



# TICKing Up?

How and why the TIC industry will be  
operating at a higher level post-pandemic

TIC Council Webinar

November 2 2021



**OC&C**  
Strategy consultants

uncommon sense

# Introductions

**Bennet Summers**  
Partner

London



**Henry Charrington**  
Associate Partner

New York



## We welcome Q&A

Please submit questions using the Q&A function on Webex, or via the chat function

### OC&C and TIC

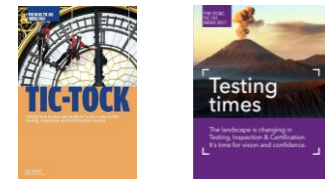
- OC&C is a global strategy consulting firm, bringing clear thinking to the most complex issues facing management
- Founded in 1987, with 16 offices worldwide
- Client roster includes some of the largest corporations and most innovative challengers in the world, and their investors
- Over the last decade we have worked extensively in TIC
  - Over 50 projects with participants of all sizes and end-markets and regions
  - Over 1000 interview customer programmes in relevant end markets

### TIC IP, Publications & Thought-Leadership

#### April 2020 & July 2020 TIC Council Covid Webinars



#### 'TIC101' Proprietary Database and Published IP



#### 2021 Barclays Conference Speech



#### ACIL Conference Speech & Newsletters



#### Regular sector commentary



## Presentation Overview

**Our findings are based on a survey of TIC Council members, refreshing one we did last year, as well as recent experience & conversations in the space**

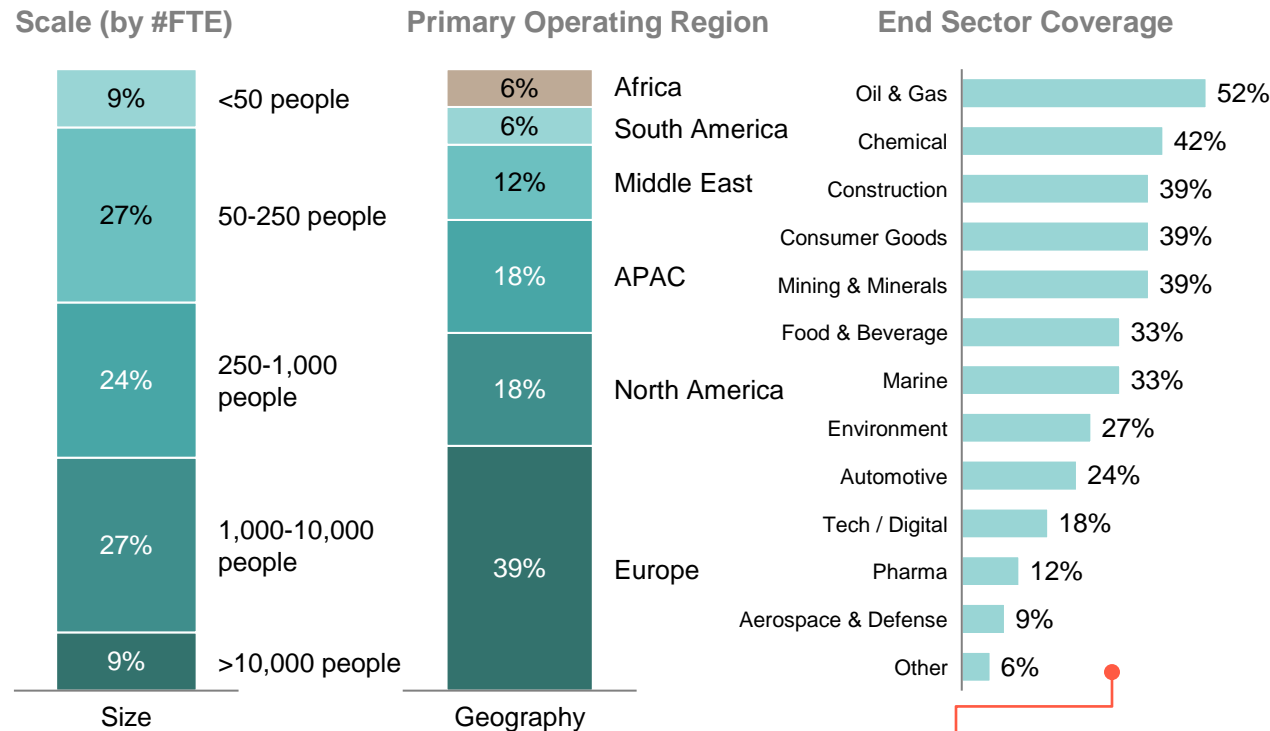
## Sources Overview

**In conjunction with the TIC Council, we surveyed a diverse set of TIC senior executives covering a range of industries, sectors, and sizes...**

**... addressing a broad set of topics**

## Survey Responses Split

Share of respondents, N=60



- Impact of COVID on activity levels
- Expected timeframe for a return to “normal” – and what “normal” might be
- Operational initiatives introduced as a result of COVID
- Changes in customer behaviour – and how likely these changes are to remain in the long-term
- Opportunities beyond COVID

c.70% of respondents report exposure to 3 or more industries

# Today's Agenda

## Where are we now?

*Updated view of macro impacts of Covid-19 on TIC markets and key players*

The crisis is far from over – but activity is bouncing back – and most TIC players believe the “new normal” will be better than ever

The TIC industry has put in place significant structural changes to respond – adapting operating models and offerings to address new customer demands (remote testing, digital customer service)

There are, however, still significant operational challenges in place for TIC players to contend with (labor shortages, supply chains)

## What's next?

*Opportunities for TIC providers*

Customers are looking to TIC players to help them address a range of concerns above and beyond ‘TICKing a box’ – many of which have come to the fore in the last 2 years...

... such as a heightened focus on proactively managing risk, ensuring the resilience of supply chains, and sustainability...

... these create enormous opportunities for TIC providers, but come with challenges of new capabilities to be built and a heightened level of customer interaction in order to win





Where are we  
now?

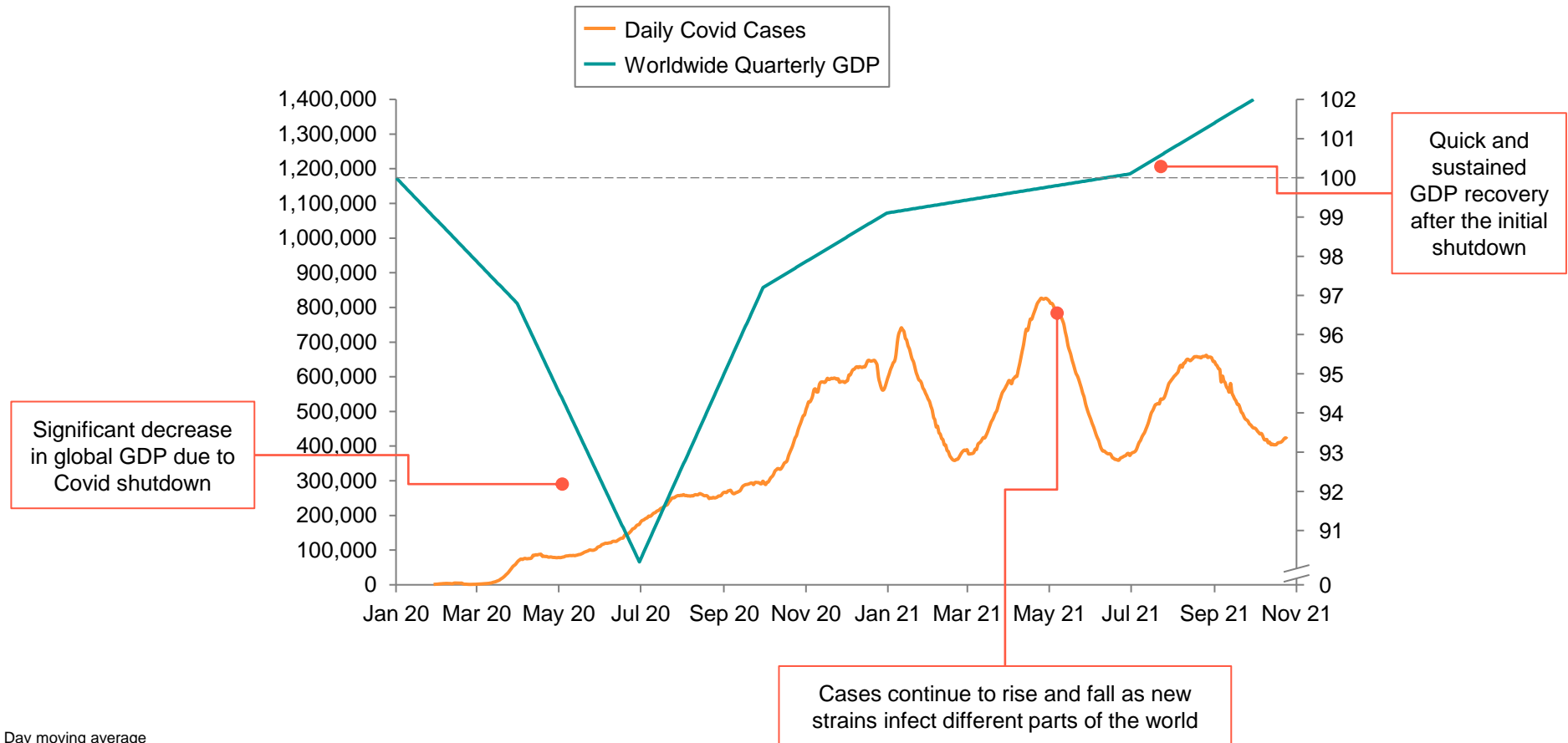


## Where Are We Now?

# Covid cases continue to fluctuate despite vaccine rollout, but GDP has recovered from the initial shock with a clearer sense of progression

