



BAIRD

Global Investment
Banking

**BAIRD'S PERSPECTIVE ON THE
TESTING, INSPECTION, CERTIFICATION
& COMPLIANCE SECTOR**

TICC Update

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For information regarding our industry teams and bankers, please visit:
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An Experienced, Proven, and Trusted Advisor in the TICC Sector

Baird has a leading global investment banking franchise within the TICC sector, generated through a dedicated team focused on the sector for over a decade. Our integrated U.S., European, and Asian team has extensive global relationships and experience in providing advisory services to public companies, private business owners and private equity sponsors. Baird has advised clients ranging from buy-and-build platforms to private equity-backed sector participants to private companies to large public companies. The breadth and depth of these experiences distinguishes Baird within the TICC sector as it affords our team strong insight into the market and has enabled us to build an extensive network of relationships among small to large sector participants and active TICC investors.

BAIRD'S PERSPECTIVE ON THE
TESTING, INSPECTION, CERTIFICATION
& COMPLIANCE SECTOR

Industry Overview



Industry Overview

INTRODUCTION

The Testing, Inspection, Certification & Compliance (“TICC”) industry report, created by Baird’s Global Investment Banking Department, highlights capital market and M&A trends and events that impact companies within this sector. The global TICC industry is large and highly fragmented. Broadly defined, TICC companies are providers of testing, inspection, certification, and compliance services.

The TICC service offering includes:

1. **Testing:** Laboratory- or field-based testing that involves testing materials, components, and finished goods in order to assess compliance with specifications set by customers, accreditation bodies, or regulatory authorities;
2. **Inspection:** On-site examination of products, components, or the built environment to determine compliance with specifications set by customers, accreditation bodies, or regulatory authorities;
3. **Certification:** Certification is the confirmation of the result following testing or inspection. If the relevant standards are met, a certification or safety-mark, such as UL, CE, or ISO9000/14000 certification can be awarded; and
4. **Compliance:** Services to assist companies in establishing practices and monitoring status of or progress toward being in accordance with existing regulations, guidelines, or specifications.

The global TICC industry is an attractive sector that serves a broad range of end markets and is driven by numerous factors. From a macroeconomic perspective, variables such as global GDP drive general business activity that in turn drives demand for TICC services. From a sub-sector/end-market perspective, specific trends such as relevant industry standards, regulation, and commodity prices can influence demand for TICC activity in the respective area. From a customer perspective, TICC company clients’ decisions regarding the extent of outsourcing vs. insourcing, cost control initiatives, and capital expenditures influence the amount of spend available for certain TICC activities. Generally, demand for TICC services grows in excess of global GDP given increasing levels of outsourcing, increasingly complex global supply chains requiring more third-party verification, aging infrastructure, and the increasing importance of quality control in part driven by more stringent industry or regulatory standards. While overall demand for TICC services tends to be less impacted by economic cycles, the performance of TICC activities can vary meaningfully by sub-sector based on trends in the underlying end markets.

Given the global applicability of TICC services across a wide variety of end markets, significant differentiation exists among TICC companies in terms of end market and capability as well as local, regional, and international operating models. While many of the leading TICC players have roots in Europe, other regions such as North America and Asia Pacific present significant opportunities and are expected to be areas of continued consolidation activity in the coming years.

M&A has been an important means for some TICC companies to achieve growth and add end-market, service, or geographic capabilities, often in a bolt-on manner, as targets are typically small in size and footprint. While this add-on, buy-and-build strategy has been a key focus for many firms seeking accretive growth, future transactions, including both large and adjacent services, will increasingly require strategic alignment and focus as opposed to merely scale.

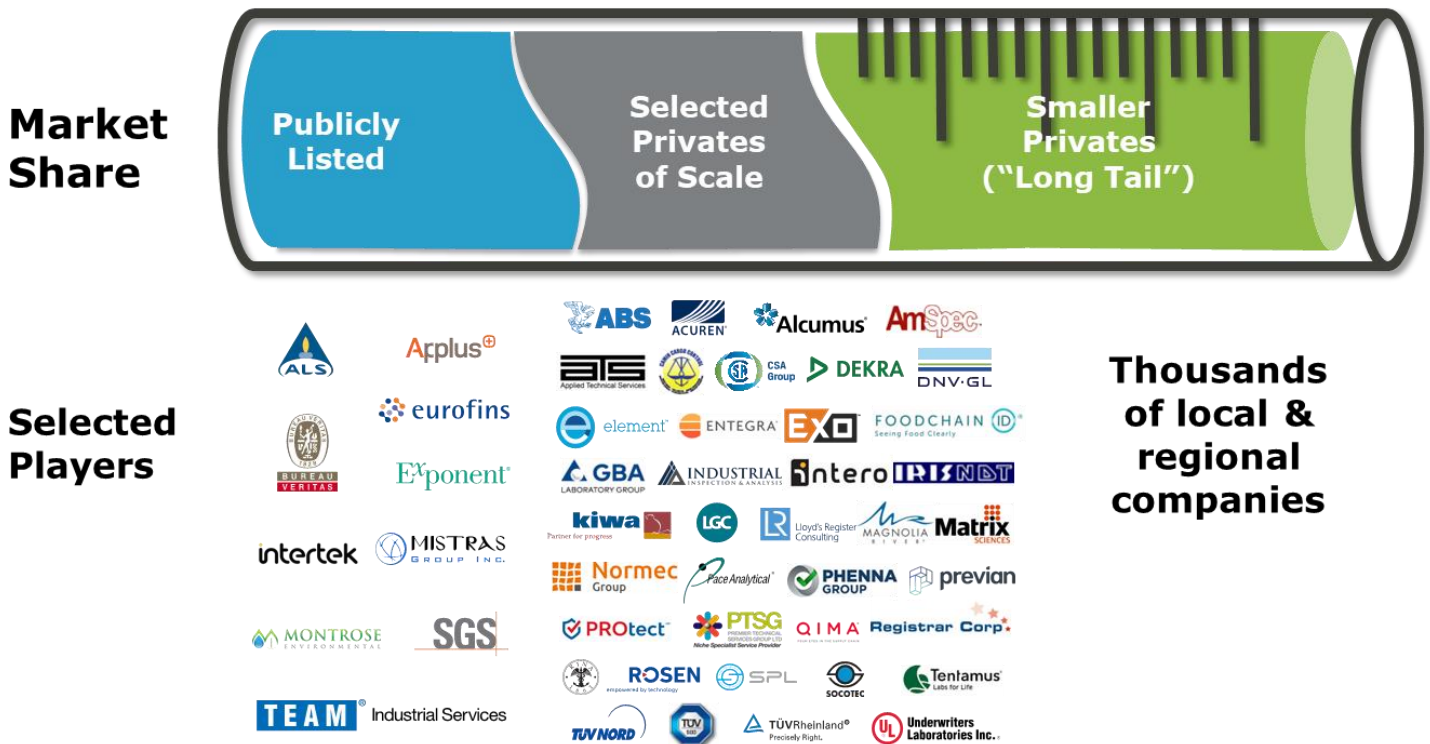
Industry Overview

MARKET OVERVIEW

The global market for TICC services is large and highly fragmented. Global TICC market size estimates range from approximately \$100 billion to \$300 billion. Underlying market fundamentals are strong, resulting in attractive historical revenue growth rates and profitability.

The TICC landscape can be bifurcated into in-house and outsourced segments estimated at approximately 60% and 40% of the total market, respectively. Activity in the in-house segment is typically carried out by either governments or corporations themselves. TICC companies compete for the remaining accessible outsourced segment, which varies by end market and is notable for the considerable growth headroom afforded to market participants. In fact, no end market is considered “maxed out” as the trend toward outsourcing continues to be fueled by customers focusing on core activities and ongoing corporate cost control initiatives.

TICC MARKET BY CATEGORY – ILLUSTRATIVE OF ~\$100-300 BILLION GLOBAL MARKET



The global TICC market consists of publicly listed firms, private firms of scale, and smaller private firms. The publicly listed firms include 10 global companies that generate ~\$32 billion in annual revenue and maintain ~16% of the total market share (~40% of the outsourced market)⁽¹⁾. Four of these firms, SGS (Switzerland), Bureau Veritas (France), Intertek (United Kingdom), and Eurofins Scientific (Luxembourg) account for \$25 billion in revenue. After the publicly listed players are selected private firms of scale, such as DEKRA (Germany), DNV GL (Norway), Element Materials Technology (U.K.), and UL (United States), among others which in aggregate are estimated to generate ~\$27 billion in revenue and ~13% of total market share. Lastly, the remaining ~70% of the market, or “long tail” of TICC providers, consists of other private firms of scale and thousands of smaller, private firms that compete on a narrower capability, geographic, or end-market basis. This market structure, illustratively shown above, is highly fragmented and presents a significant opportunity for continued consolidation.

(1) Market share statistics presented above are based on \$200 billion global market size – midpoint of market size estimates.

