

# An upside to Brexit for the consolidating TIC market

SPOT ON | TESTING INSPECTION & CERTIFICATION | Q1 2019

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

The global M&A market for testing, inspection and certification (TIC) companies continues to be booming, thanks to strong fundamental growth drivers such as globalization, stricter regulations and an increased focus on safety and quality control.

Consolidation is still one of the key drivers in the global TIC market, mainly driven by the top 10 largest TIC players but also by mid-sized companies. Over the last few years, Eurofins has been one of the largest consolidators in the industry, completing 50 transactions in 2018. However, in a press release dated 6 March 2019, Eurofins stated that, for the coming period, the company will increasingly focus on the integration of the many add-on acquisitions it has completed and related operational performance optimization. After an exceptional level of over US\$800m in revenues added in 2017 and 2018, Eurofins intends to be very selective and will focus on deleveraging. As such, we expect to see a smaller number of Eurofins transactions in the coming months, which could provide room for other consolidators.

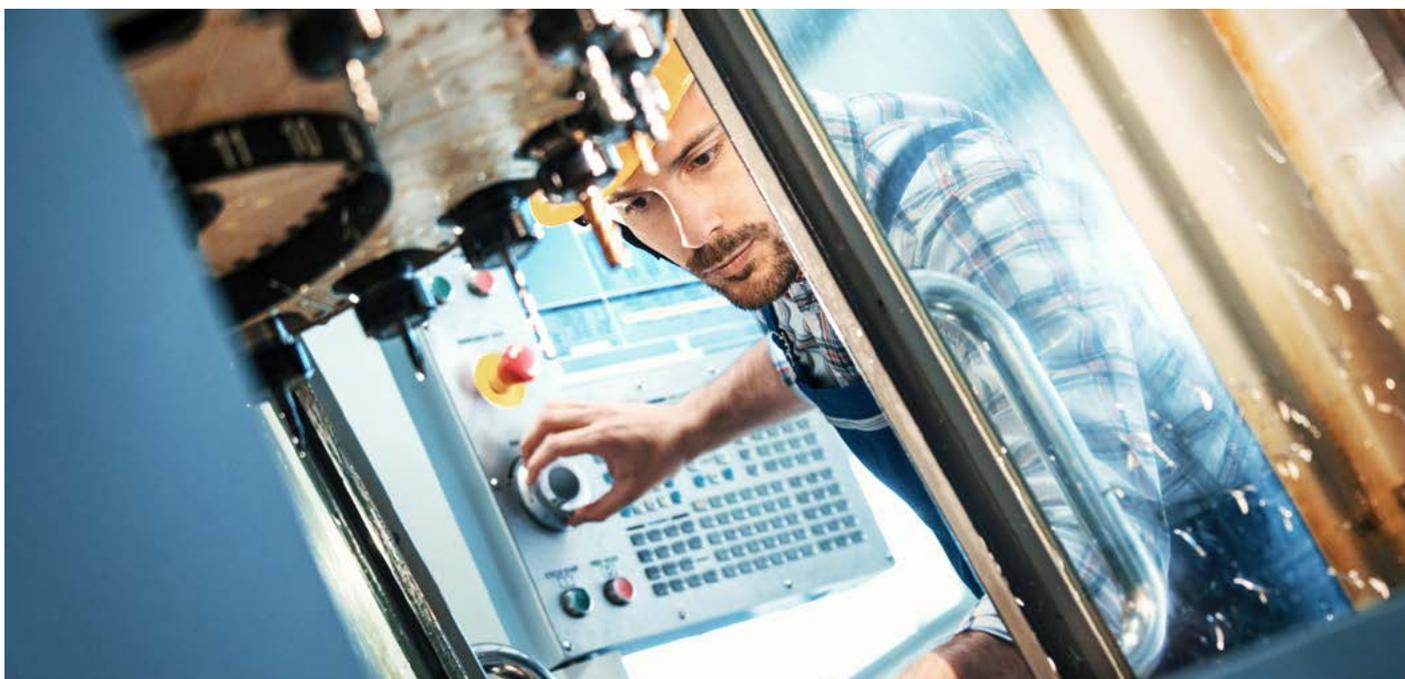
We also still see an ongoing interest of private equity in the market. Strong and resilient industry fundamentals—including relatively high margins combined with relatively low capital expenditures, and significant revenue visibility driven by an ongoing increase in regulation—make this a popular sector for financial investors. The wide availability of low-cost and flexible debt further drives the overall M&A market.