Daily New Cases<sup>1</sup>, GDP growth<sup>2</sup>

While cases continue to abound... GDP has recovered from the negative Covid shock



1. 7 Day moving average

2. Q4 2019 standardized to 100

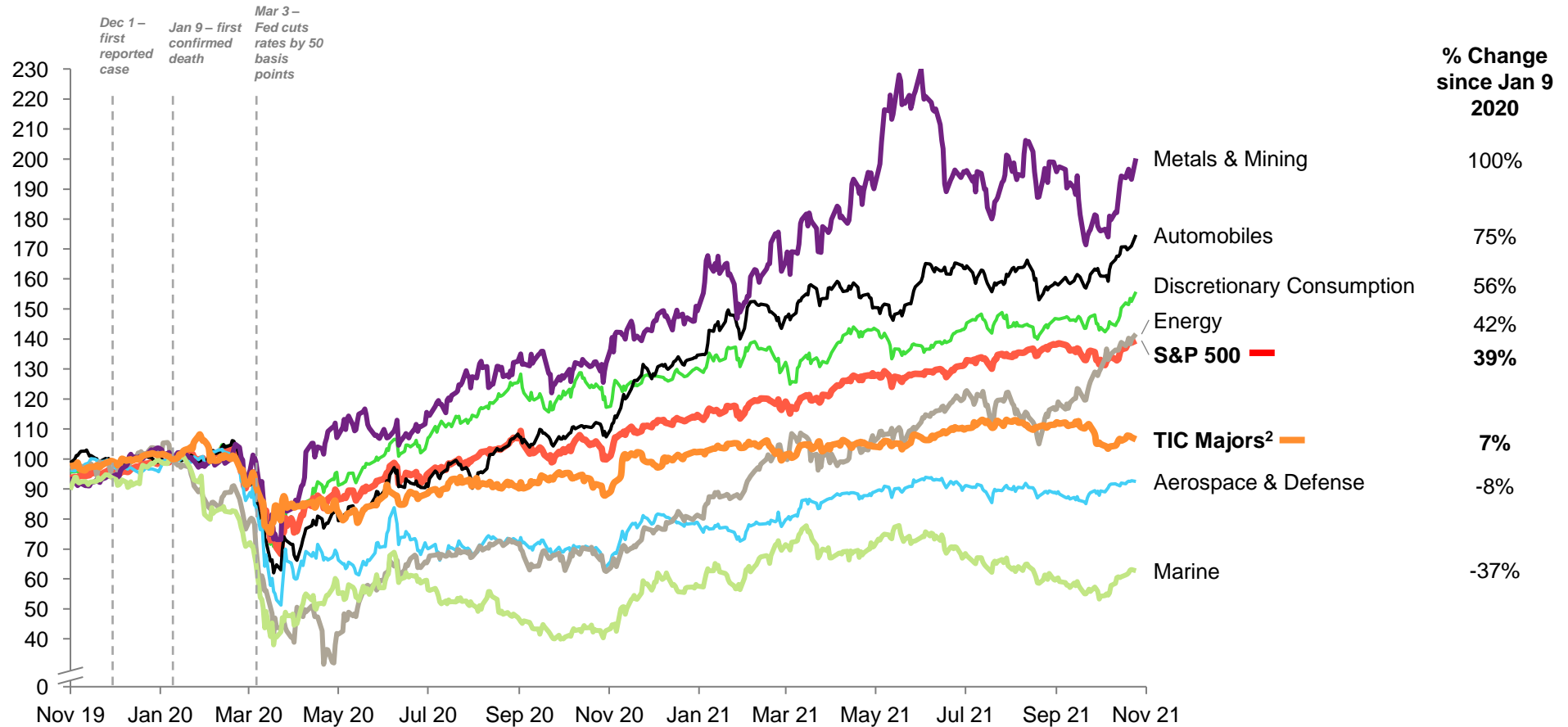
Source: OECD, OWID, OC&amp;C analysis

## Where Are We Now?

# TIC Major valuations have continued to trail S&P 500 (and other stock market indices) – mainly influenced by their exposure to harder-hit sectors

TIC End Markets' Share Price Performance<sup>1</sup> Against Market & TIC Majors,  
1<sup>st</sup> Nov 2019 – 25<sup>th</sup> Oct 2021

As of 25<sup>th</sup> Oct 2021



1. Indexed to 100 – Jan 9<sup>th</sup> 2020: based on S&P and Dow Jones Indices for Industries

2. Players included: Eurofins, SGS, Intertek, Bureau Veritas, Team Inc, Applus+, Mistras, ALS

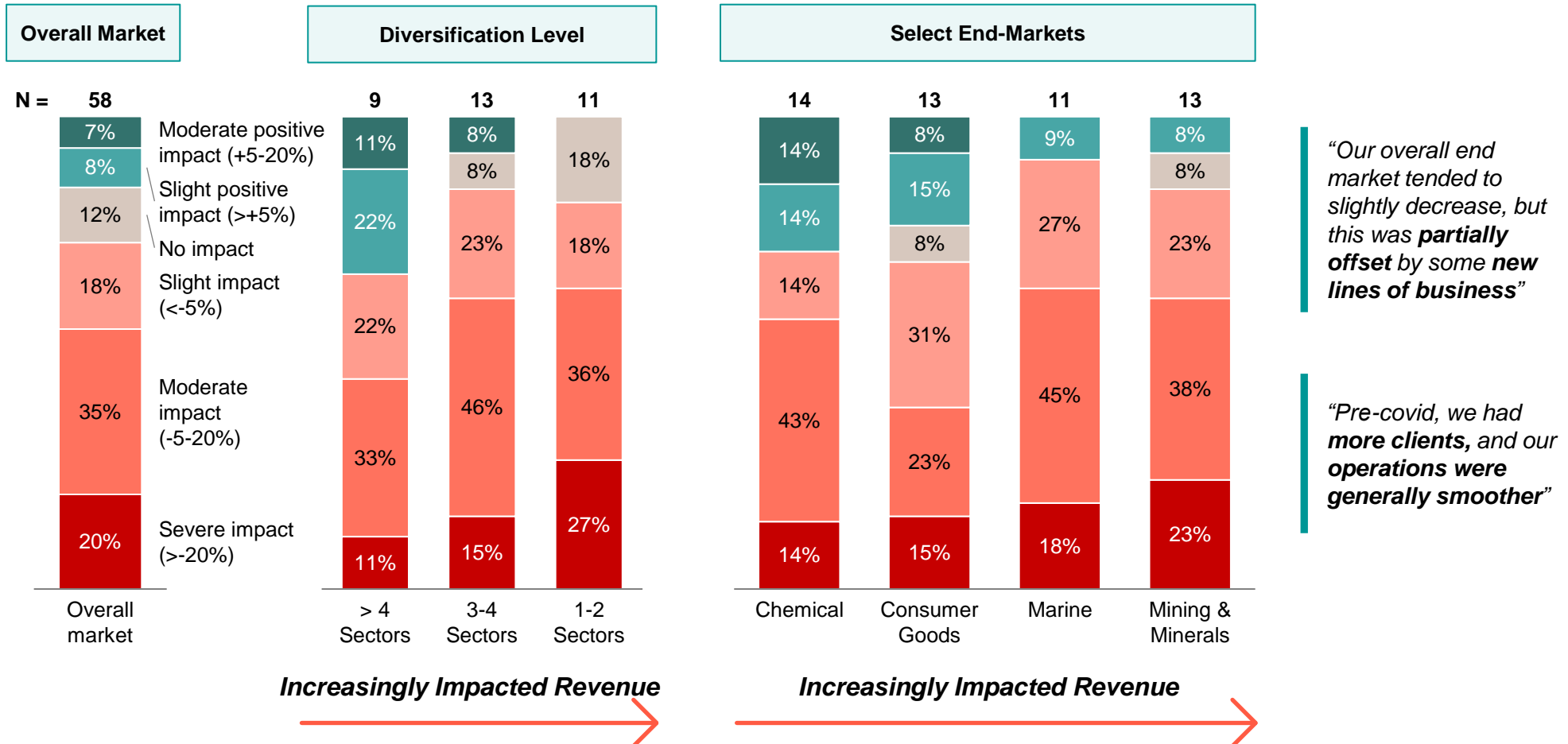
Source: Capital IQ, OC&C analysis

## Where Are We Now?

# Survey results show the majority of TIC players have still seen a material impact in 2021 – although more diversified businesses less impacted

## Covid Impact by End-Market

% of respondents rating severity of impact<sup>1</sup>



1. Survey question: “Which of the following best characterize the impact that COVID-19 has had on your business so far in 2021 vs pre-Covid (ie 2019) levels? Please select one”

