



# Testing, inspection, and certification: The opportunity for PE firms

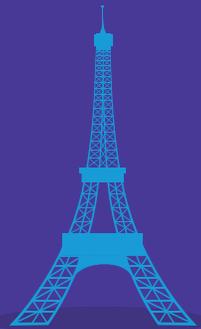


Private equity (PE) interest in testing, inspection and certification (TIC) businesses has remained high for the past five years. This is due in part to the fragmented nature of the sector as well as its resiliency of the sector, regardless of economic conditions.

## The TIC marketing is growing rapidly<sup>1</sup>

5.9%

projected CAGR for global TIC market, 2019–2027

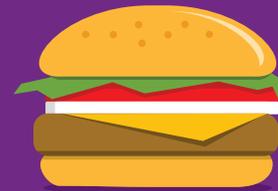


37.1%

of global revenue was based in Europe in 2018

6.4%

projected CAGR for global food and beverage industry, 2019–2027



<sup>1</sup> Source: PR Newswire, Global testing, inspection, and certification (TIC) market is expected to exhibit a compound annual growth rate of 5.9% during the forecast period (2019–2027) (July 19, 2019).

## What's driving growth?

The TIC market is expected to continue to grow due to the following factors:

**Shift to outsourcing:** New regulations around environmental protection and human safety are forcing companies to comply with more stringent rules. As a result, they're looking to third-party specialists to manage these processes.

An increase in outsourcing is expected given the increasing complexities in accounting for new regulation.<sup>2</sup>

**Increase in regulations:** With regulations around quality and safety increasing, companies are increasingly focused on taking a more proactive approach in an effort to avoid fines.

\$39 billion potential fines in Europe for automotive dealers that don't meet new emissions standards.<sup>3</sup>

**Desire for cost savings:** TIC companies help businesses realize cost saving goals with improvements to procurement, staffing, and operations.

\$1,371 is the increase in the cost of an average penalty for a serious penalty by OSHA from 2017–2018.

**Focus on green initiatives:** Companies are looking to reduce their impact on the environment and create green options.<sup>4</sup>

26–28% below 2005 CO2 levels by 2025 is the greenhouse gas emissions goal for U.S.<sup>5</sup>

## Why PE firms are interested in TIC



**Growth opportunities:** With governments taking a closer look at human safety and environmental impacts, the demand for services is likely to increase.



**Globalization:** As emerging markets mature, there will be an increased need for quality and safety regulations in these areas.



**Fragmentation:** There are opportunities to realize synergies by bringing together similar organizations.

## What PE firms are looking for from their TIC investments



**Growth opportunities:** The ability to expand into new areas of TIC or grow in new or untapped geographic markets or new industries.



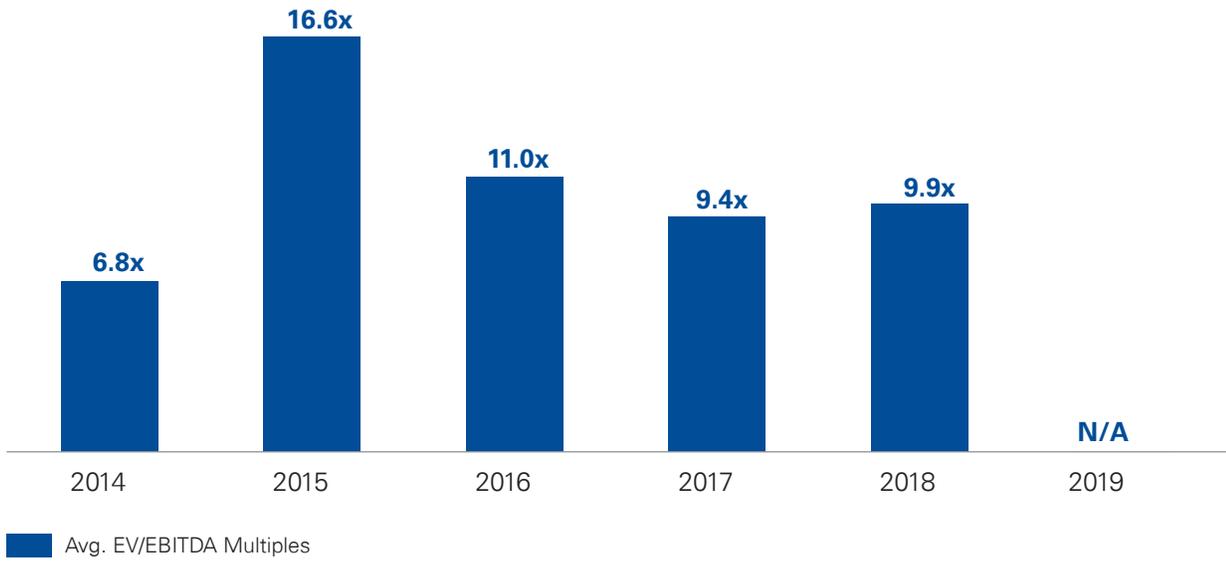
<sup>2</sup> Source: Bloomberg.com, Testing Inspection and Certification Market Expected to Behold a compound annual growth rate of 5.3% During 2018 to 2028—Persistence Market Research (May 6, 2019).