Another hot topic is the ongoing discussion about Brexit, which could have a large impact on international TIC activities. Negotiations on the conditions of Brexit are well underway. Whether or not an arrangement can be agreed for Notified Bodies and their customers is yet unclear. In the event of a so-called hard Brexit, or the absence of a transition or full UK-EU treaty, it might be possible that UK and EU Notified Bodies' certificates will not be mutually recognized or deemed valid. Products inspected, tested or certified by a UK Notified Body cannot be placed in the EU market unless re-tested/re-certified by an EU Notified Body. This would mean a sharp increase in TIC activities related to trade between the EU and the UK.

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





# Developments

For the TIC Q1 2019 newsletter, we have screened the last two quarters (October 2018–March 2019) for TIC-related transactions.

We have divided 15 notable transactions into three different groups:

## 1. FOOD AND ENVIRONMENTAL

- In February 2019, **Broodstock Capital**, a Norway-based private equity firm, acquired **Åkerblå**, a Norway-based provider of consulting and certification services for the fish health, environment and technical operations industries, for an undisclosed consideration. With the support of Broodstock Capital, Åkerblå will be able to strengthen its service offering and expand into new markets, thereby accelerating overall business growth
- In December 2018, **Pike Street Capital**, a US-based private equity firm, acquired an undisclosed majority stake in **US BioTek Laboratories**, a US-based provider of testing services for food-related allergies and intolerances, for an undisclosed consideration
- In December 2018, **Normec Group**, a Netherlands-based company that provides testing, inspections, certification and compliance services, and a portfolio company of US-based private equity firm Summit Partners, acquired a 75% stake in **Servaco Food Control**, a Belgium-based laboratory that specializes in nutritional analysis, for an undisclosed consideration
- In October 2018, **Metagenics Belgium**, a Belgium-based manufacturer and distributor of food supplements, acquired a 71% stake in **Bionutrics**, a Belgium-based provider of laboratory services for nutritional and functional medicines, for an undisclosed consideration. The acquisition is in line with Metagenics Belgium's strategy of creating a presence in all European countries
- In October 2018, **Eurofins Scientific**, a listed Luxembourg-based provider of analytical testing services, acquired **TestAmerica Laboratories**, a US-based provider of environmental testing services, for a total consideration of US\$175m (approximately 0.8x 2018 revenue). With this acquisition, Eurofins will enlarge its footprint and complement the service offering of Eurofins Scientific's environmental testing business in the US<sup>1</sup>

<sup>1</sup> Closing of transaction is still pending.

## 2. BUILDING, INDUSTRIAL AND PRODUCTS

- In January 2019, **Applus Services**, a listed Spain-based testing, inspection and certification company, acquired **Talon Test Laboratories**, a US-based aerospace testing firm, for an undisclosed consideration. The deal strengthens Applus Services' presence in the US aerospace sector, broadening both its network and its product offering
- In October 2018, **Wärtsilä Corporation**, a listed Finland-based manufacturer of power generation and marine propulsion equipment, acquired **Burriel Navarro**, a Spain-based company providing underwater maintenance and inspection machinery services, for an undisclosed consideration
- In January 2019, **Premier Technical Services**, a UK-based company engaged in providing access and safety services, acquired **Trinity Fire and Security Systems**, a UK-based company engaged in testing, maintenance and installation of fire and security systems, for a total consideration of US\$20.3m (10.5x 2018 EBITDA). The acquisition will enhance Premier Technical Services' existing fire solutions offering. In October 2018, Premier Technical Services also acquired **Guardian Electrical Compliance**, a UK-based electrical testing and compliance company, for a total consideration of US\$15.8m
- In January 2019, **Bureau Veritas**, a listed France-based company engaged in providing conformity assessment, compliance evaluation and certification services to various industries, acquired **Capital Energy**, a France-based provider of consulting and support services for white certificate projects,<sup>2</sup> for an undisclosed consideration. The acquisition will enable Bureau Veritas to expand its range of energy efficiency services for the building and industrial asset sector
- In December 2018, **Mistras Group**,

a US-based provider of technology-based non-destructive testing solutions, acquired **Onstream Pipeline Inspection Services**, a Canada-based provider of pipeline inspection and data analytics services, for a total consideration of US\$143.3m (9.0x 2019E EBITDA). The acquisition will allow Mistras to diversify its business and accelerate its growth in the midstream market