Source: OC&C & TIC Council Joint Survey October 2021, OC&C analysis

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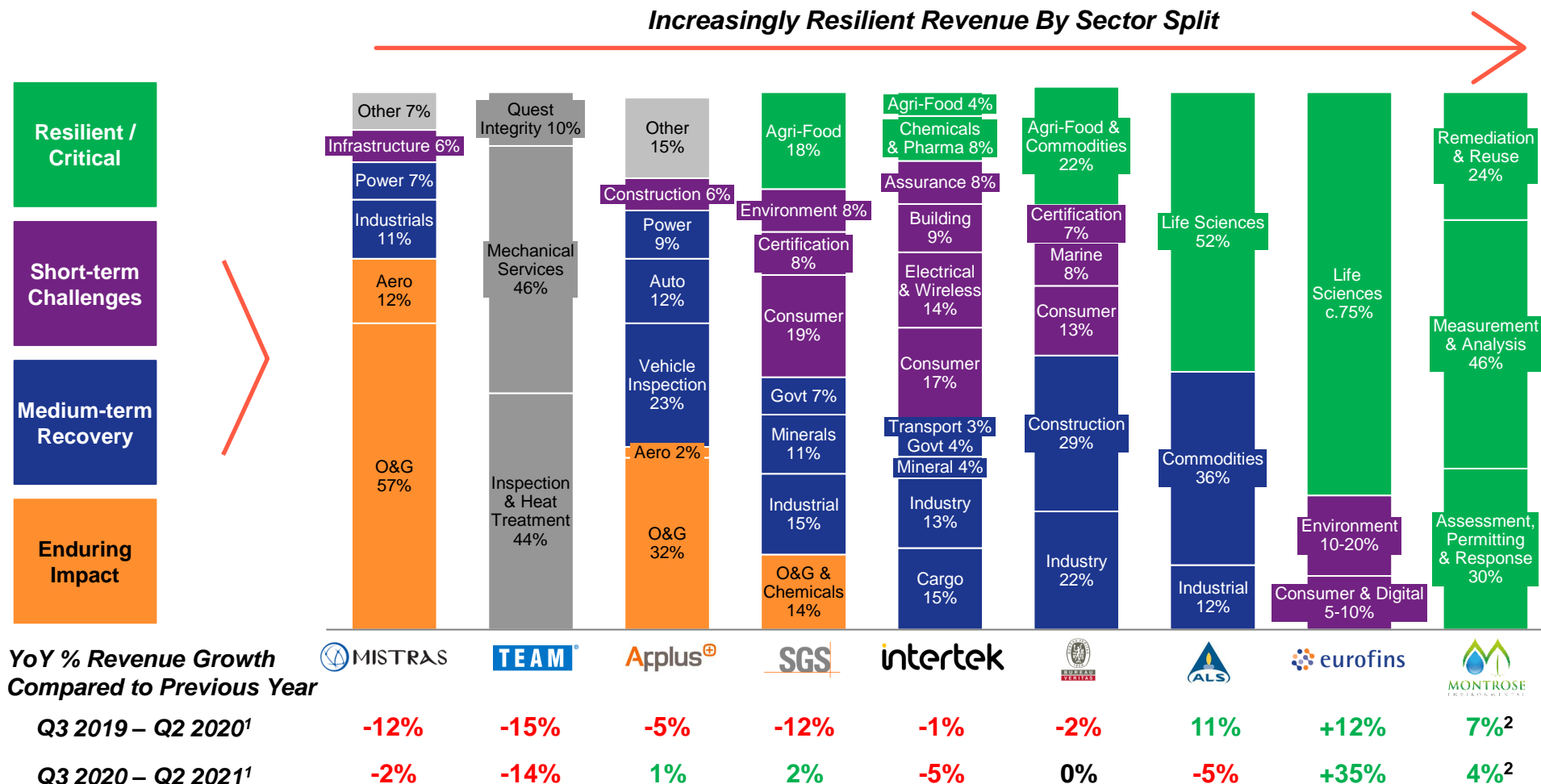




## Where Are We Now?

# This is reflected amongst the majors; end-sector exposure has been a key driver of differences in top-line performance

Revenue by Sector of Key TIC Players, Latest FY



1. ALS revenue is not updated for Q2 2021, analysis spans Q2 2020 – Q1 2021 and Q2 2019 – Q1 2020

2. Organic revenue growth reported due to significant M&A activity; reported for the calendar years of 2019 and 2020

Source: Desk Research, Annual reports, Broker Reports, OC&C analysis

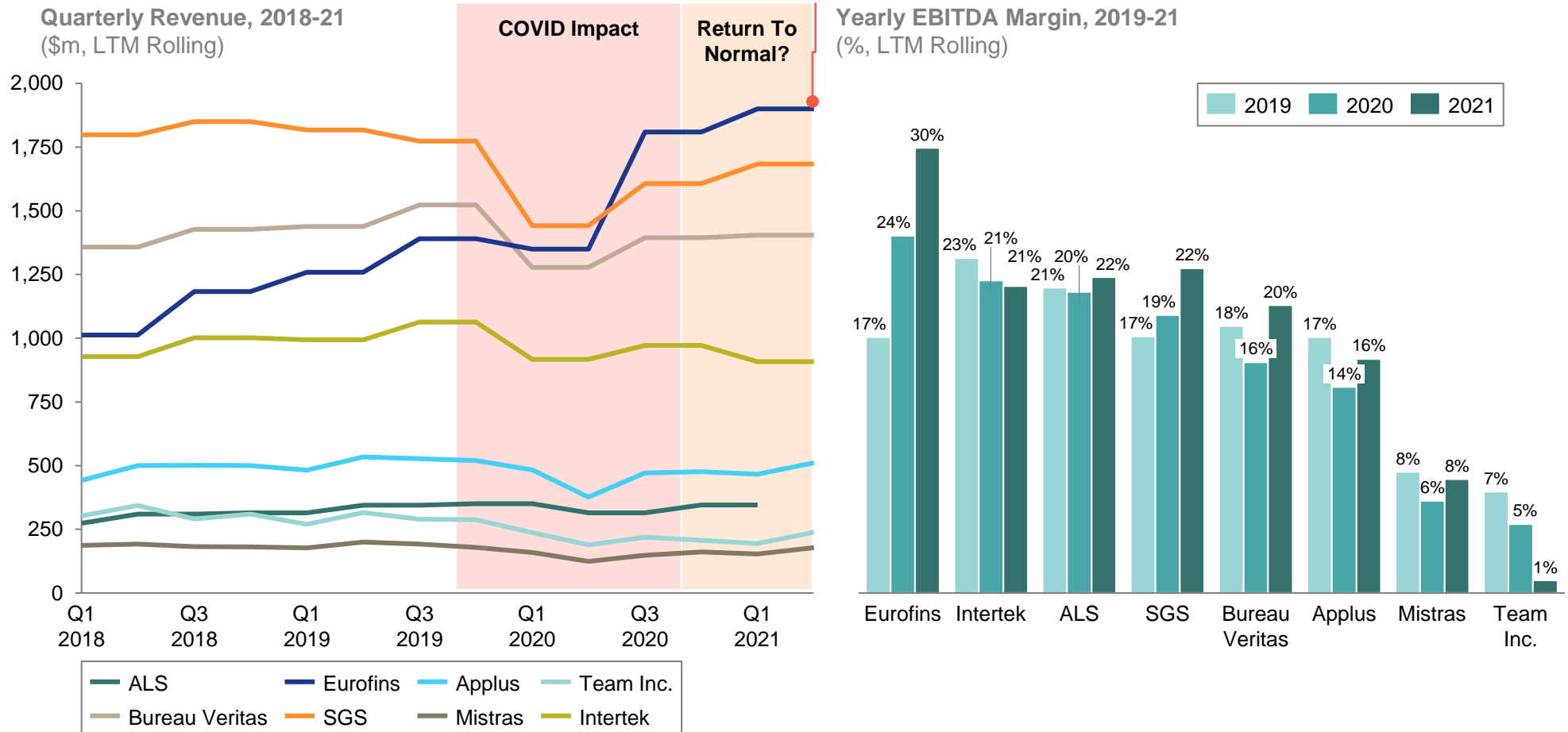
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## Where Are We Now?

# Revenue of TIC majors declined over the pandemic period, but have started to bounce back; EBITDA margins more resilient in aggregate

Key QoQ Financials for Listed TIC Majors<sup>1</sup>

Eurofins revenue growth driven by combination of M&A (28 in 2021) and organic growth



1. All players except ALS have reported Q2 2021 financials; ALS has reported up to Q1 2021

2. Montrose excluded due to acquisitions

Source: Capital IQ, Company reports, OC&C analysis



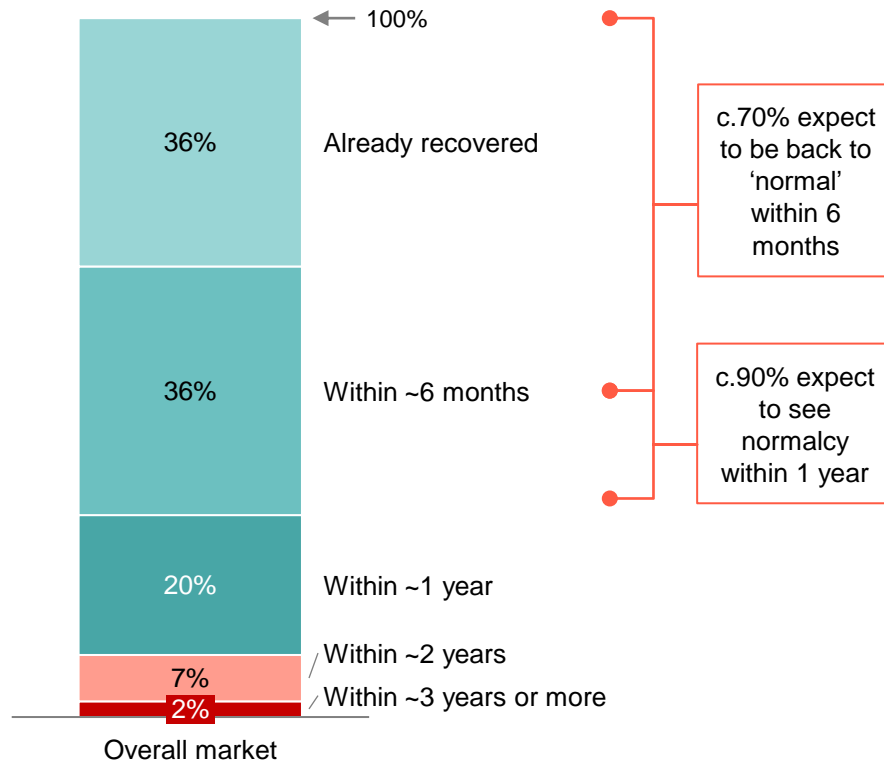
## Where Are We Now?