Industry Overview

RESILIENT BUSINESS MODELS

TICC companies typically share the following characteristics which support the stability of financial performance:



While demand fluctuates based on underlying factors that affect overall economic production and output, four dimensions generally drive TICC activity:

- **Production and trade:** TICC business is correlated to economic volume, as the number of transactions and units produced or traded equate to a comparable need to validate transactions or verify outputs. The health of a given end market generally relates to the health of its associated TICC activity. Thus, in a growth market, all else equal, TICC volumes are typically expected to increase. Conversely, in a downturn, TICC providers may experience pressure on both volume and/or pricing. However, changes in TICC activity can be insulated to some extent from direct increases or decreases in end-market volumes, as TICC activity is often conducted on a sampling basis or driven by research and development, which can continue during a downturn;
- **Regulation:** Demand for TICC services can be driven by the need to verify compliance with various regulations. New or increasing regulation may create new or more stringent standards that require additional testing/inspection to be conducted or an increased frequency of existing testing/inspection activities. All else equal, increasing regulation can serve as a tailwind for TICC activities in the respective end markets;
- **Capital expenditures (Capex):** Capex on equipment, property, and infrastructure development creates TICC demand. Everything from design, construction, and operations of a Capex project drives an associated opportunity for TICC activity. While Capex is less resilient to business cycles than other drivers, the projects often involve substantial investment and create a meaningful need for TICC services. Further, the market for these services is favorable to outsourcing given the degree of technical expertise and proficiency required of unique and complex capital investments; and
- **Operating expenditures (Opex):** Associated with the factors tied to recurring business processes, the TICC Opex market is large, fragmented, and more resilient to business cycles. Capabilities are categorized into asset management, risk management, operational integrity, and regulatory services. Partnerships with TICC companies for Opex services help facilitate productivity, efficiency, environmental protection, accident prevention, regulatory compliance, and other proactive benefits. The market for these services is highly favorable to outsourcing due to the mitigating effect of objective third-party evaluation.

Industry Overview

FAVORABLE MARKET TRENDS

The global TICC industry is a large and highly fragmented market that typically grows in excess of GDP, driven by numerous macro factors and long-term secular trends:

- Increasing end-user demands: 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. This elevated end-user awareness has enhanced the TICC value proposition as capable of providing independent verification;
- Economic development and growing middle classes: Demand for TICC services is directionally aligned with macroeconomic metrics such as GDP growth. Consumption behavior associated with a growing middle class nurtures a production environment that is favorable to TICC companies;
- Global trade and increasingly complex supply chains: Globalization has generated increased global trade activity involving increasingly complex supply chains that require more third-party verification;
- Aging infrastructure: The built environment/infrastructure in many developed countries is aging, creating the need for predictive monitoring/inspection to verify asset integrity and maintain safety. The eventual replacement of assets within the built environment will create further demand for TICC services;
- Increasing government regulations and industry standards: 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;
- Trend toward continued outsourcing: Cost and risk management pressures drive outsourcing to TICC companies. Management teams increasingly appreciate the independence, impartiality, expertise, and integrity inherent to 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 (e.g., during construction and operations), products, processes, and systems; and
- Fragmented market with ongoing consolidation: M&A has been a steady growth driver in the TICC industry, with key players regularly announcing add-on acquisitions and occasionally transformational deals as well. A highly fragmented competitive landscape, niche specialization, and geographic diversity present opportunity for continued consolidation.

SECTOR CHARACTERISTICS

Four financial and operational factors characterize the TICC landscape:

- Organic growth: Historically, the TICC industry has experienced steady, single-digit organic growth, broadly following macroeconomic trends. While the industry does have built-in economic resiliency derived from its activities largely being conducted on a sampling basis, the industry does fluctuate based on macroeconomic health and / or the trends in underlying end markets;
- Inorganic growth: TICC is an acquisitive industry with companies commonly engaged in roll-up strategies. M&A has historically contributed significant portions of revenue growth for some of the largest firms. Financial sponsor activity is also increasing across the industry. Private equity investments are driven by favorable tailwinds, loyal customers, attractive margin and cash flow characteristics, consolidation platform potential, and ample exit opportunities;
- Profitability: Technical services drive attractive profitability, demonstrated by the financial performance of publicly listed TICC companies that generated a 18.5% median EBITDA margin from 2017 to 2019. Companies in the sector have removed cost since 2020, with the majority of companies raising their EBITDA margin from the 2019 level. The 2021-2023 median increased to 19.7%. The sector is expected to maintain increased profitability, with estimated median EBITDA margin of 21.2% in 2024; and
- Valuation: Historically, TICC companies trade at attractive valuation levels as evidenced by the median NTM EV/EBITDA ratio for the publicly listed TICC company group of 11.8x over the past five years and 11.1x currently.

Industry Overview

TICC MARKET STRUCTURE

The TICC sector can be generally thought of in three groupings, including (1) Trade; (2) Built Environment; and (3) Product/Process. These groupings can include activity across various sub-sectors/end markets, each with a varying level of attractiveness and fragmentation.

	Sub-Sector/ End Market	Selected Activities	Selected Services	Selected Drivers	Historical Trends	Forward Trends	Extent of Consolidation
Trade	Marine	<ul style="list-style-type: none"> Classification of ships & mobile offshore units Components 	<ul style="list-style-type: none"> Ship classification Vessel hatch and hold inspection 	<ul style="list-style-type: none"> Maritime traffic Substitute shipping indicators 	◀▶	▲	●
	Government	<ul style="list-style-type: none"> Imported goods Exported goods Supply chain 	<ul style="list-style-type: none"> Pre-shipment and destination inspection Container scanning Trade verification Fraud targeting 	<ul style="list-style-type: none"> GDP growth International trade relations Currency exchange rates Commodity prices Accelerating globalization 	▲	◀▶	●
	Trade & Commodities	<ul style="list-style-type: none"> Oil & gas Petrochemical Metals, minerals, and coal Agricultural products 	<ul style="list-style-type: none"> Loading and discharge supervision Weight/tallying control Sample prep/lab testing Trade verification Custody transfer 	<ul style="list-style-type: none"> Commodity prices and FX rates Resource discovery Global energy demand increases Mining and underground safety Global trade patterns 	▲	▲	◐
Built Environment	Industrial Plant	<ul style="list-style-type: none"> Process design Construction Opex Decommissioning 	<ul style="list-style-type: none"> Visual inspection NDT Integrity management 	<ul style="list-style-type: none"> Capital expenditures Maintenance and repair spend Facility closings 	▲	▲	◐
	In-Service Inspection	<ul style="list-style-type: none"> Elevators and electricity Fire safety equipment 	<ul style="list-style-type: none"> Safety inspections Electrical evaluation 	<ul style="list-style-type: none"> OSHA and other law conformity Federal, state, and local permits 	▲	▲	◐
	Construction	<ul style="list-style-type: none"> Residential Commercial Industrial Public 	<ul style="list-style-type: none"> Architectural integrity Building energy audit Mechanical testing Permit/code compliance 	<ul style="list-style-type: none"> Residential construction Non-residential construction Government initiatives Municipal and public works spend 	◀▶	▲	◐
	Environment	<ul style="list-style-type: none"> Soil Water Air 	<ul style="list-style-type: none"> Soil & sediment analysis Water/waste water analysis Air quality testing 	<ul style="list-style-type: none"> EPA regulation Aging waste infrastructure Climate concerns 	◀▶	▲	◐
Product/Process	Product Testing/Certification	<ul style="list-style-type: none"> Consumer products Aerospace Electronics 	<ul style="list-style-type: none"> Product conformity testing Raw material control Stress/fatigue testing Factory audits 	<ul style="list-style-type: none"> Consumer demand Unemployment rates Aerospace backlog Technological innovation 	▲	◀▶	◐
	Systems & Services Certification	<ul style="list-style-type: none"> HSE management Certify systems Safeguard nuclear sites Security 	<ul style="list-style-type: none"> Network security inspection and monitoring Cloud and networked systems certification 	<ul style="list-style-type: none"> Internet of Things (IoT) Regulatory changes Emerging markets Open-sourced computing 	▲	▲▲	◐
	Food	<ul style="list-style-type: none"> Food safety Labeling Packaging 	<ul style="list-style-type: none"> Inspection/lab testing Nutritional verification Sample preparation/ sealing 	<ul style="list-style-type: none"> Food borne health incidents Farm to fork Food supply in emerging markets FDA regulation 	▲	▲▲	◐
	Life Sciences	<ul style="list-style-type: none"> DNA/genetic testing Pharmaceuticals Biopharma Medical device 	<ul style="list-style-type: none"> Lab testing Facility accreditation Hazmat best practices Prototype feasibility 	<ul style="list-style-type: none"> Federal/state reform FDA regulation CDC/NIH announcements CMS reimbursement policy 	▲	▲▲	◐
	Automotive/Mobility	<ul style="list-style-type: none"> Vehicles Components Function Safety 	<ul style="list-style-type: none"> R&D testing Production testing Safety Emissions testing Battery testing/ADAS 	<ul style="list-style-type: none"> Unit volume Recalls/adverse events Alternative fuel legislation Supplier/OEM partnerships 	◀▶	▲▲	◐

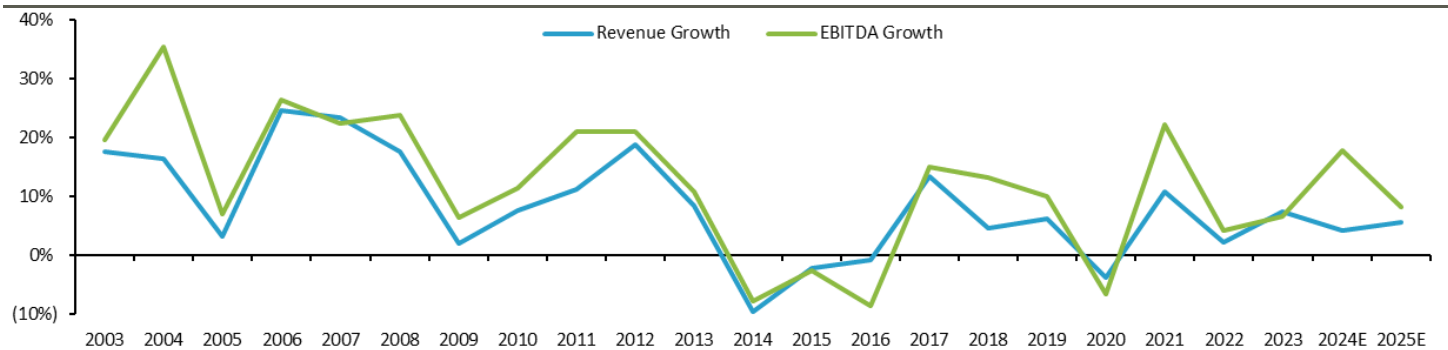
Source: Baird industry research.

