


FORWARD OUTLOOK

As we look towards 2024, an election year with a global span, the political landscape could introduce new dynamics into the deal-making environment. Yet, one thing remains clear: the intrinsic appeal of the TIC sector is unwavering, anchored by its fundamental role in ensuring safety, compliance, and quality in an increasingly regulated world.

While PE houses continue to look for the TIC 'platform businesses' with a belief that there is still a significant amount of consolidation available within TIC, the size of potential targets is likely to be smaller in the future. Good, small to mid-size 'platform businesses' are seen as way to integrate the smaller TIC assets - in turn generating a new generation of mid-size TIC opportunities over time. We also see the start of a potential trend towards PE considering FM / maintenance companies that perform certain compliance and regulatory checks as having the potential to be developed into TIC companies - time will tell but this may well start to blur the TIC lines further.

Top 10 Acquiring Companies 2023



41 % of 2023 acquisitions were made by 15 companies

*these numbers were publicly reported, and it is expected more deals are completed but not announced.

Leading TIC Companies: Strategies and Outcomes

Eurofins retains its leading spot in TIC activity, albeit only 31 were so far publicly reported it is expected this will climb to in excess to 40 executed, which is still down on the previous year high of 57. Their M&A strategy has shifted from scale platforms as part of their 2017-2019 rapid growth strategy to cement their leading position in Life Sciences; towards enhancing their global presence through small or medium sized assets to provide geographic or capability extension to further build-out its global market offering.

Phenna supported by **Oakley Capital**, has amplified its growth strategy with 14 deals (vs 15 in 2022) and marking its entrance into Latin America via an acquisition in Brazil. The expansion into new sectors such as cyber-security, drug/alcohol testing, and veterinary services, **Phenna's** broadened scope suggests the continuance of such an

opportunistic strategy which may inevitably dilute their focus from its previous 3-sector soft-integration portfolio into a broader testing conglomerate like its larger TIC competitors, where value will inevitably require to be driven through increased integration.

Socotec's acquisition count remained consistent with the previous year at 11. The Company completed 4 deals in Germany, 3 in the US, and 4 in the UK. The acquisitions in the UK propelled the company's revenue to £200 million, establishing them as a major player in the UK Building & Real Estate market (including fire, sustainability, and building envelope solutions). However, their unwavering dedication to M&A strategy might indicate that they are approaching the conclusion of their current private equity vesting period, with **Cobepa** and **CD&R** as partners.

Applied Technical Services, under the ownership of **Odyssey Investment**, continued its sweep up of US assets in its core material TIC services with a total of 9 deals (additionally, they completed 3 deals in December 2023, which were officially announced in early January 2024) while **Trescal**, backed by **EQT** remains undaunted and continued to secure its global leadership in calibrations services with a further 8 acquisitions equal to last year with a distinct tilt with 2/3rds being in Asia-Pacific.

Phenna Expands Horizons With 14 Deals and Entry Into Latin America, Socotec's 11 Deals Elevate UK Market Presence And M&A Strategy

ALS, which underwent a change in leadership, successfully completed 7 transactions, down from 8 in the previous year. These transactions were evenly distributed across Asia Pacific, Latin America, and Europe.

Environmental services saw dynamic activity, with **RSK Group**, **Alliance**, an employee-owned company, **Alliance Technical Group**, owned by **Morgan Stanley Capital**, and **Montrose Environmental Group**, collectively completing 20 acquisitions across North America and the EU. These strategic moves underscore the sector's increasing significance and resilience.

Inflexion's UK Frenzy: Expanding Into A New Platform Alongside Existing Investment In BES Group.

Inflexion, backers of the buy-build start-up **Celnor**, since September 2023, led by former **Cawood** management, wasted no time in completing 6 transactions in the UK, with a focus on Compliance and Geo & Built Environment. In addition to this, Inflexion also supported **BES Group**, which successfully executed 5 deals in the UK.

Applus+ remains steadfast in its inorganic growth strategy, with 5 deals, amid an ongoing bidding war between **Apollo** and **Amber Equity**. The outcome and strategy of the winning bidder remain unclear, raising questions about potential divestment opportunities. Notably, the divestment of their vehicle inspection business marks the initial steps toward preparing for a potential sale. **DNV** and **Kiwa**, transacted 4 transactions each.