**Indeed, a return to stability is expected soon, and most expect that level to be higher than seen historically (and are more bullish than a year ago)**

## Expected Recovery

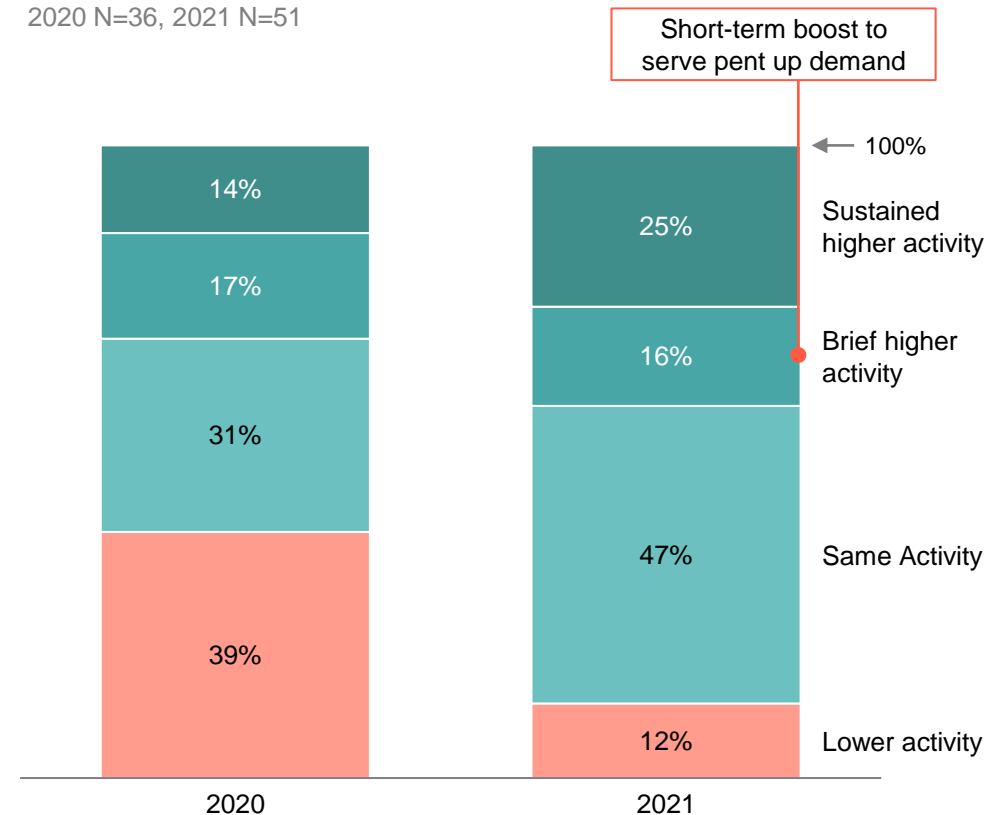
**TIC executives expect revenues to return to stability fairly quickly...**

Time to return to stability<sup>1</sup>, % of respondents, N=51



**...Though c.40% expect revenues to remain suppressed for some time, while others are more optimistic**

Level of stable recovered activity<sup>2</sup>, % of respondents, 2020 N=36, 2021 N=51



1. Survey question: "When do you expect your activity levels to be back to "normal" (ie, stable post-crisis levels)?"

2. Survey question: "What do you expect "normal" activity levels to be? Please select one"

Source: OC&C & TIC Council Joint Survey October 2021, OC&C analysis

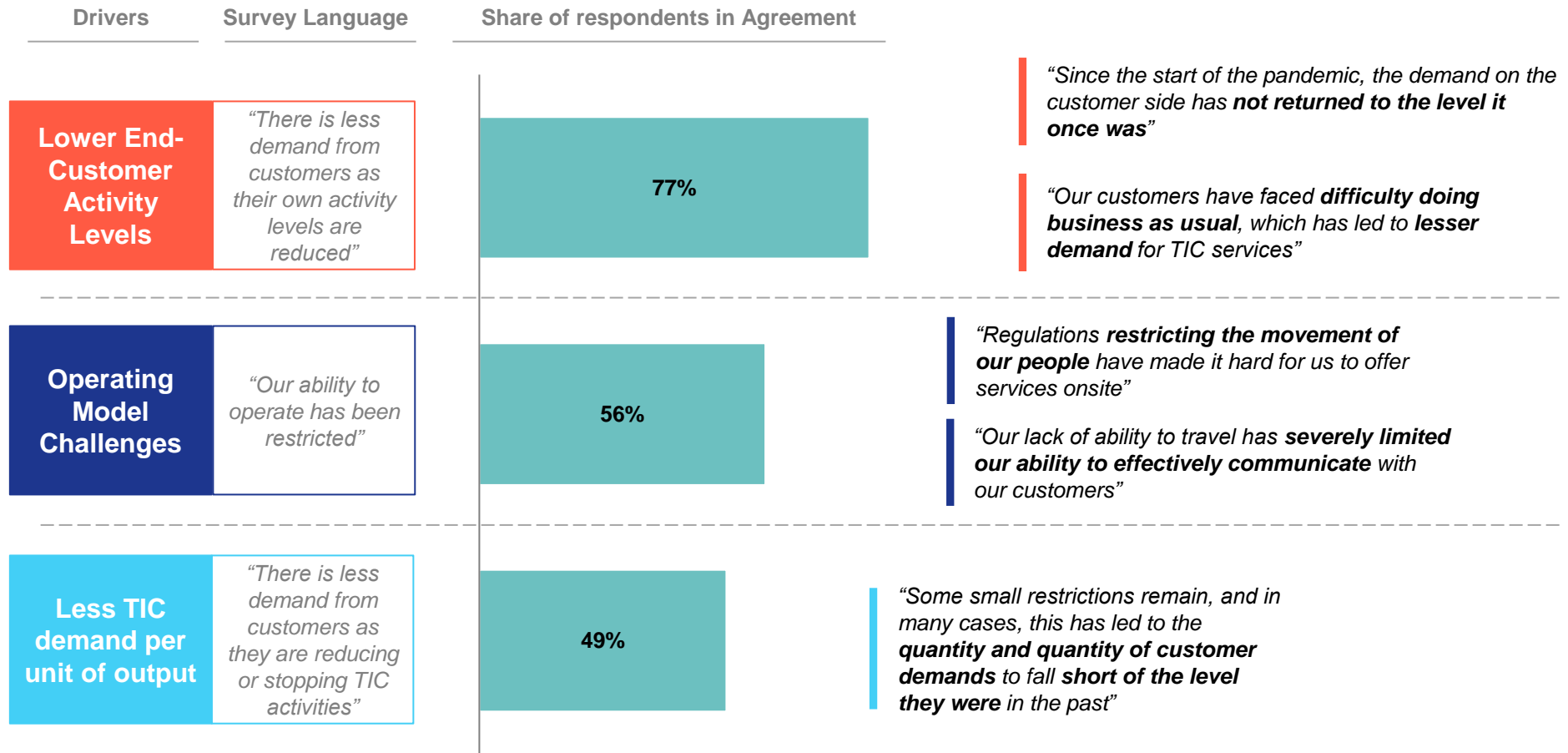


## Where Are We Now?

# Lower customer activity levels and operating model challenges were the two main drivers of negative impact – supporting high bounce back potential

## Drivers of Covid Impact

% of respondents reporting an impact agreeing with each statement<sup>1</sup>, 2021 N=39



1. Survey question: “Why has your overall level of activity reduced? Please indicate the extent to which you agree with the following statements (from strongly agree to strongly disagree)”

Source: OC&C & TIC Council Joint Survey July 2020, OC&C & TIC Council Joint Survey October 2021, OC&C analysis