Industry Dynamics

STRONG GROWTH

The TICC industry has generated strong long-term growth, both organic and inorganic. Median annual revenue growth for a group of publicly traded TICC companies was positive for most of 2003-2019, with this trend resuming in 2021-2023 after COVID caused a 2020 decline. Median annual EBITDA growth was mostly positive and often outpaced revenue growth due to the operating leverage of TICC business models. In 2003-2023, the group’s median revenue CAGR was 9.8%, and the median EBITDA CAGR was 11.3%.

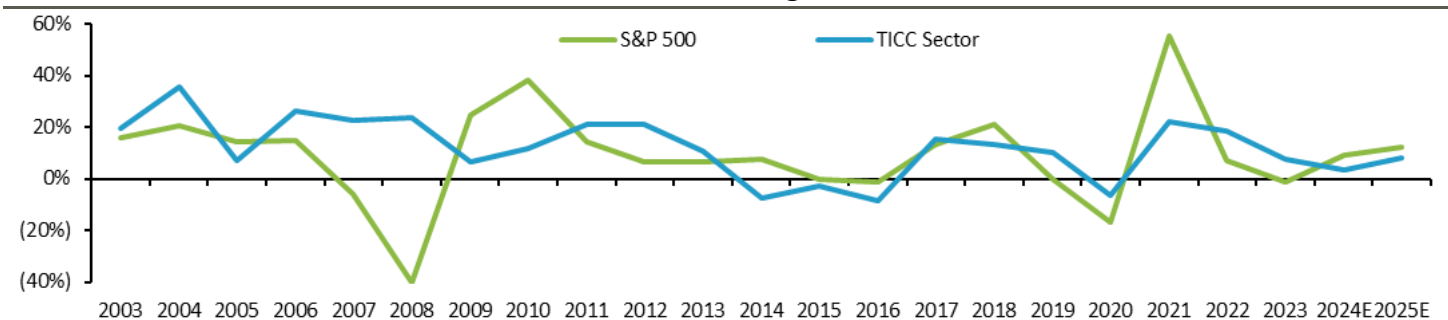
Median Annual Revenue and EBITDA Growth



Source: Capital IQ. Estimates as of March 7, 2024. Group of TICC companies included is shown on page 13, except for Montrose Environmental, which completed an IPO in 2020. Projections are based on consensus estimates.

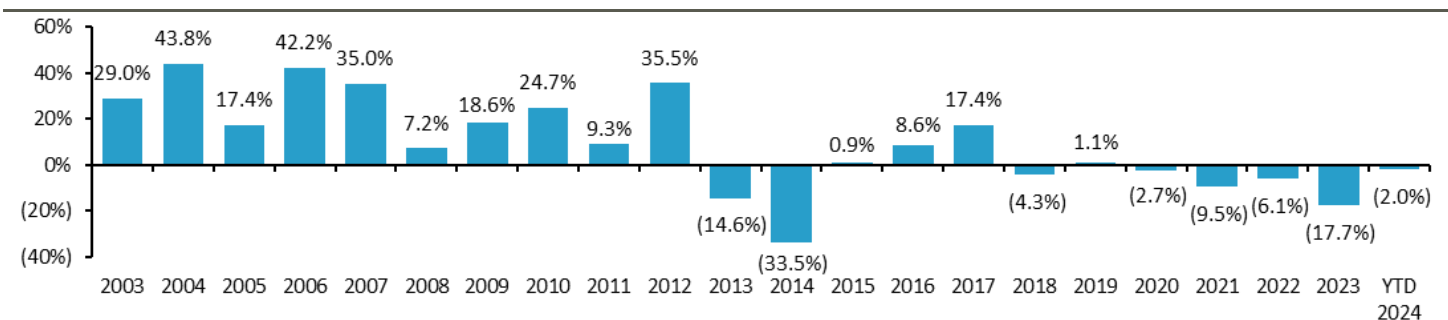
TICC sector stocks have generally outperformed the S&P 500 dating back to 2003, helped by stronger and steadier earnings growth. As indicated below, the median EBITDA growth rate for the companies in Baird’s TICC group was positive in nearly all of the past 20+ years, contrasting with the broader market’s peaks and valleys. As indicated by market-beating returns over much of this period, investors have generally favored the consistent performance of the TICC group (albeit not in recent years).

TICC Sector Median EBITDA Growth Versus S&P 500 Earnings Growth



Source: Capital IQ. Estimates as of March 7, 2024. Group of TICC companies included is shown on page 13, except for Montrose Environmental.

Performance of TICC Sector Stocks – TICC Sector Return Minus S&P 500 Return



Source: Capital IQ. Dividends not included. Group of TICC companies included is shown on page 13, except for Montrose Environmental. YTD as of March 7, 2024.

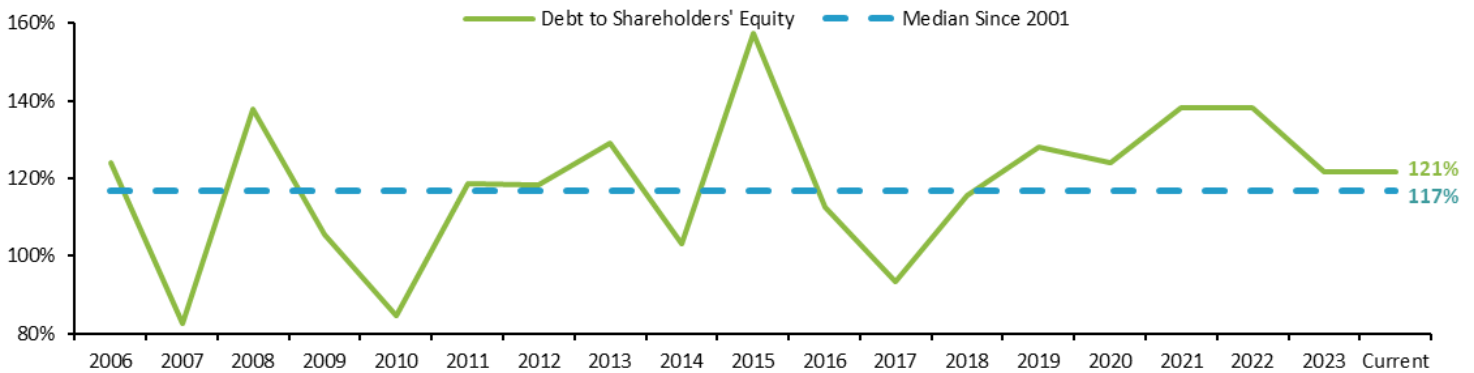
TICC Update

Industry Dynamics

BALANCE SHEET TRENDS

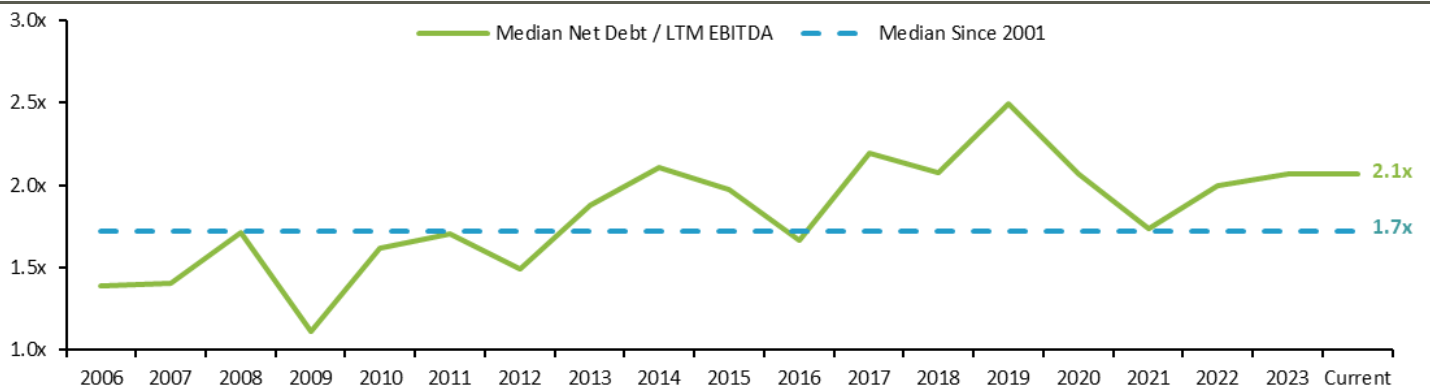
Leverage levels were generally below the long-term median through 2013 before rising above the median in recent years. Median debt-to-shareholders' equity ratios for the TICC group reached peak levels in 2015, when the median debt-to-equity ratio was 158%. Based on balance sheets at the end of Q4 2023, the median debt-to-equity ratio was 121%, lower than the 138% ratio at the end of 2022 but slightly above the long-term median.

Median Debt-to-Shareholders' Equity Ratio



Source: Capital IQ. Current as of March 7, 2024.
Group of TICC companies included is shown on page 13, except for Montrose Environmental.

Median Net Debt/LTM EBITDA Ratio



Source: Capital IQ. Current as of March 7, 2024.
Group of TICC companies included is shown on page 13, except for Montrose Environmental.

From 2005 to 2013, the median net debt/LTM EBITDA ratio was generally in the 1.3-1.7x range; however, this leverage ratio has been elevated since 2014. At the end of Q4 2023, the median net debt/LTM EBITDA ratio was 2.1x, slightly above the year-end 2022 figure of 2.0x and higher than the 1.7x median since 2001.