In 2023, **Element** divested its fire business in Australia and completed 3 deals (down from 5) following its buy-out by **Temasek Holdings** in 2022. This suggests a strategic portfolio trimming, driven by a desire to exit some business activities, and achieve leadership in specific areas. Such strategy is understandable since life as a PE platform can inevitably leads to acquiring and

Tentamus' M&A Activity Slowed After BC Partners' Buyout, While SGS Anticipates an Increase in M&A Efforts Under Strategy 2027

holding simply for multiple arbitrage, whereas once under long-term or strategic ownership, the focus of long-term strategy and market focus becomes more prevalent perhaps suggesting further divestments could be considered

SGS, while delivering 3 deals (down from 8), is undergoing a leadership change and launching a new strategy 2027 to streamline its future growth, including a renewed focus on M&A with focus on health & nutrition, connectivity, environmental testing and business assurance. The recent divestment of their global Agro-testing division to **Eurofins** exemplifies the best-buyer principle in action. **Tentamus** expanded its global integrated network with 3 deals (down from 9) after a premium buy-out by **BC Partners** in 2021. **Normec** remained active with 3 deals (down from 7), and while rumors of a future exit circulate, owner **Astorg** may retain it within a new continuity fund. Additionally, APAX has recently made its entry into the TIC space by acquiring **Alcumus** in 2022 and subsequently leading **Alcumus** to make 3 acquisitions in 2023 (2 in the UK, and 1 in North America)

Other major players, **Bureau Veritas**, who has new leadership, **TUV Nord**, **Dekra**, **TUV Rheinland**, **UL Solution** (owned by a non-profit group and has recently undergone a change in leadership, initiated the process for an IPO in the previous year. However, they have reportedly withdrawn their initial public offering in light of unfavorable market conditions), and **GBA** (owned by **Ardian**, expanded its footprint to North America and Asia), each completed 2 transactions. Additionally, **Intertek**, **TUV Sud**, **Marlowe**, and **Cawood** each performed 1 deal, either maintaining or reducing their previous year's deal levels.

In summary, while 2023 lacked blockbuster deals, the TIC sector exhibited underlying vibrancy and strategic shifts, shaping the M&A landscape. Adaptability, strategic realignments, and innovation will continue to drive the sector's trajectory amidst evolving market dynamics and regulatory landscapes.

New Captains New Courses

Leadership Transitions
will Steer the
TIC Titans
Through
2024.





Hinda Gharbi – CEO

Bureau Veritas (BV) Reshaping for Market Agility

In 2023, BV witnessed a historic shift as **Hinda Gharbi** ascends to CEO, becoming the first woman to hold this title within the International Association of Classification Societies (IACS).

Gharbi's immediate impact at BV was marked by a decisive reorganization, which reshaped the executive committee and introduced strategic segmentation. This included splitting APAC operations into two distinct regions – Asia Pacific and the Middle East

– and establishing a CSR Committee. Gharbi also promoted **Vincent Bourdil** from SVP South East Asia and Pacific to EVP, thus underscoring BV's dynamic response to evolving market demands and reinforcing its commitment to deeply embedding sustainability within its operations and to accelerating strategic initiatives.

Looking ahead to 2024, we anticipate Gharbi will focus on enhancing team cohesion and functionality, building a robust executive team as a cornerstone for new strategic directions and cultural shifts. It is also expected that Gharbi might take strategic risks to venture into new markets and refine business operations, aiming for heightened efficiency.

UL Solutions Steers Toward IPO with Strategic Board Enhancements

While, the late 2019 appointment of a new CEO, **Jennifer Scanlon** at UL Solutions was a clear signal of the company's need for strategic revitalization; the unanticipated announcement of an IPO, targeted for early 2024, underscores the firm's decisive direction.

Since Scanlon's tenure began three years ago, she has driven UL Solutions towards future with focus on customer-centric, technology-driven solutions, and diversity with women comprising 50% of the Executive and Operating Committees. However, becoming a publicly traded company her focus recently was on strengthening the Company governance structure and enhancing its Board of Directors by enlisting **Elisabeth Tørstad** and The appointments of **Elisabeth** and **George** will infuse the board with profound technical expertise and seasoned industry insight, equipping UL Solutions for its ambitious journey ahead.



Elisabeth-Tørstad

George A. Williams



ALS

A new era Begins

The ALS community received **Raj Naran**'s departure announcement with surprise. His exit for family reasons cast a temporary shadow of uncertainty over the company. However, **Malcolm Deane**'s subsequent appointment as CEO and the firm's recent financial improvement reflect the strong foundation laid by Naran.



Malcolm Deane

Deane steps into leadership and has committed to ALS's 2027 strategic vision, which includes achieving a significant EBIT uplift. This strategy involves divesting non-core activities, like the Australian NDT business, and actively pursuing acquisitions to expand ALS's laboratory testing services.