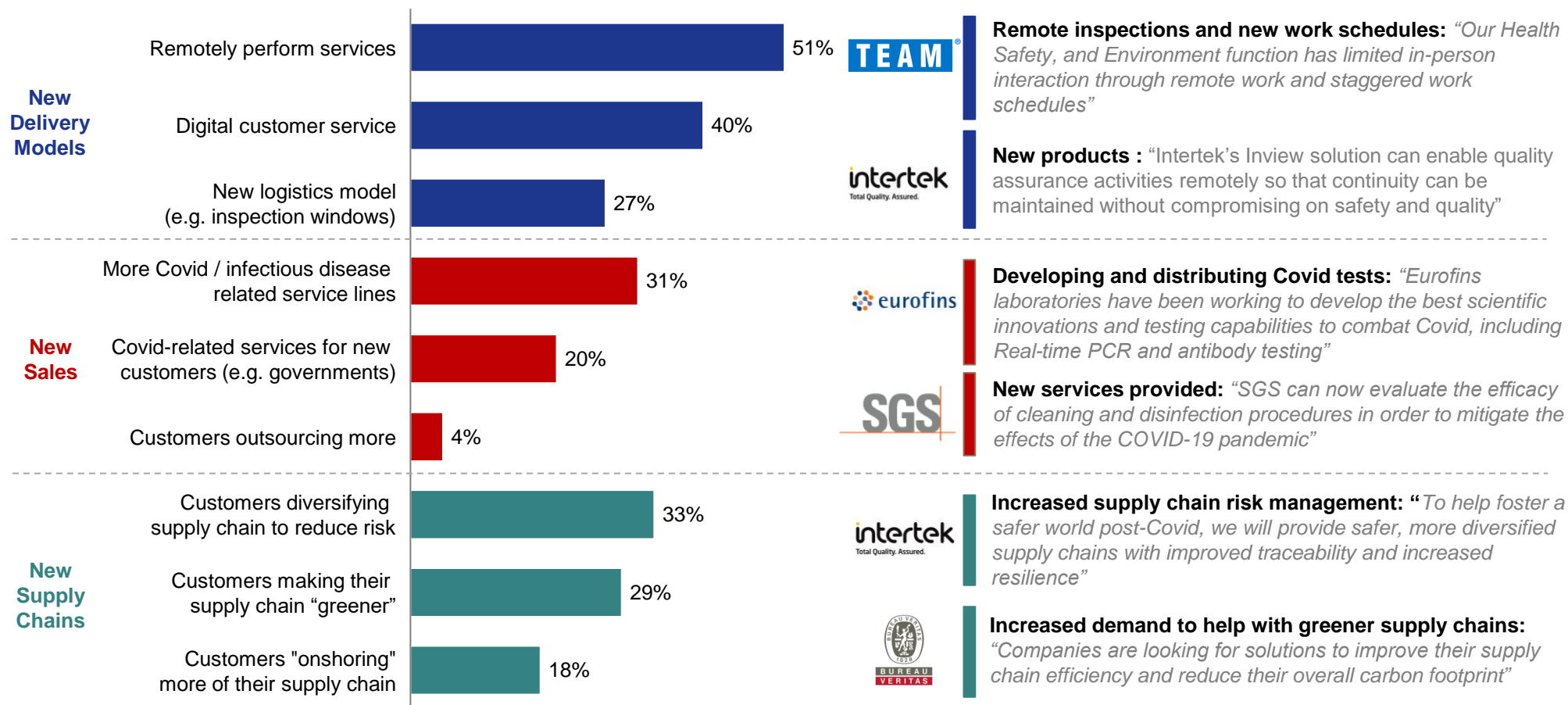


## Where Are We Now?

# The TIC industry has put in multiple changes to respond: adapting operating models and offerings to address new customer demands

## TIC Company Adjustments by Type

% of respondents agreeing with market change<sup>1</sup>, N=45



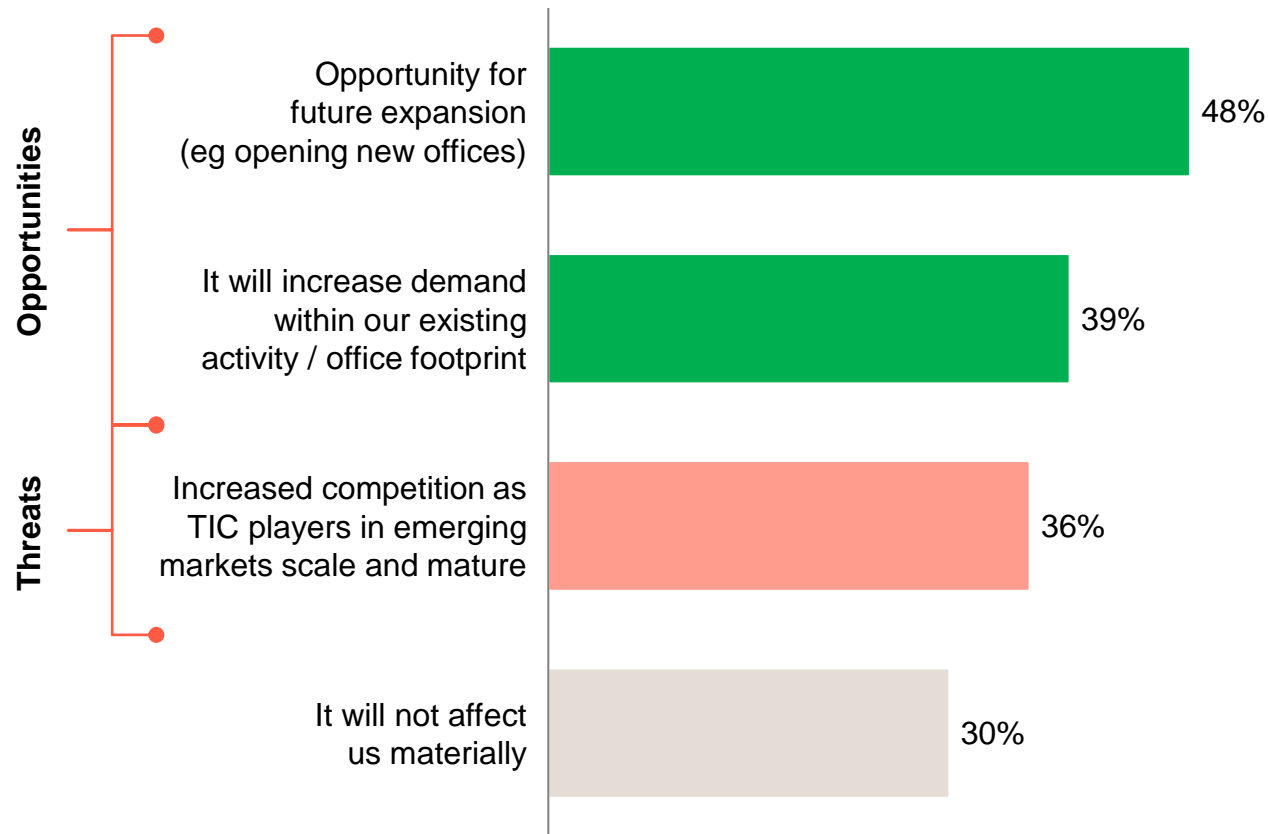
1. Survey question: "What have been the biggest changes in customer behaviour that you have seen as a result of Covid? Please select all that apply"

Source: OC&C & TIC Council Joint Survey July 2021, OC&C analysis, Company websites, Annual reports

## Where Are We Now?

# TIC players are also sensing opportunities in emerging markets, as well as an emerging class of new competitors within those markets

Impact of Increasing TIC Activity in Emerging Markets<sup>1</sup> (N=33)



## Verbatim

*"We are planning to take advantage of a growing opportunity here by **expanding into emerging markets**, particularly Southeast Asia"*

*"We see the rise of TIC in emerging markets as both an **opportunity to grow**, and a **potential competitive threat**"*

1. Survey question: "How do you expect the rise in TIC activity in Emerging Markets (and China in particular) to impact your business? (Please select all that apply)"

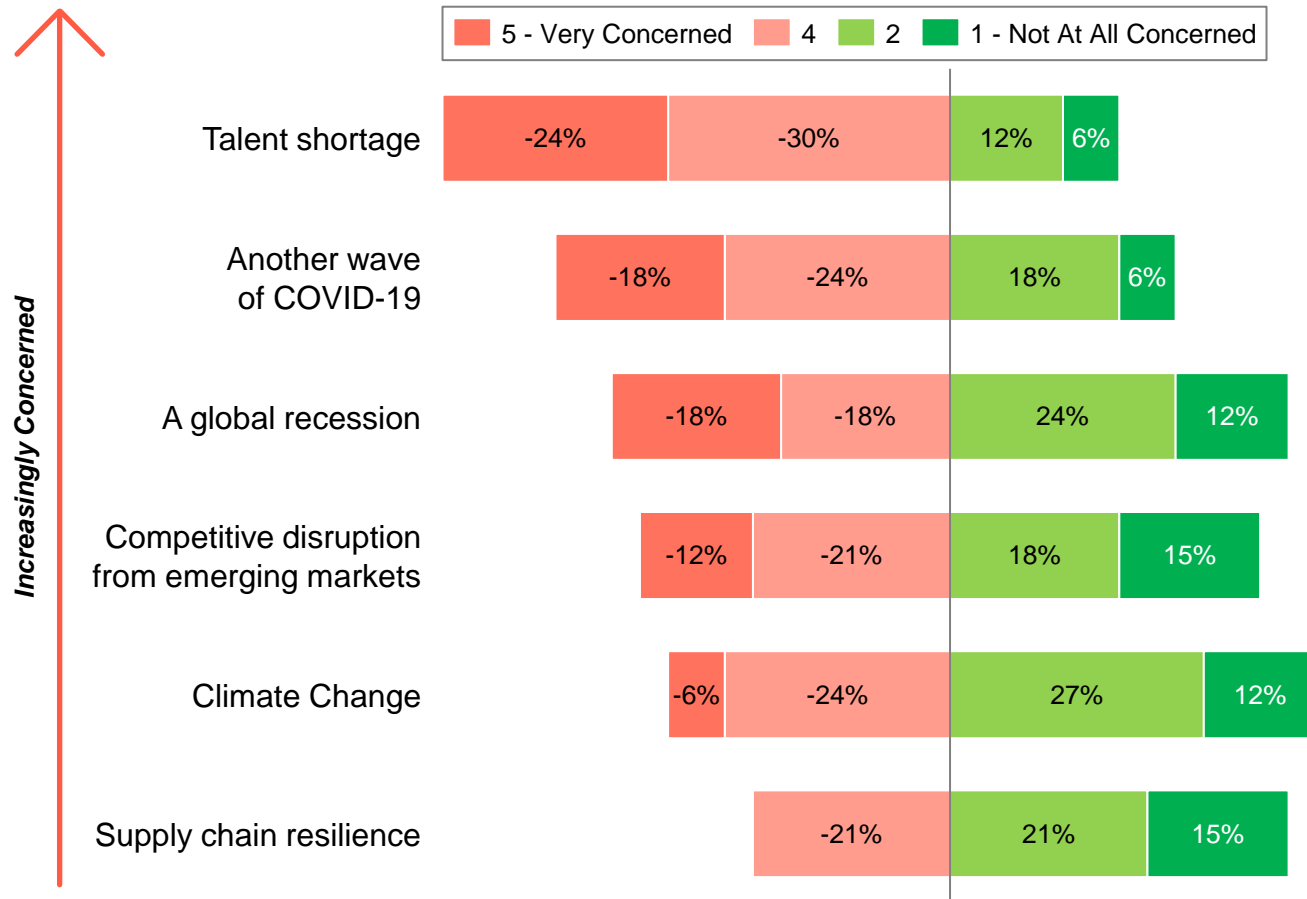
Source: OC&C & TIC Council Joint Survey July 2021, OC&C analysis



## Where Are We Now?

# Despite optimism, however, there continue to be major challenges for TIC players: labor shortages abound, and COVID concerns remain

TIC Company Risks by Level of Concern<sup>1</sup> (N=33)



## Verbatim<sup>2</sup>

*"We are seeing a distinct **lack of experienced talent** to hire, which we're solving through **salary increases** and **better internal education**"*

*"**Major changes in the competitive landscape** have forced us as a mid-sized company to **consider being in a holding company** with other TIC players"*

*"**Reduced fossil fuel consumption** has forced us to diversify into other **non-liquid sectors**"*

1. Survey question: "How concerned are you about the following risks to your business? (Rank on a scale of 1=not at all concerned to 5=very concerned)"

2. Survey question: "What do you see as the greatest risk to your business? How are you planning to address it?"

Source: OC&C & TIC Council Joint Survey October 2021, OC&C analysis, Company websites, Annual reports

A silhouette of a signpost with multiple directional arrows is positioned on the right side of the image. The background is a vibrant sunset sky with hues of orange, red, and blue. On the left, a semi-transparent dark rectangle contains the text "What's next?".