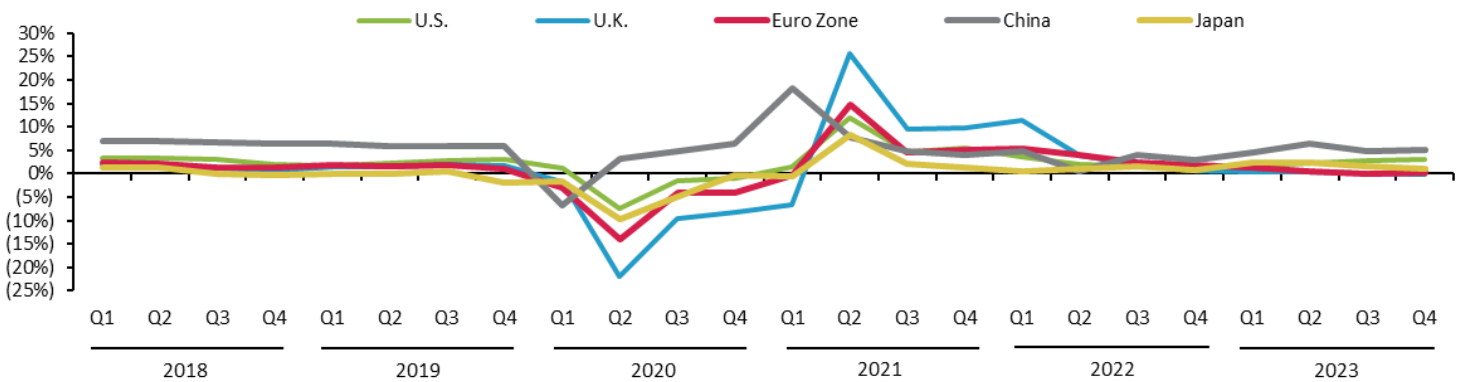
Key Economic Indicators

GROSS DOMESTIC PRODUCT

Real GDP, the broadest measure of economic activity, increased by low single-digit percentages across most major geographic markets during the second half of 2023.

- U.S.: Amid mixed indications of economic conditions, GDP rose by about 3% on a year-over-year basis in Q3 and Q4.
- Euro zone: On a year-over-year basis, GDP was essentially flat in both Q3 and Q4.
- U.K.: Q4 GDP edged down 0.2% relative to Q4 2022, following year-over-year growth of 0.2% in Q3.
- China: Q4 GDP growth of 5.2% was roughly in line with reported expansion of 4.9% in Q3 and China’s 2023 GDP growth target of “around 5%.”
- Japan: For calendar Q4, GDP increased 1.1% year over year, down slightly from expansion of 1.6% in the previous quarter.

GDP Growth by Region

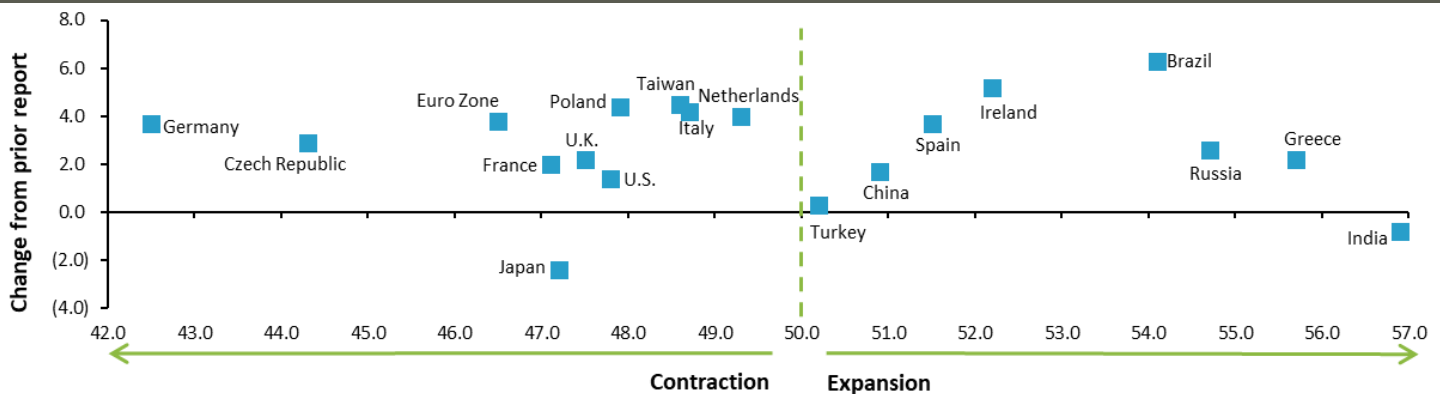


Source: Bureau of Economic Analysis, U.K. Office for National Statistics, Eurostat, World Bank, and Economic and Social Research Institute Japan. GDP growth is shown on a year-over-year basis.

GLOBAL MANUFACTURING PMI

On a global basis, manufacturing PMI levels for February indicated contraction in the slight majority of geographic markets. However, most geographic markets registered higher readings in February relative to the metrics registered in July 2023 (covered in the last report). Among top economies, the U.S. experienced manufacturing sector contraction for the sixteenth consecutive month in February. The latest readings in other key markets included contraction in the euro zone and in the U.K., along with a slight increase in China.

Global Manufacturing PMI



Sources: Markit Economics, Institute for Supply Management. Readings from February 2024 shown above. Distance above/below horizontal axis represents change from July 2023 reading.

Key Economic Indicators

TRADE ACTIVITY

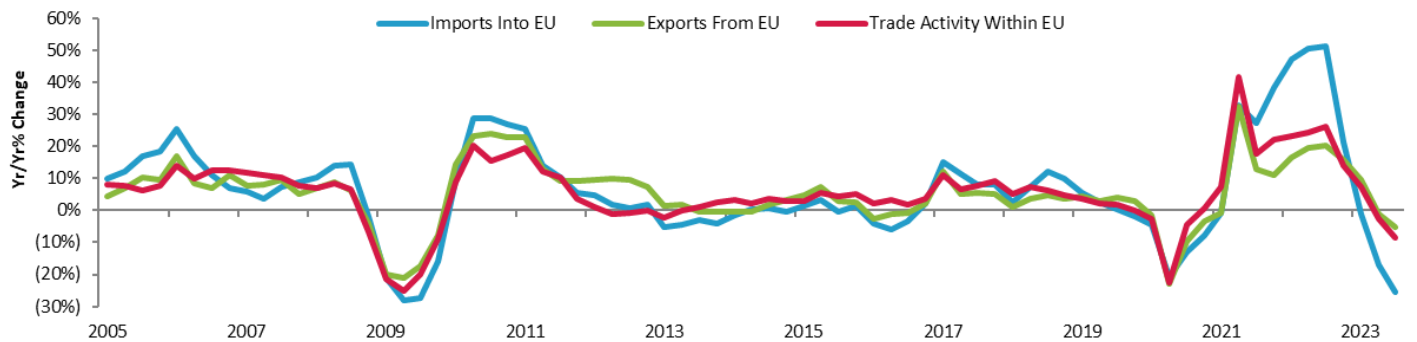
As noted on page 6, several sub-sectors of the TICC sector are influenced by global trade flows, with selected services including ship classification, product inspection, container scanning, pre-shipment inspection, loading and discharge supervision, and trade verification. Goods traded that impact the TICC sector are broad ranging and include everything from consumer goods (e.g., hardlines and softlines), commodities, agricultural products, as well as many others. The charts below present the year-over-year changes on a quarterly basis for several key geographic markets that impact the TICC sector. As indicated, frictions between the U.S. and China weighed on trade activity in 2019, while shutdowns related to COVID reduced trade levels for much of 2020. Trade levels experienced a substantial recovery from the latter part of 2020 through 2021, although growth slowed in the second half of 2021 amid broad-based supply-chain disruption. During 2022 and 2023, trade activity involving the U.S., EU, China, and Japan decelerated, with most markets seeing year-over-year declines in activity in 2023.

U.S. Imports and Exports



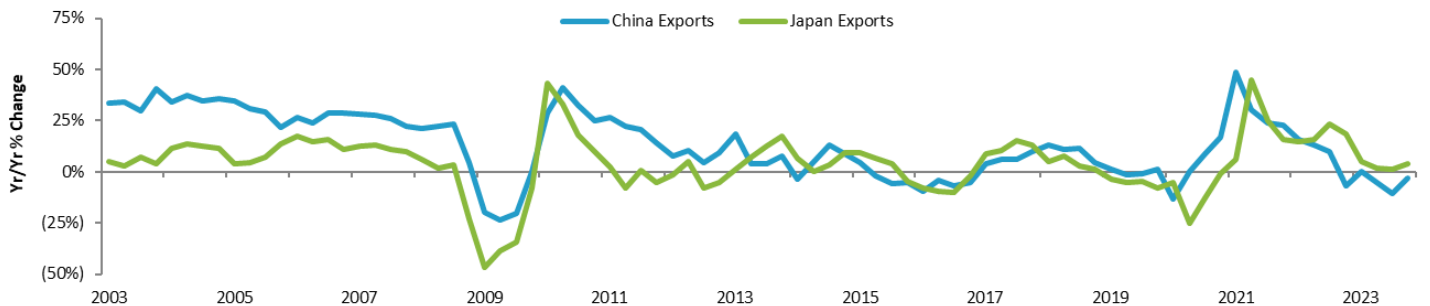
Source: U.S. Census Bureau. Data through Q4 2023.

EU Trade Activity



Source: Eurostat. Data through Q3 2023.