<sup>3</sup> Source: The Detroit News, Europe's tough emissions rules come with \$39 billion threat, Chester Dawson and Oliver Sachgau (June 30, 2019).

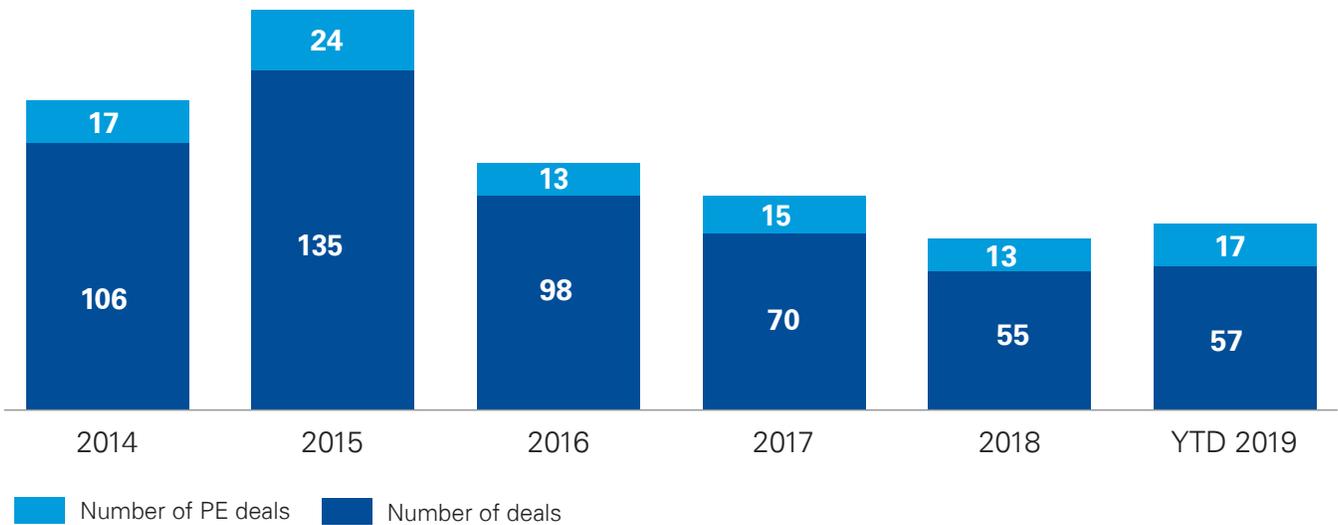
<sup>4</sup> Source: AAG.com, OSHA Enforcement Update for 2019: Penalties to Increase (January 18, 2019).

<sup>5</sup> Source: Washington Post, U.S. greenhouse gas spike in 2018 and it couldn't happen at a worse time, Chris Mooney and Brady Dennis (January 8, 2019).

## Industry Avg. EV/EBITDA Multiples (U.S.)



## M&A activity in the training sector





## Notable U.S. PE acquisitions in 2019

- Atar Capital LLC has acquired Keypoint Intelligence LLC, a global data and market intelligence leader for the digital imaging industry.<sup>6</sup>
- Dorilton Capital Advisors, LLC has acquired Henningan Engineering Co., Inc., an industrial cleaning service to a variety of industries across the United States and internationally.<sup>7</sup>
- Carroll Capital LLC has acquired Elevator Service Inc., a maintenance and testing, repair, and elevator modernization service company.<sup>8</sup>



## Key takeaways

- PE activity is expected to remain strong given the potential growth for this market as well as the opportunity to realize cost savings.
- TIC companies that have the ability to expand their service offerings to new markets and adapt rapidly to the ever-changing regulatory landscape will be attractive targets.

<sup>6</sup> Source: Business Wire, Altar Capital Acquire Keypoint intelligences (Oct. 10, 2019).

<sup>7</sup> Source: PR Newswire, Dorilton Capital Invests in Hennigan Engineering Company (Oct. 8, 2019).

<sup>8</sup> Source: PR Newswire, Carroll Capital Acquires Elevator Service LLC (Oct. 10, 2019).

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