**What's next?**

## What's Next?

# How TIC players interact with customers has seen the most fundamental, and sticky, change; although there is a 'next wave' of behavior changes emerging

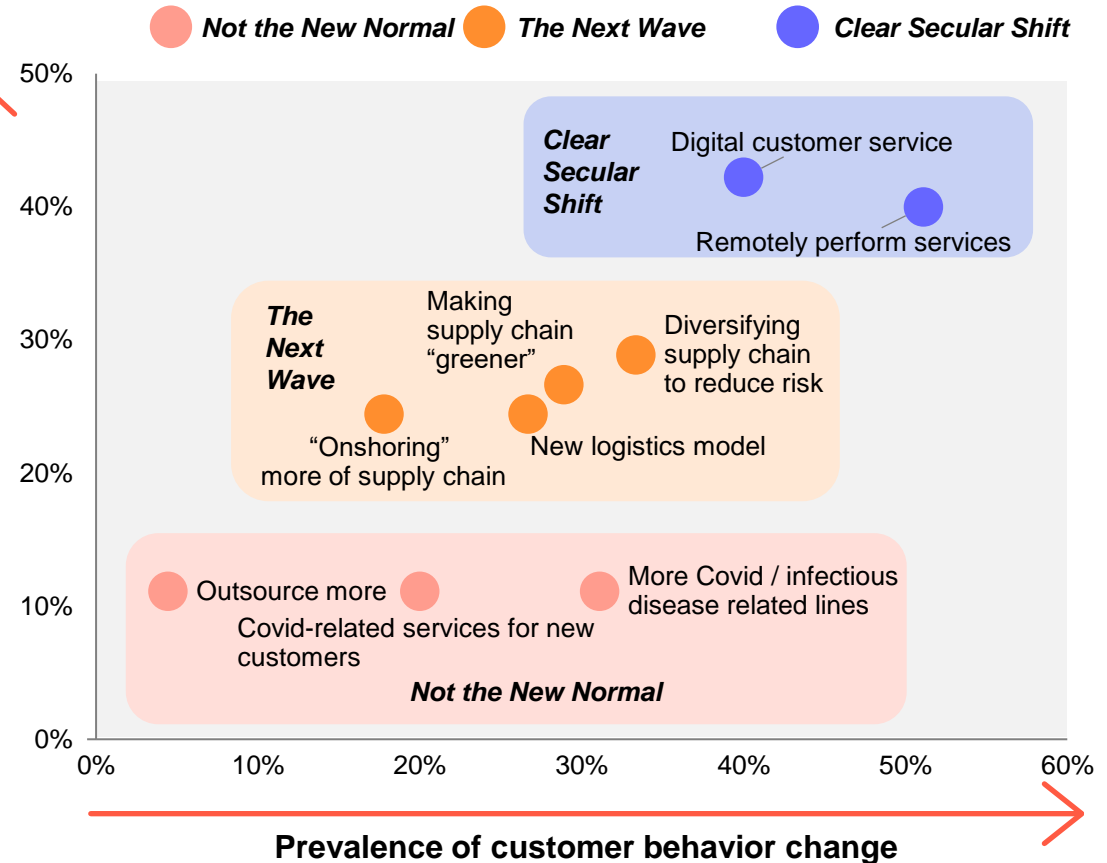
## Customer Behaviour Changes by Prevalence and Permanence

% selecting initiative as prevalent or likely to stick<sup>1,2</sup>

*“What have been the biggest changes in customer behaviour that you have seen as a result of Covid?”*

*“Which of these changes do you think will stick after lockdown, and which will revert to pre-Covid standards?”*

More likely to “stick”



1. Survey questions: “What have been the biggest changes in customer behaviour that you have seen as a result of Covid? Please select all that apply.”

2. % scoring 4 or 5 to the question: Which of these changes do you think will stick after lockdown, and which will revert to pre-Covid standards? Please rank on a scale of 1-5 from 1-will fully revert to pre-Covid methods, to 5-will fully stick to new methods”

Source: OC&C & TIC Council Joint Survey July 2021, OC&C analysis

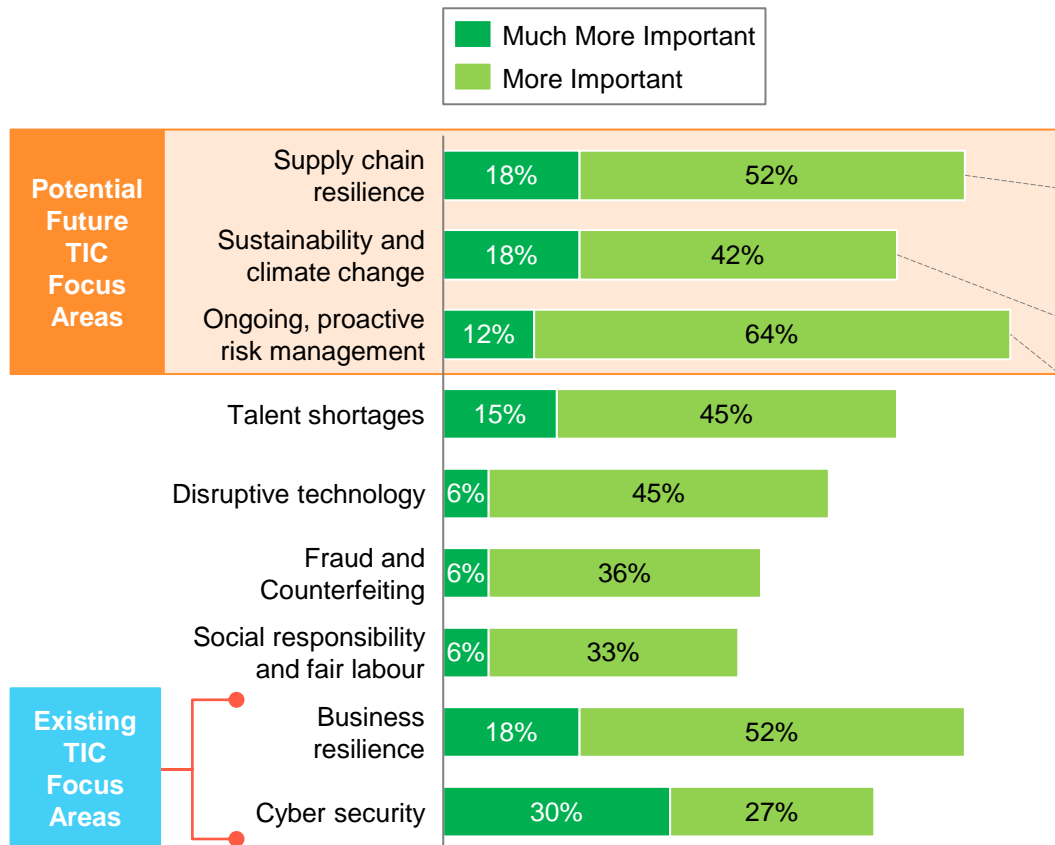
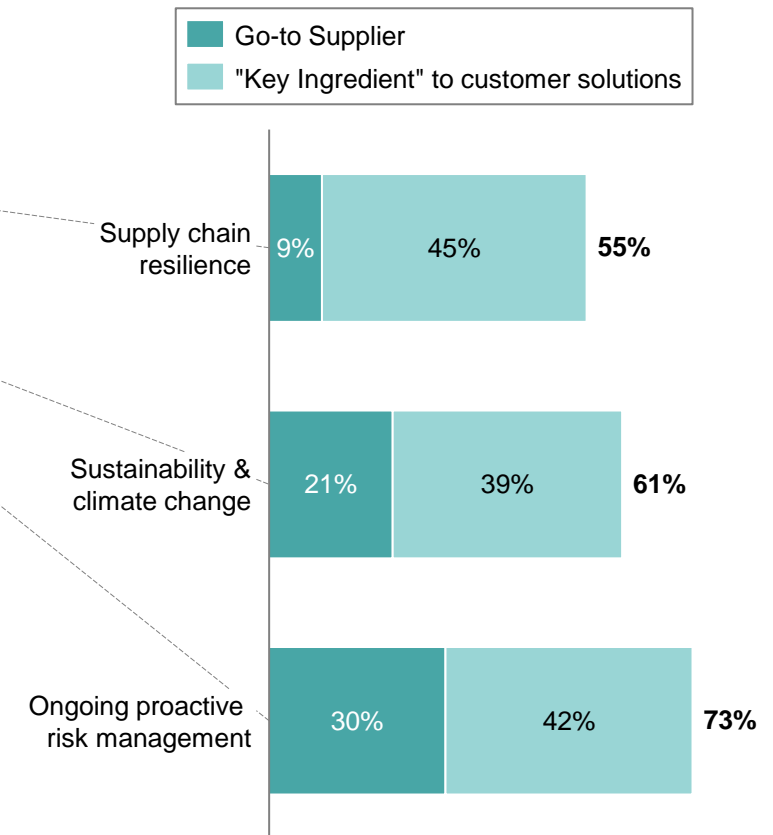




## What's Next?

# Opportunities exist for TIC to help address concerns of increasing importance to customers: sustainability, supply chains, and proactively managing risk

## TIC Future Opportunities

Topics of Increased Importance to Customers vs 2 Years AgoOpportunity For TIC Players in Focus Areas<sup>2</sup> (N=33)

1. Survey question: "How important are the following topics to your customers now versus 2 years ago? Please rank each on scale of 1 = A lot less important to 5 = Much more important"

2. Survey question: "Specifically, to what extent do you believe TIC players could become a go-to-supplier to assist customers with the following topics?"