Exports from China and Japan



Source: General Administration of Customs (for China) and Ministry of Finance Japan. Data through Q4 2023.

Key Economic Indicators

CRUDE OIL AND NATURAL GAS PRICES

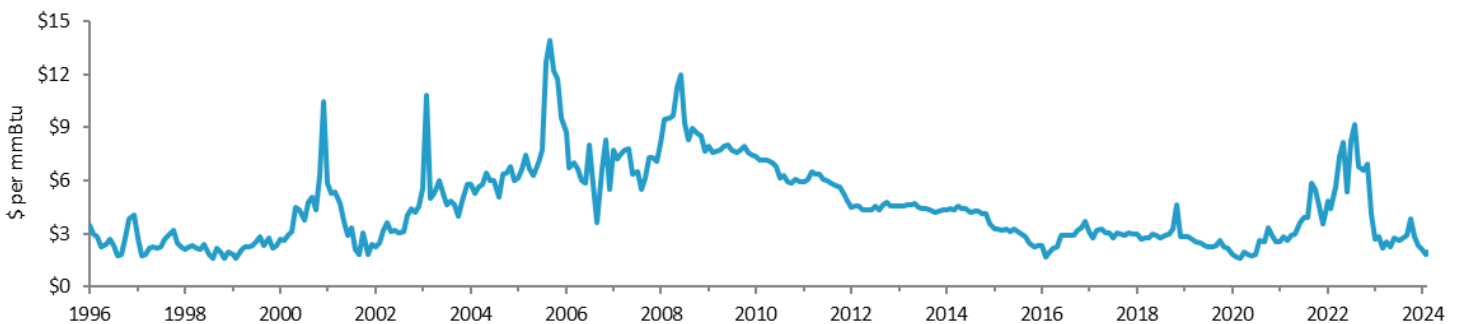
Previous discussion noted the impact on the TICC sector of price fluctuations for commodities such as crude oil and natural gas. As indicated below, oil prices have rebounded substantially from the lows of the early days of COVID, with the price of oil reaching the highest levels in more than a decade during 2022 before subsiding more recently. While natural gas prices also recovered strongly into 2022, recent prices for natural gas were near the lows of COVID. TICC activities driven by capex associated with crude oil and natural gas prices generally experience increased demand during periods of rising prices. Opex-driven TICC activities tend to be resilient, in particular those driven by regulation and safety.

Crude Oil Prices



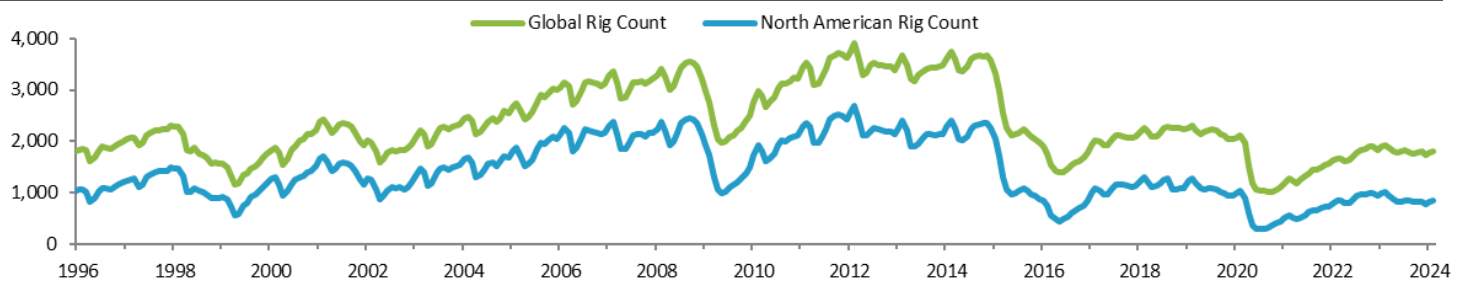
Source: Capital IQ. WTI crude oil prices as of March 7, 2024.

Natural Gas Prices



Source: Capital IQ. Prices as of March 7, 2024.

Global Rig Count



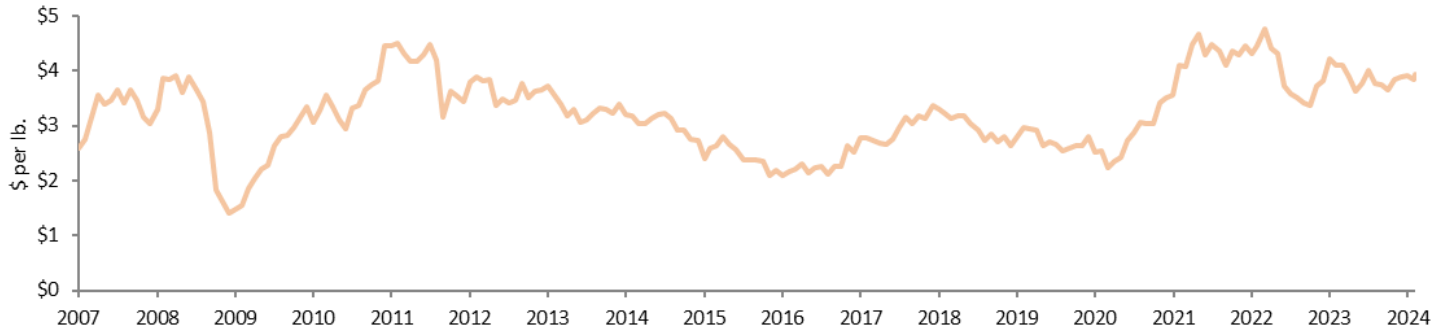
Source: Baker Hughes. Rig Count as of February 2024.

Key Economic Indicators

COPPER, IRON ORE, AND COAL PRICES

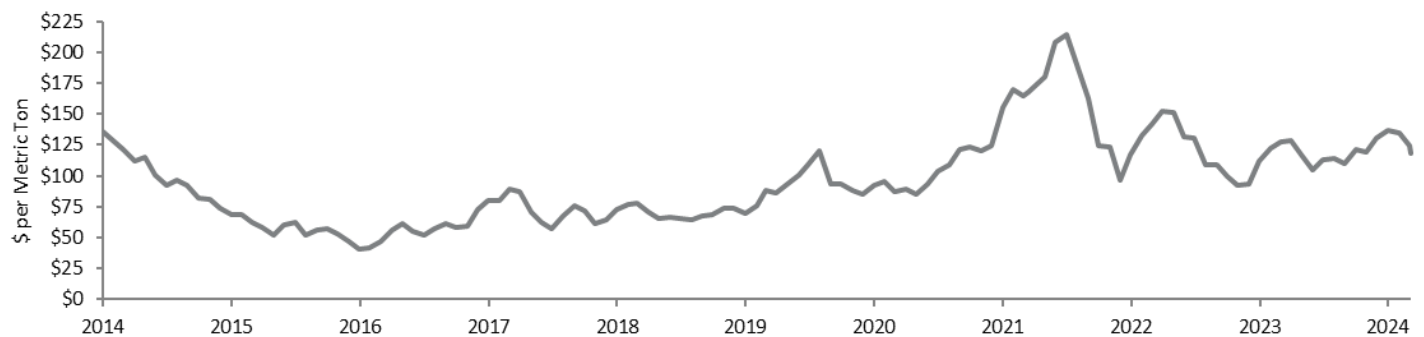
Activity in the minerals sector influences demand for TICC services ranging from exploration-driven services (e.g., trace elemental analysis) to development-driven services (e.g., bench testing) to production-driven services (e.g., sample preparation or trade inspection). Minerals whose prices are some of the relevant indicators include copper, iron ore, and coal, among others. Relative to the lows of Q2 2020, prices for copper, iron ore, and coal have moved higher, although recent prices were below the peaks of 2021-2022.

Copper Prices



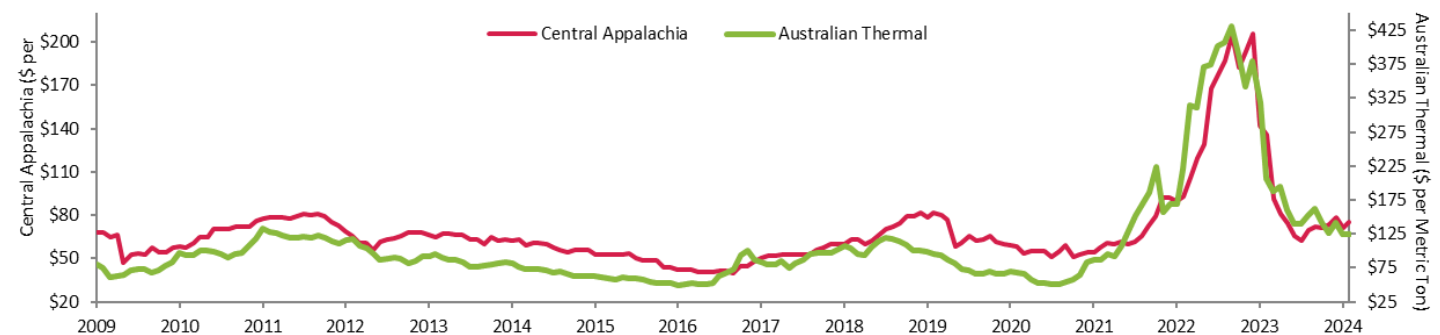
Source: Capital IQ. Prices as of March 7, 2024.

Iron Ore Prices



Source: Thomson Reuters Datastream, World Bank. Prices as of March 7, 2024.

Coal Prices



Source: World Bank and U.S. Energy Information Administration.

Central Appalachia coal, 12,500 Btu, 1.2 SO₂. Prices as of February 2024.

Australian thermal coal, 12,000 Btu/pound, less than 1% sulfur, 14% ash, FOB Newcastle/Port Kembla. Prices as of February 2024.