## 3. HEALTHCARE

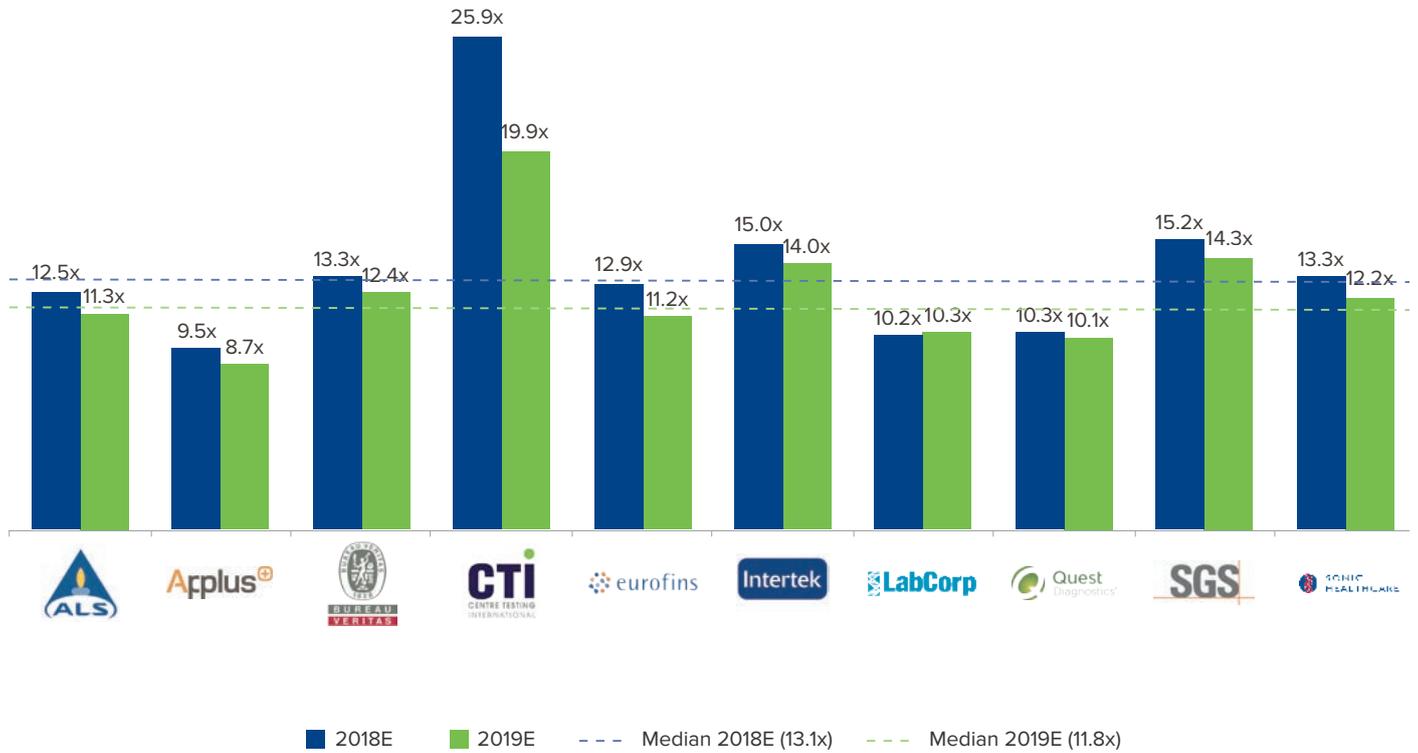
- In January 2019, **Sonic Healthcare**, a listed Australia-based company engaged in providing laboratory and radiology services, acquired **Aurora Diagnostics**, a US-based provider of diagnostic, prognostic and therapeutic information and services, for a total consideration of US\$540m (9.2x pro-forma 2018 EBITDA). The transaction will help Sonic Healthcare to expand its US business footprint and will further extend Sonic Healthcare's presence in anatomical pathology. With this acquisition, Sonic Healthcare benefits from the consolidation of the North American medical laboratory market
- In October 2018, **Cobepa**, a Belgium-based private equity firm, acquired **BioAgilytix Labs**, a US-based bioanalytical testing laboratory specializing in large molecule bioanalysis, for an estimated consideration of US\$400m (40x 2017 EBITDA)
- In October 2018, **NeoGenomics**, a US-based clinical laboratory network engaged in cancer genetics diagnostic testing, acquired **Genoptix**, a US-based company engaged in providing oncology diagnostics and informatics services, for a total consideration of US\$138.7m. The transaction allows NeoGenomics to have a comprehensive oncology test menu and reach across all distribution channels