Source: OC&C & TIC Council Joint Survey July 2021, OC&C analysis

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## What's Next?

# We've identified supply chain resiliency, sustainability, and proactive risk management as three key areas to explore for TIC players moving forward

## Upcoming TIC Focus Areas

*Definitions**Questions to be Discussed Today*

1

**Supply Chain Resiliency**

Helping customers monitor, manage and address potential disruption across supply chains

2

**Sustainability**

Ensuring customers are best operating in a way that maximizes positive / minimizes negative impact on environmental and human concerns

3

**Proactive Risk Management**

Providing TIC services beyond those that are legally required, to help add commercial value and mitigate cost of failure

- **What are TIC players doing today in these areas?**
- **Where do the most valuable opportunities lie?**
- **What are the challenges to be addressed by TIC players looking to expand into these areas?**

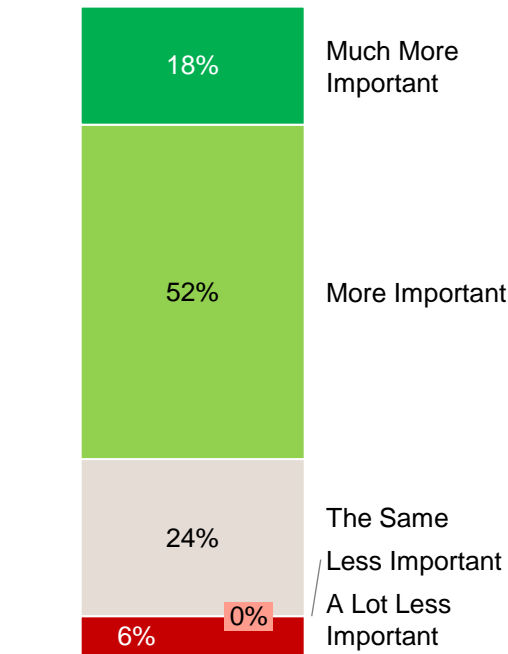
## 1 Supply Chain Resiliency

# The importance of supply chain resiliency has increased significantly over the past two years for customers – TIC providers are starting to respond

## Supply Chain Resiliency Importance and Perspectives

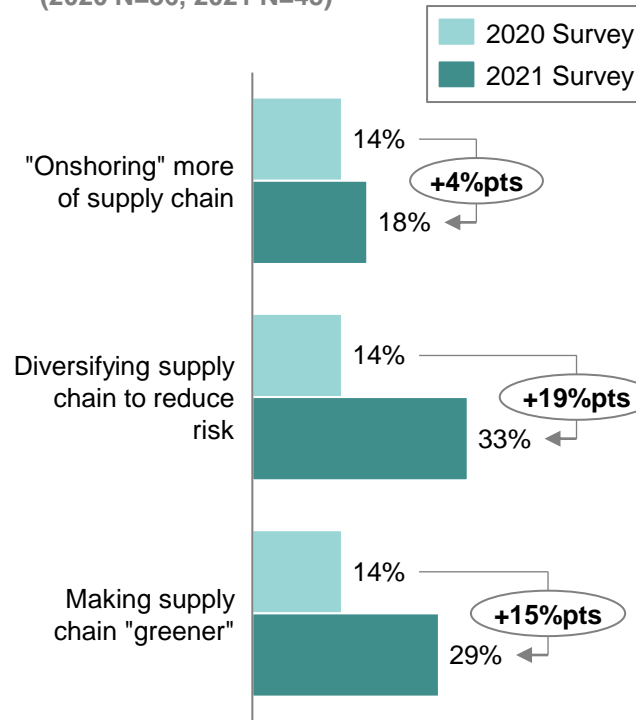
### Supply chain resiliency is of increasing concern

Supply Chain Resiliency Change in Importance<sup>1</sup> vs Two Years Ago (N=33)



### Customers are adjusting their supply chains in a variety of ways

Changes in Customer Supply Chain Behavior (2020 N=36, 2021 N=45)



### And TIC providers are starting to respond

*"Organizations learned multiple lessons during the first half of 2020 on the **resilience of global supply chains** and their ability to face **disruptions**. There is an **urgent need** from many companies to reassess their supply chain risk, based on factual data from the field, to make sure that all elements are properly addressed, assessed and visible"*



*"Supply chain resilience is more important than ever before. **Supply chains are becoming more complex**, with companies sourcing supplies from around the globe as they seek to retain supplier optionality while ensuring business continuity. As a result, **companies need effective ways to evaluate and manage supplier risk.**"*



1. Survey question: "How important are the following topics to your customers now versus 2 years ago?"

Source: OC&C & TIC Council Joint Survey July 2021, Desk Research, OC&C analysis



## 1 Supply Chain Resiliency

# TIC majors and smaller players are implementing new strategies to address customer concerns and increasing complexity within the supply chain

### Case studies

**SGS**

- Increasing demands due to sustainability pressures and Covid complications:



Clients are under increased pressure to meet sustainability requirements and provide complete transparency



Covid increased supply chain management complexity – clients require more advanced solutions to ensure business continuity

- SGS has launched the Transparency-One solution to improve supply chain resilience with a focus on:**
  - Validating suppliers based on safety, quality, and sustainability
  - Monitoring risk potential and identifying corrective procedures
  - Centrally storing supplier performance data to improve accessibility and identify areas of improvement

**FOODCHAIN ID**  
Seeing Food Clearly

- Globalization of suppliers and customer demand has made supply chain management more complicated



Ingredients are increasingly sourced globally, making it more challenging to assure the safety, quality, and traceability of the supply chain



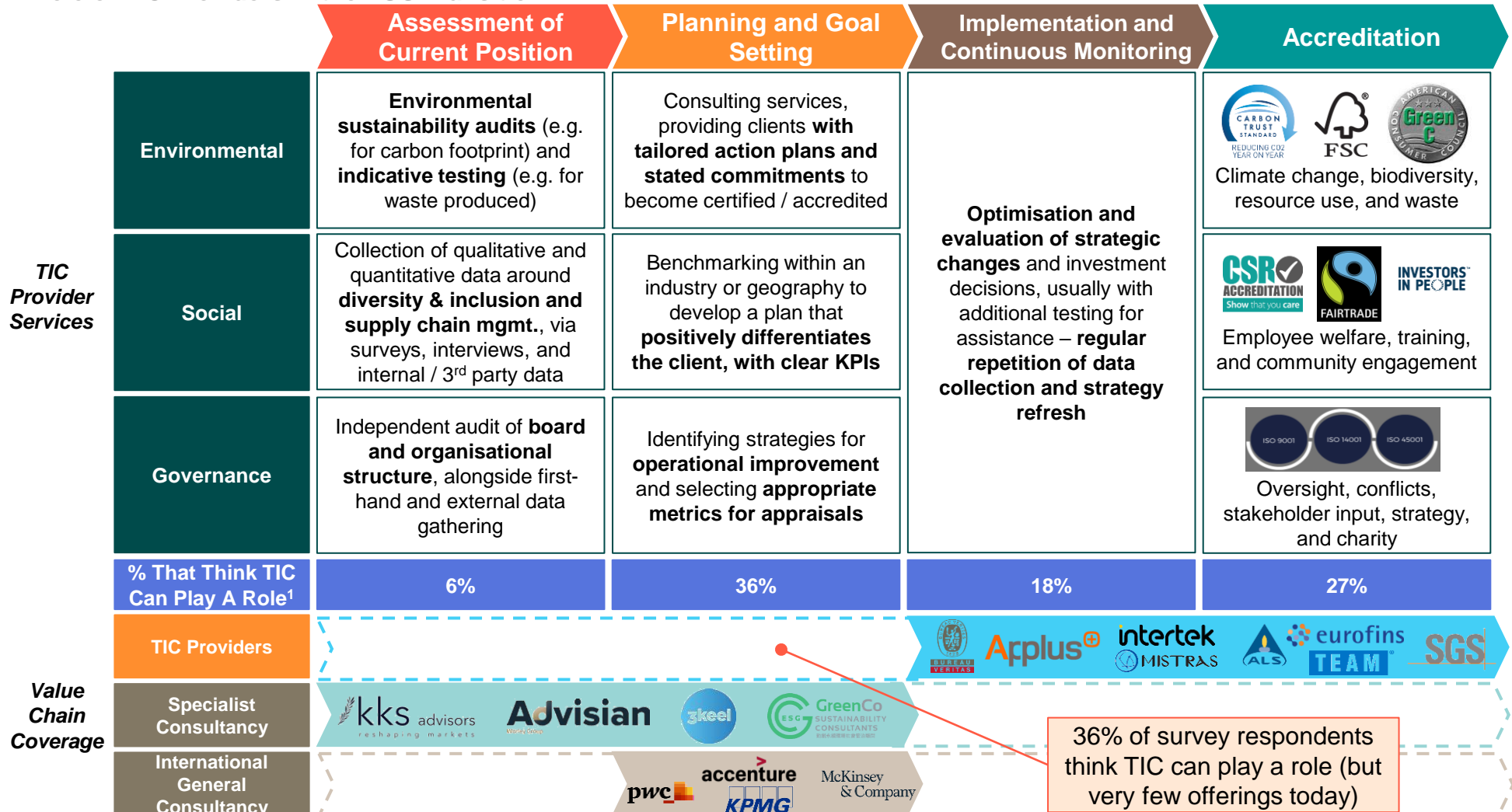
Customers are demanding non-GMO and organic seals when purchasing their food