A close-up photograph of a petri dish containing various bacterial colonies. The colonies are in different stages of growth, with some appearing as small, round, yellowish spots and others as larger, more complex, and textured structures. The background is a soft, out-of-focus blue. The text is overlaid on the left side of the image, which has a semi-transparent orange overlay.

BAIRD'S PERSPECTIVE ON THE
TESTING, INSPECTION, CERTIFICATION
& COMPLIANCE SECTOR

Publicly Traded TICC Participants

Listed TICC Group

We consider the 8 publicly traded TICC companies detailed below to be representative of the TICC group.



(\$ in millions) Baird's TICC Group	Ticker	Market Capitalization	Enterprise Value	Stock Performance		Enterprise Value/		FCF ⁽¹⁾ Yield
				2023	YTD 2024	2024E EBITDA	2025E EBITDA	
	ASX:ALQ	\$4,184	\$5,093	8.9%	(1.3%)	11.4x	10.8x	3.7%
	BME:APPS	1,609	2,621	63.4%	12.9%	6.5	6.2	16.7%
	ENXTPA:BVI	13,516	15,077	(0.8%)	17.9%	11.1	10.5	5.4%
	ENXTPA:ERF	11,687	14,739	(7.4%)	(6.7%)	9.0	8.2	5.0%
	Nasdaq:EXPO	4,087	3,906	(10.1%)	(7.9%)	30.6	28.0	2.7%
	LSE:ITRK	10,234	11,451	14.2%	17.3%	12.0	10.9	5.2%
	NYSE:MEG	1,125	1,438	(27.6%)	15.3%	15.7	13.8	2.4%
	SWX:SGSN	18,216	21,670	(3.6%)	14.7%	12.4	11.5	5.4%
Median		\$7,209	\$8,272	(2.2%)	13.8%	11.7x	10.8x	5.1%

Source: Robert W. Baird & Co. Equity Research figures and Capital IQ. YTD as of March 7, 2024.

Team, Inc. and Mistras Group are temporarily removed from the TICC group due to low market capitalization.

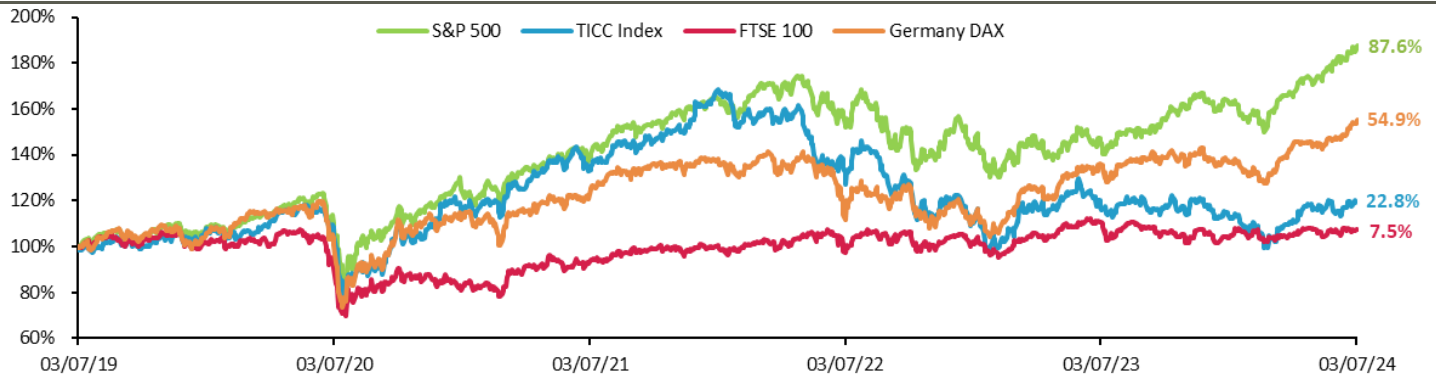
(1) Equal to LTM cash flow from operations minus capital expenditures, divided by market capitalization.

Stock Price Performance

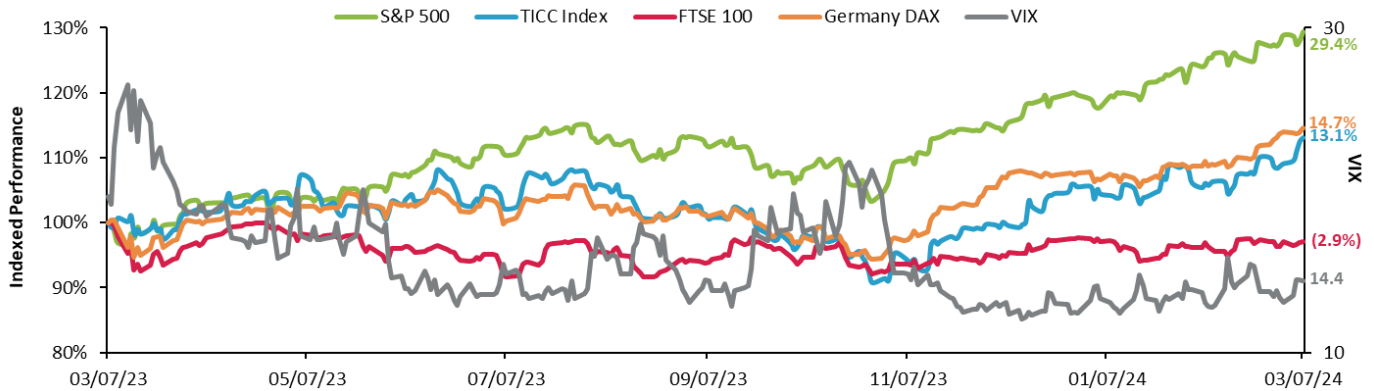
TICC Summary Market Commentary

- The 22.8% five-year return for the TICC index trailed the S&P 500 and Germany DAX indexes while outperforming the FTSE 100; the TICC index also lagged the increases for the S&P 500 and Germany DAX indexes over the LTM period.
- With the TICC index increasing in recent months, its median EV / NTM EBITDA of 11.1x is higher than the 10.4x figure from our last publication.
- Amid the resumption of normal activity levels, the sector experienced increased revenue expansion in 2023 after growth moderated in 2022 from the strength of 2021, which benefited from the catch-up effect of postponed activity due to COVID.
- Sector profitability has increased, as cost structure adjustments made by participants in 2020-2021 remained in place during 2022 and 2023.

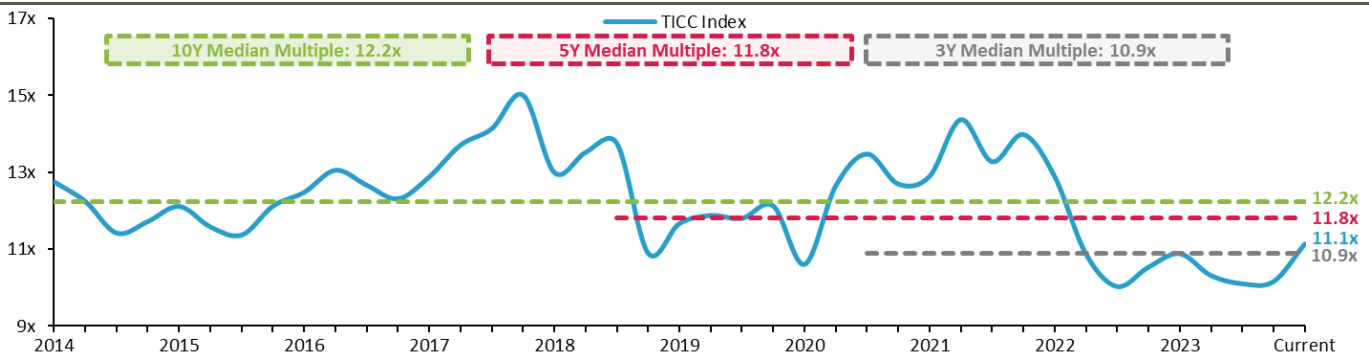
Five-Year Stock Prices



LTM Stock Prices



Median EV / NTM EBITDA Multiple⁽¹⁾

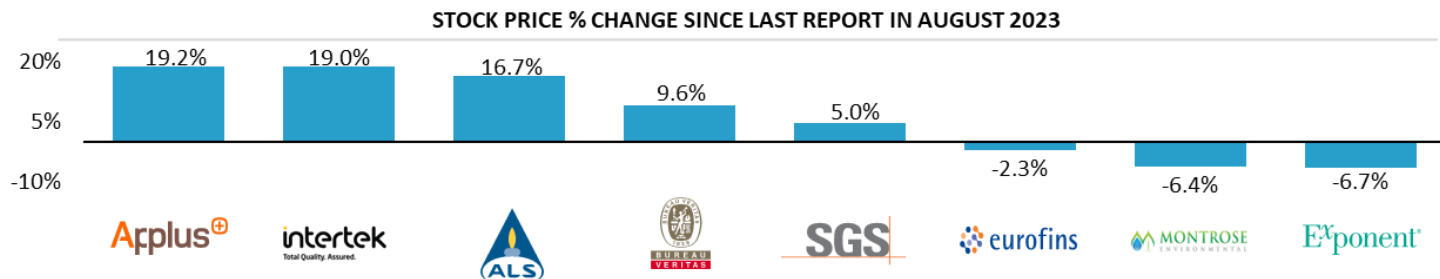


Source: Capital IQ as of March 7, 2024. (1) Excludes multiples greater than 20x.