A critical question now is whether Deane can navigate the operational and cultural dynamics of ALS to reinforce its standing as a global TIC leader. This challenge is compounded by the need to guide the company past its coal certification scandal and to continue diversifying and innovating in a fiercely competitive market



Luc Leroy & Paul Hesselink

Kiwa at the Crossroads: A Legacy Honored and a Future Charted

For two decades, **Paul Hesselink** has piloted Kiwa to global acclaim, achieving a turnover exceeding 1.3 billion euros. Now, as he contemplates partial retirement, the stage is set for Kiwa's transition into a new chapter of growth under the SHV umbrella, which took ownership in 2021.

The choice of **Luc Leroy**, a seasoned executive from within Kiwa's ranks, as the incoming CEO underscores SHV's trust in the company's direction and its leadership ethos. This move is indicative of SHV's strategy to ensure a smooth transition, seeking to preserve and leverage Kiwa's robust corporate culture and at least continuing the dynamic growth it has achieved thus far.

Leroy steps into a role filled with opportunity and challenge. He must navigate the legacy left by Hesselink while imprinting his own leadership style. Armed with extensive experience, Leroy is poised to spearhead Kiwa's strategy through an industry landscape marked by consolidation. His leadership will be guided by SHV's enduring philosophy, 'Courage to care for generations to come,' ensuring Kiwa continues to thrive and innovate for the future.



Ian Spaulding

LRQA:

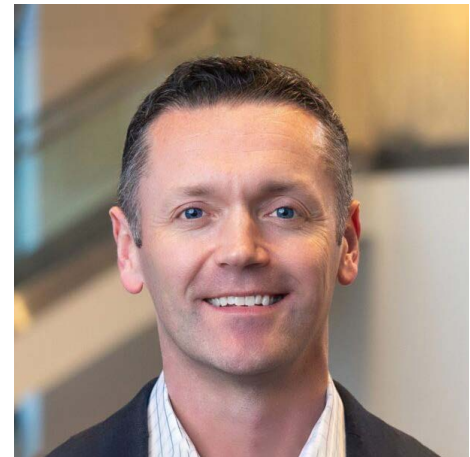
Ushers in New Leadership Era with CEO Ian Spaulding

LRQA embarks on a transformative journey as, former CEO of Elevate Global, **Ian Spaulding**, steps into the role of CEO beginning September 2023, replacing **Paul Butcher**, who transitions to an advisory role. This change at the helm marks a strategic shift, focusing on accelerating growth and building upon the company's strong foundations.

Over the recent two years, LRQA has concentrated on internal restructuring, sharpening its strategic focus. Now independent and bolstered by backing from **Goldman Sachs** Asset Management since 2021, the company is poised for expansion. Spaulding's comprehensive experience at ELEVATE positions him well to harness his in-depth market knowledge and dedication to customer focus. His prowess in assurance and ESG is anticipated to catalyze visionary leadership, advancing LRQA's strategy in a sector on the cusp of significant evolution.

FoodChain ID

Embraces New Leadership with Conor Kearney



Conor Kearney

In an atmosphere of both remembrance and forward-looking resolve, FoodChain ID announces **Conor Kearney** as the new CEO. The company and its community remember **Brad Riemenapp**, a leader of exceptional vigor and warmth, whose untimely passing has left a profound imprint.

As FoodChain ID turns a new page, the company reflects on how Conor Kearney will carry the mantle of leadership. Known for his collaborative approach and operational acumen, Kearney is poised to build upon the solid foundation laid by his predecessor. The question at the forefront is how he will lead the charge in driving FoodChain ID forward in an industry that demands constant innovation and unwavering commitment to food safety. His strategic vision for the company's growth is expected to honor Riemenapp's legacy while propelling the company into its next chapter of success.

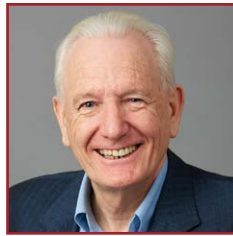
MEET THE RED SWAN PARTNERS

We are a dynamic team of individuals who have come together from all around the world to form Red Swan Partners. We have all worked in the Testing, Inspection and Certification sector.

We have varied areas of expertise and partner together to change lives.



Talal Yousef
CEO
United Kingdom



Paul Stennett
Advisory Board Member
United Kingdom



Susan Putters
Advisory Board Member
United Kingdom



John Knappenberger
Advisory Board Member
USA



John Willox
Operating Partner
United Kingdom



Rebekka Arkudas
Operating Partner
Spain



Roger Digby
Operating Partner
United Kingdom



Jeremy Harvey
Operating Partner
Canada



Caroline Trenner
Business Development Manager
USA



Philip Mugg
Operating Partner
Australia



Rosemary Urban
Business Associate
Australia



Alexandria Monk
Fractional Chief Marketing Officer
United Kingdom

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