- In October 2018, **Caisse de Dépôt et Placement du Québec**, a Canada-based investment firm, acquired a minority stake in **Biogroup-LCD**, a France-based network of medical laboratories, for a total consideration of US\$206.9m. Biogroup-LCD is a consolidator in the French medical laboratory market, with two related acquisitions in December 2018
- In October 2018, **Unilabs**, a Switzerland-based diagnostics company engaged in the provision of laboratory medicine and radiology services and a portfolio company of Apax Partners, a UK-based private equity firm, acquired **SFMTBIO**, **Laboratoire de Biologie Medicale Polibio** and **Biopath Laboratories**, three France-based medical biology laboratory operators, for an undisclosed consideration

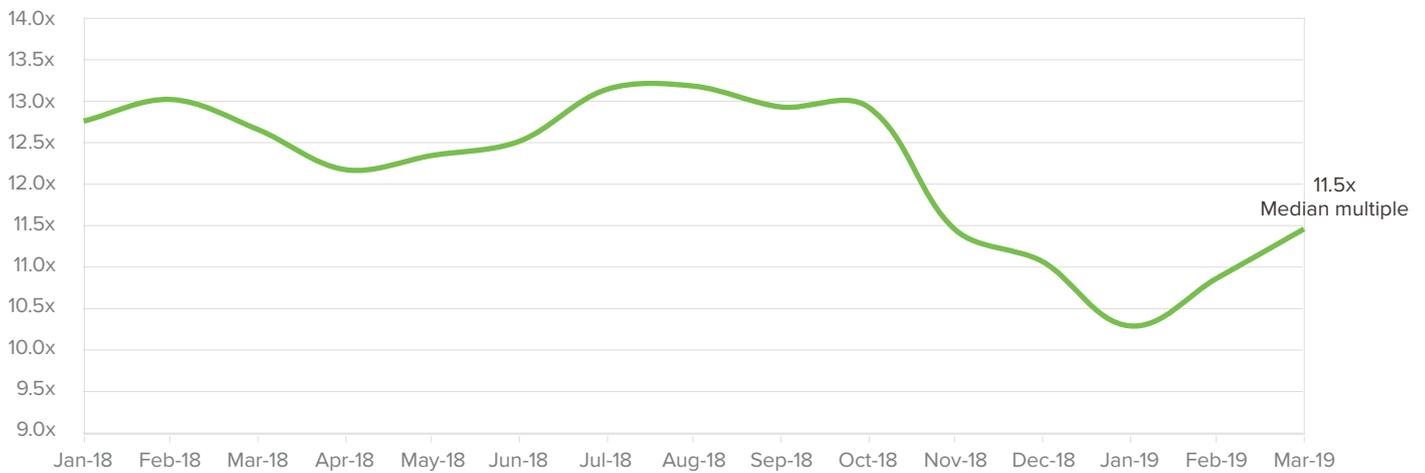
<sup>2</sup> In environmental policy, white certificates are documents certifying that a certain reduction of energy consumption has been attained.

# Market multiples and valuation trends

## CURRENT TRADING MULTIPLES



## 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  
WYKONAWCZOŚĆ I KADANCJA LABORATORYJNE

M&A SELL-SIDE

Business Support Services/Private Equity

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## OAKLINS TIC SPECIALIST & AUTHOR



 **ARJEN KOSTELIJK**  
Partner  
Amsterdam, The Netherlands  
T: +31 61397 9718

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