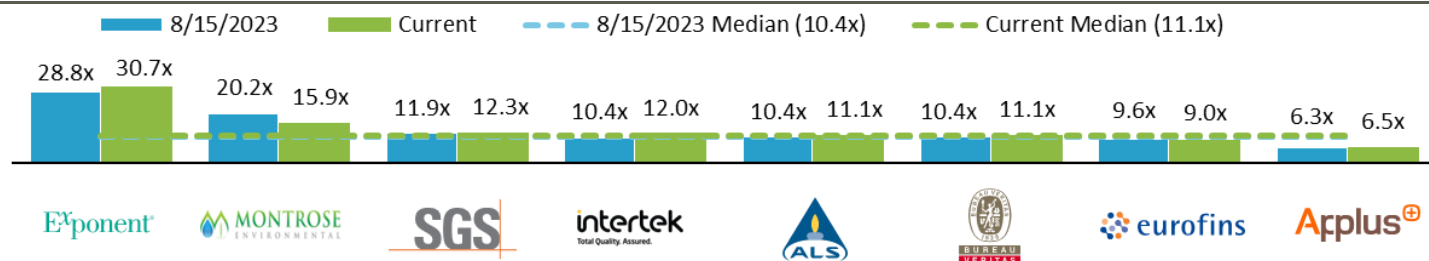
TICC index includes ALS Limited, Applus Services, S.A., Bureau Veritas SA, Eurofins Scientific SE, Exponent, Inc., Intertek Group plc, Inc., SGS SA; excludes Montrose Environmental Group due to recency of IPO.

Recent Metrics

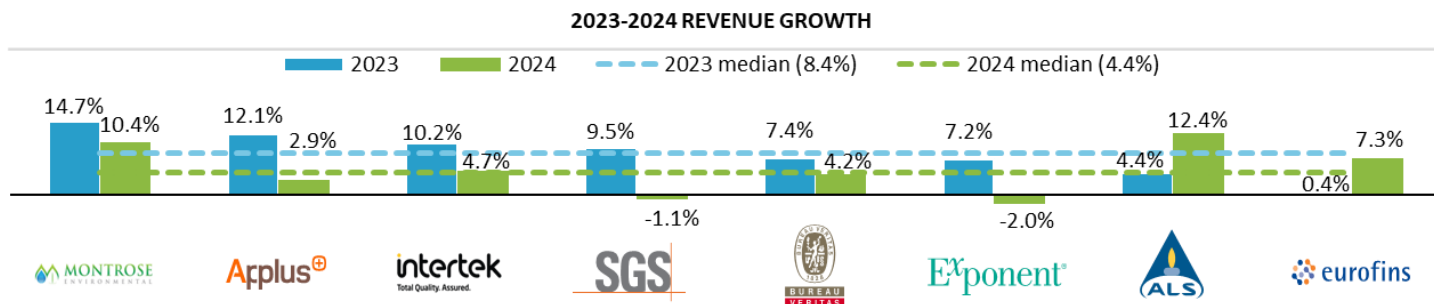
SECTOR EQUITY RETURNS HAVE BEEN LARGELY POSITIVE...



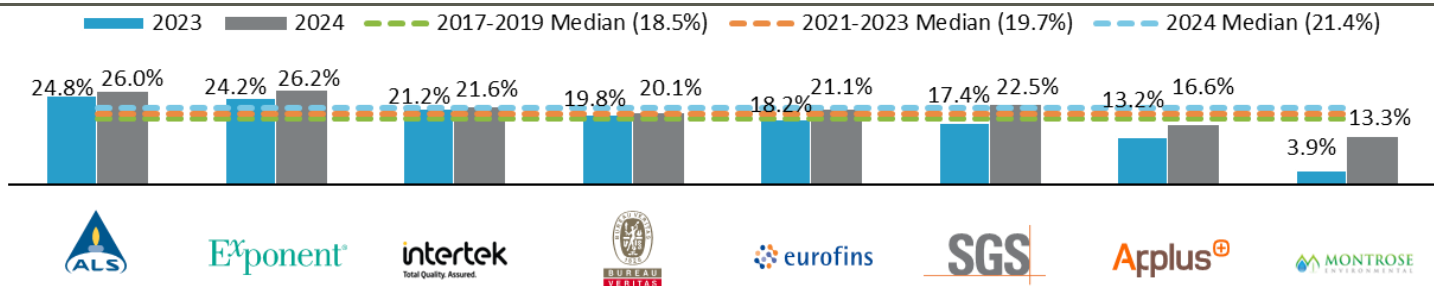
...WITH UPWARD IMPACT ON SECTOR MULTIPLES SINCE THE LAST REPORT⁽¹⁾



AFTER REVENUE EXPANSION ACCELERATED IN 2023, GROWTH EXPECTATIONS ARE LOWER FOR MOST OF THE GROUP IN 2024...



...WHILE STRONG EBITDA MARGINS ACHIEVED IN 2021-2023 ARE GENERALLY EXPECTED TO INCREASE FURTHER IN 2024



Source: Capital IQ as of March 7, 2024.

(1) Medians exclude Exponent for comparability to page 14 chart and exclude Montrose Environmental Group due to recency of IPO.

BAIRD'S PERSPECTIVE ON THE
TESTING, INSPECTION, CERTIFICATION
& COMPLIANCE SECTOR

TICC M&A Update



TICC M&A Activity

TICC DEAL ACTIVITY

Since the second half of 2022, the M&A environment across most sectors of the economy has become more challenging due to the emergence of macroeconomic and geopolitical headwinds, including higher interest rates and potential recessionary risks. Despite these challenges, the TICC sector has continued to experience healthy M&A levels, with valuation multiples remaining robust.

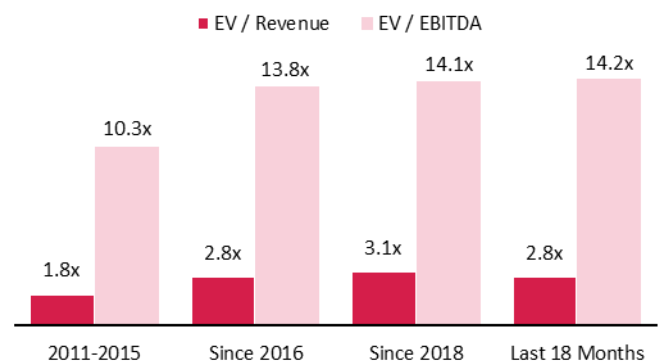
The TICC sector has experienced consistent M&A activity over the past decade but has not been immune to the broader M&A market slowdown. TICC transaction activity has generally consisted of smaller “bolt-on” M&A transactions completed by strategic and quasi strategic buyers, with the occasional platform transaction completed by these buyers or private equity buyers. The last twelve months have witnessed numerous platform transactions completed by both strategic and financial buyers who continue to pursue the sector. Of note, Baird Global Investment Banking anticipates an M&A market rebound during 2024, as detailed [here](#).

TICC valuation levels have steadily increased over the past decade, driven by increased investor demand seeking exposure to favorable macro trends, resilient end markets, and the pursuit of continued consolidation. EBITDA multiples paid for TICC deals since the start of 2016 averaged 13.8x, meaningfully above the average EBITDA multiple of 10.3x during 2011-2015. In the past few years, multiples have continued to rise and in the last 18 months reached an average of 14.2x EBITDA. These valuation outcomes have been driven by factors such as access to attractive end markets/tailwinds, tech-enablement and recurring revenue, attractive growth rates or margins, ongoing consolidation potential, and scarcity value for assets of scale. Both the organic and M&A outlook for the TICC sector continues to be resilient given the industry’s critical position in the global economy providing highly technical services serving many attractive macro trends such Health & Human Safety, Food Safety, and Environmental, Social & Governance or other regulatory driven activities.

TICC M&A Valuations

The adjacent chart summarizes mean valuation multiples for M&A deals in Baird’s proprietary database of TICC transactions since 2011. While the number of deals with publicly disclosed multiples is relatively limited because many small and/or private company transactions are not reported, Baird’s database also includes our estimates of many non-disclosed multiples.

Mean Transaction Valuation Multiples Since 2011



Source: Capital IQ and Robert W. Baird & Co.

Recent key M&A deals in the sector include:

	/			/		/			/			/	
	/			/			/					/	
	/			/			/						
	/			/			/						
	/			/			/						
	/			/			/						
	/			/			/						
	/			/			/						

*Deal is not yet closed.

Selected Baird Transactions

Selected Advisory and Financing Transactions

Pending	Pending			
<p>CRANE NXT</p> <p>Acquisition of</p> <p>OP SEC</p> <p>A Portfolio Company of</p> <p>INVESTCORP</p>	<p>ROSEN</p> <p>empowered by technology</p> <p>Sale to</p> <p>Partners Group</p> <p>REALIZING POTENTIAL IN PRIVATE MARKETS</p>	<p>AmSpec</p> <p>A Portfolio Company of</p> <p>OLYMPUS PARTNERS</p> <p>Sale to</p> <p>TPG RISE</p> <p>CLIMATE</p>	<p>Process Insights</p> <p>A Portfolio Company of</p> <p>UNION PARK CAPITAL</p> <p>Sale to</p> <p>IGP</p>	<p>IP INDUSTRIAL PHYSICS</p> <p>A Portfolio Company of</p> <p>UNION PARK CAPITAL</p> <p>Sale to</p> <p>KKR</p>
<p>eurofins Digital Testing</p> <p>A Business of</p> <p>eurofins</p> <p>Sale to</p> <p>STIRLING SQUARE</p> <p>CAPITAL PARTNERS</p>	<p>TEAM</p> <p>Sale of</p> <p>Quest Integrity</p> <p>to</p> <p>Baker Hughes</p>	<p>TL</p> <p>ADVANCED TESTING LABORATORY</p> <p>has been acquired by</p> <p>BUREAU VERITAS</p>	<p>Pace</p> <p>A Portfolio Company of</p> <p>AURORA CAPITAL PARTNERS</p> <p>Received a New Majority Investment from</p> <p>LGP</p>	<p>PREMIUM</p> <p>INSPECTION & TESTING GROUP</p> <p>A Portfolio Company of</p> <p>CALVERT STREET</p> <p>Sale to</p> <p>ACUREN</p> <p>A Portfolio Company of</p> <p>AMERICAN SECURITIES</p>
<p>PAINE SCHWARTZ PARTNERS</p> <p>Acquisition of</p> <p>Registrar Corp</p> <p>A Portfolio Company of</p> <p>BERTRAM CAPITAL</p>	<p>ARCLINE</p> <p>INVESTMENT MANAGEMENT</p> <p>Acquisition of</p> <p>Dwyer</p>	<p>FLEXRAY</p> <p>A Portfolio Company of</p> <p>LEVINE LEICHTMAN CAPITAL PARTNERS</p> <p>Sale to</p> <p>WARBURG PINCUS Ttilia</p>	<p>B I O D O T</p> <p>A Portfolio Company of</p> <p>ARTEMIS</p> <p>Sale to</p> <p>AT&T</p>	<p>PST</p> <p>PROCESS SENSING TECHNOLOGIES</p> <p>A Portfolio Company of</p> <p>Battery</p> <p>New Majority Investment From</p> <p>AEA</p>
<p>Berkshire Partners</p> <p>Recapitalization with</p> <p>FOODCHAIN ID</p> <p>Seeing Food Clearly</p> <p>From</p> <p>PAINE SCHWARTZ PARTNERS</p>	<p>EDDYFI NDT</p> <p>Acquisition of</p> <p>HALFWAVE</p>	<p>EDDYFI NDT</p> <p>Acquisition of</p> <p>NDT GLOBAL</p>	<p>ONSTREAM</p> <p>PIPELINE INSPECTION</p> <p>A Portfolio Company of</p> <p>NOVACAP</p> <p>Sale to</p> <p>MISTRAS</p>	<p>Spectro Scientific</p> <p>Confidence in knowing</p> <p>A Portfolio Company of</p> <p>SFW</p> <p>CAPITAL PARTNERS</p> <p>Sale to</p> <p>AMETEK</p>
<p>AuthentiX</p> <p>Global Leaders in Authentication</p> <p>A Portfolio Company of</p> <p>THE CARLYLE GROUP</p> <p>Sale to</p> <p>BlueWaterEnergy</p>	<p>Wolfe</p> <p>Laboratories</p> <p>Sale to</p> <p>Pace Analytical</p> <p>A Portfolio Company of</p> <p>AURORA CAPITAL PARTNERS</p>	<p>TESTEQUITY</p> <p>A Portfolio Company of</p> <p>FIRST ATLANTIC CAPITAL</p> <p>Sale to</p> <p>LKCM</p> <p>HEADWATER</p> <p>INVESTMENTS</p>	<p>3i</p> <p>Financing for Acquisition of</p> <p>Formel D</p> <p>A Portfolio Company of</p> <p>Deutsche Beteiligungs AG</p>	<p>3i</p> <p>A Portfolio Company of</p> <p>COBEPA and Five Arrows</p> <p>Acquisition of</p> <p>ESG</p> <p>A Portfolio Company of</p> <p>3i</p>
<p>Edif</p> <p>A Portfolio Company of</p> <p>phoenix equity partners</p> <p>Sale to</p> <p>RINA</p>	<p>Alcumus</p> <p>A Portfolio Company of</p> <p>inflexion</p> <p>Acquisition of</p> <p>santia</p> <p>FOR OUR BUSINESS TO GROW</p> <p>A Portfolio Company of</p> <p>BETTER CAPITAL</p>	<p>element</p> <p>A Portfolio Company of</p> <p>3i</p> <p>Sale to</p> <p>Bridgpoint</p>	<p>TEAM</p> <p>Acquisition of</p> <p>FURMANITE</p>	<p>kiwa</p> <p>Partner for progress</p> <p>A Portfolio Company of</p> <p>NPM CAPITAL</p> <p>Acquisition of</p> <p>Inspecta</p> <p>A Portfolio Company of</p> <p>3i</p>

Transactions selected for their relevance to the TICC Industry.
Please visit www.rwbaird.com/investment-banking for a complete list of Baird's transactions.

BAIRD'S PERSPECTIVE ON THE
TESTING, INSPECTION, CERTIFICATION
& COMPLIANCE SECTOR

Appendix



Baird's TICC Valuation and Operating Statistics

Valuation Statistics

(\$ in millions, except per share figures)		Price Per Share 03/07/24	Market Value of Equity	Enterprise Value	52 Week Price		3-Month Avg. Daily Volume	EV / EBITDA		Price / EPS		LTM 2023 FCF Yield	Dividend Yield
Ticker	Company				Low	High		2024E	2025E	2024E	2025E		
ASX:ALQ	ALS Limited	\$8.64	\$4,184.4	\$5,093.3	\$6.97	\$8.93	651,931	11.4 x	10.8 x	19.8 x	18.7 x	3.7%	3.0%
BME:APPS	Applus Services, S.A.	12.48	1,609.1	2,621.1	7.55	12.56	148,590	6.7	6.2	10.1	10.5	16.7%	1.4%
ENXTPA:BVI	Bureau Veritas SA	29.79	13,515.7	15,077.3	22.59	30.31	695,660	11.1	10.4	20.2	18.8	5.4%	3.0%
ENXTPA:ERF	Eurofins Scientific SE	60.81	11,687.1	14,739.0	48.99	71.30	322,720	9.0	8.2	17.6	15.4	5.0%	0.9%
NasdaqGS:EXPO	Exponent, Inc.	80.82	4,086.5	3,905.7	64.61	104.78	324,333	30.6	28.0	42.7	39.1	2.7%	1.4%
LSE:ITRK	Intertek Group plc	63.47	10,234.5	11,451.0	47.93	63.87	344,430	11.9	10.9	21.0	19.3	5.2%	2.3%
NYSE:MEG	Montrose Environmental Group	37.03	1,125.0	1,438.2	21.96	45.96	193,576	15.7	13.8	N/M	N/M	2.4%	0.0%
SWX:SGSN	SGS SA	98.83	18,216.2	21,669.6	79.29	99.38	420,107	12.4	11.5	24.1	21.6	5.4%	3.7%
		Mean	\$8,082.3	\$9,499.4			387,668	11.2 x	10.2 x	22.2 x	20.5 x	5.8%	2.0%
		Median	7,209.4	8,272.1			334,382	11.4	10.8	20.2	18.8	5.1%	1.8%

Operating Statistics

Company	Latest Period	Net Revenue			LTM Gross Profit	EBITDA		
		LTM	2024E	2025E		LTM	2024E	2025E
ALS Limited	09/30/2023	\$1,535.1	\$1,717.8	\$1,816.2	\$495.7	\$371.7	\$447.0	\$471.9
Applus Services, S.A.	12/31/2023	2,274.7	2,345.2	2,434.2	795.1	300.6	390.1	422.4
Bureau Veritas SA	12/31/2023	6,485.9	6,765.4	7,117.7	1,280.6	1,281.6	1,358.7	1,445.6
Eurofins Scientific SE	12/31/2023	7,200.8	7,740.0	8,274.3	1,519.5	1,312.1	1,635.9	1,801.4
Exponent, Inc.	12/29/2023	497.2	487.3	516.1	177.3	120.2	127.8	139.4
Intertek Group plc	12/31/2023	4,240.0	4,459.2	4,696.5	702.0	900.7	964.4	1,050.6
Montrose Environmental Group	12/31/2023	624.2	689.4	753.5	240.3	24.4	91.7	104.5
SGS SA	12/31/2023	7,864.0	7,788.7	8,221.7	3,441.6	1,370.4	1,749.9	1,890.8
	Mean	\$3,840.2	\$3,999.1	\$4,228.8	\$1,081.5	\$710.2	\$845.7	\$915.8
	Median	3,257.3	3,402.2	3,565.3	748.6	636.2	705.7	761.3

Operating Statistics

Company	Latest Period	LTM Gross Profit Margin	EBITDA Margin			Total Debt /		Return on	
			LTM	2024E	2025E	Capitalization	LTM EBITDA	Assets	Equity
ALS Limited	09/30/2023	32.3%	24.2%	26.0%	26.0%	24.5%	2.5 x	8.7%	19.5%
Applus Services, S.A.	12/31/2023	35.0%	13.2%	16.6%	17.4%	73.8%	3.3	4.0%	6.4%
Bureau Veritas SA	12/31/2023	19.7%	N/M	20.1%	20.3%	20.8%	2.2	7.9%	26.3%
Eurofins Scientific SE	12/31/2023	21.1%	18.2%	21.1%	21.8%	37.1%	2.9	4.3%	6.2%
Exponent, Inc.	12/29/2023	35.7%	24.2%	26.2%	27.0%	0.7%	0.2	11.3%	29.6%
Intertek Group plc	12/31/2023	16.6%	N/M	21.6%	22.4%	15.2%	1.7	9.0%	23.8%
Montrose Environmental Group	12/31/2023	38.5%	3.9%	13.3%	13.9%	18.7%	5.6	(1.7%)	N/M
SGS SA	12/31/2023	43.8%	17.4%	22.5%	23.0%	28.7%	3.3	7.9%	92.5%
	Mean	30.3%	16.9%	20.9%	21.5%	27.4%	2.7 x	6.4%	29.2%
	Median	33.6%	17.8%	21.4%	22.1%	22.6%	2.7	7.9%	23.8%

Source: Capital IQ. Figures as of March 7, 2024. Multiples for Exponent, Inc. are excluded from mean and median EV/EBITDA calculations.

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