- Foodchain ID released HorizonScan, a food safety software that displays the most important issues within the supply chain**
  - Tracks issues by commodity, geography, supplier, etc.
  - Simplifies the supply chain management process to save time and ensure compliance

## 2 Sustainability

# In ESG, TIC players are already starting to provide services across the value chain, with particular focus so far in supporting continuous improvement

## Role of TIC Providers in the ESG Transition



1. Survey Question: "Specifically, what role do you expect TIC players to play in terms of supporting customers' sustainability / ESG agendas? Please tick all that apply"















Source: Desk Research, OC&C analysis

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## 2 Sustainability

# However, relative focus on the emerging battleground of ESG varies widely today amongst the TIC majors

### ESG Focus Overview

	Stated Focus On ESG Services	Description
		<ul style="list-style-type: none"> <li>Offers "Total Sustainability Assurance", an End-to-end sustainability offering</li> <li>Recently introduced CarbonClear (providing certification on the carbon impact of end-to-end operations), and SourceClear (provides visibility and traceability across supply chain relationships)</li> </ul>
		<ul style="list-style-type: none"> <li>Carbon neutral company &amp; decreased greenhouse gases by 43% and has an Energy Efficiency in Buildings programme with 470+ initiatives</li> <li>Offer Sustainability Reporting services and Environmental Mgmt. Assurance</li> </ul>
		<ul style="list-style-type: none"> <li>Test client products for sustainability, services include water testing, air testing, pollution testing and soil testing</li> <li>Aim to become carbon neutral by 2025</li> </ul>
		<ul style="list-style-type: none"> <li>Offers Green Line – a suite of services aimed at increasing transparency and credibility across all ESG, particularly sustainability</li> </ul>
		<ul style="list-style-type: none"> <li>C.€200mil revenues with substantial sustainability contribution, i.e. directly related to protecting / reducing environmental impact</li> <li>Goal to reduce emissions per employee by 7% vs 2019</li> </ul>
		<ul style="list-style-type: none"> <li>Have completed 1.5k Optical Gas Imaging detection surveys in the last 5 years helping reduce fugitive emissions of industrial gases</li> <li>Also focussed internally, reducing GHG emission by 1.1 metric tons since 2019. First report in 2021</li> </ul>
		<ul style="list-style-type: none"> <li>Recent introduction of ESG vision – primarily internally focused (40% reduction in carbon intensity by 2030) rather than externally focused – though do offer environmental testing services</li> </ul>
		<ul style="list-style-type: none"> <li>Limited mention of external ESG services focus in annual reports – if increasingly serving renewables market</li> </ul>

Increasing Active Mention of ESG Efforts

*"Our purpose: bringing quality, safety and sustainability to life"*  
Intertek, March 2021



*"Support our customers on their journey to sustainability by increasing the proportion of revenue generated by our sustainability solutions to above 50%"*  
SGS 2023 Strategy (May 2021)



*"Sustainability is an integral part of our services...services which help customers reduce their environmental impact and have a significant positive effect"*  
Applus Investor Presentation (June 2021)



### 3 Proactive Risk Management

# There is significant and increasing appetite for proactive risk management services, but mindset and workforce tech abilities are barriers to offering

## Proactive Risk Management Customer Appetite and Barriers to Adoption

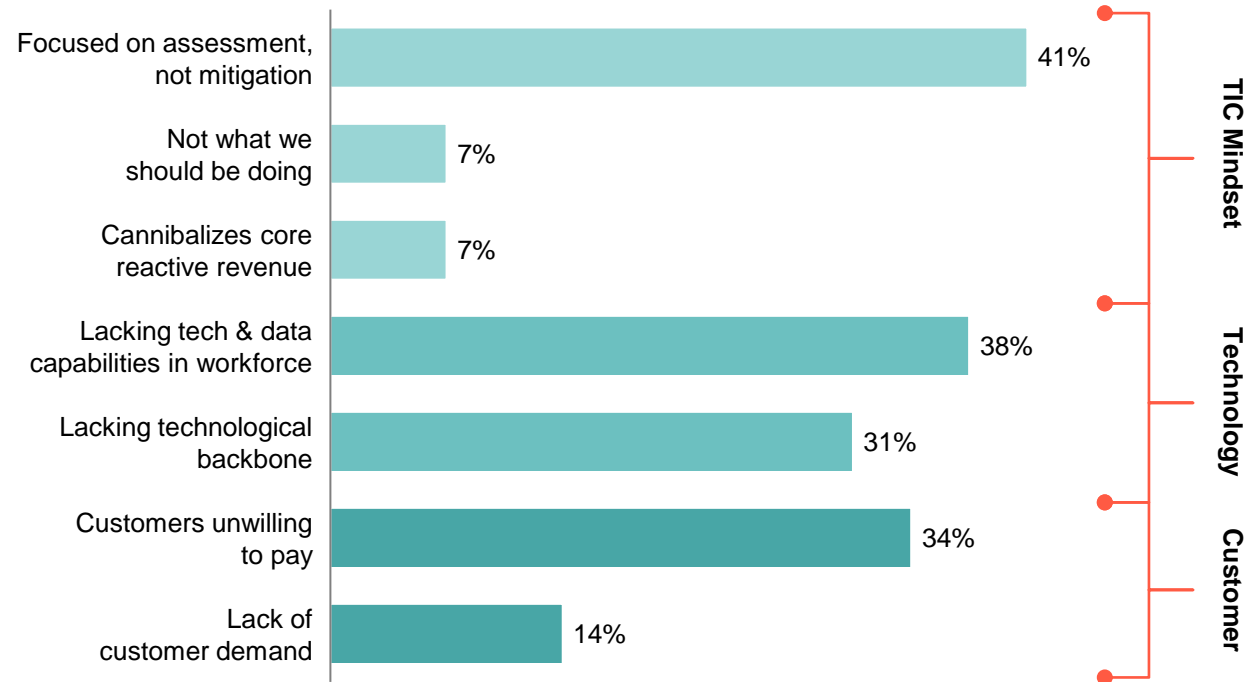
**Definition:** Moving from inspection services addressing a minimum regulatory bar to more frequent, preventative value-adding monitoring / inspection that addresses a broader range of risks and so mitigates cost of failure – be it duty of care or commercial – all requiring new delivery models (more data, more automation, more ongoing interactions)

### Challenges remain for TIC companies in proactive risk management



- Effectively predicting where and how to provide additional services to mitigate risk often requires the ability to drive data into insight, which can be challenging
  - Executed effectively, data insight provided to customers can prevent a more consultative sales process
  - Wariness required to prevent significant effort in data collection and analysis not translating into increased TIC services

### Proactive Risk Management Barriers to Offering<sup>2</sup> (N=33)



1. Survey question: "How important is Proactive Risk Management services (such as preventative monitoring and inspections) to your customers and your offering?"





2. Survey question: "What are the biggest obstacles for your company in providing Proactive Risk Management services (such as preventative monitoring & inspections)? (Please select all that apply)"

Source: OC&C & TIC Council Joint Survey July 2021, OC&C analysis

### 3 Proactive Risk Management

**However this approach is in some arenas one that TIC players have already offered for some time, and we often see examples of new propositions too**

#### Case Studies

Customers naturally look to TIC for more than just “ticking the box” – this has always been true in some areas...		... but is especially evident now with the prominence that what TIC stands for and TIC players do now has on the agendas of C suite across industries	
Overview	TIC players have offered some level of proactive risk management, but such offerings have been rare, as customers did not see TIC companies filling that role	Attitude shifts within the TIC customer base have made it such that customer demand for proactive risk management has increased, and that shows through in the number of offerings on the market	
Examples	<div></div> <ul style="list-style-type: none"><li>Intertek's Asset Integrity Management (AIM) program has been offered for over a decade to inspect corporate assets to boost profit / improve safety</li><li>NDT services can detect irregularities and defects in equipment or products before they cause serious issues</li><li>Risk-Based Inspections ensure equipment longevity, increased effectiveness, and minimized health and safety risks</li></ul>	Supply chain concerns	<div></div> Addresses supply chain concerns by providing insight into relative performance of suppliers to identify weak points
		Enable the shift to remote	CEMS <sup>1</sup> can provide real-time data from sensors to provide actionable information and feedback beyond compliance standards to ensure that equipment is running optimally
		De-risk rising costs	<div></div> Responds to pressing need to derisk operations, with increasing pressure from rising fuel and raw material prices
		Assure input Quality	<div></div> Customized data and analytics services to help identify impact of fuel on engine system performance and inform supplier choice
		More companies and services are consistently becoming relevant in the proactive risk management space to address evolving concerns and capitalize on new innovations	

1. Continuous Emission Monitoring Systems  
Source: Desk research, OC&C analysis



## Key Questions To Consider

# In all these new focus areas, there remain key questions that you need to solve in order to form a sound strategy to win

## Key Questions for TIC Providers

## Major Takeaways

## Key Questions

1

## Supply Chain Resiliency

- Increasing supply chain pressure is accentuating demand for end-to-end transparency and real-time updates to ensure standards / and resilience
- TIC is very well placed to help address this

- What are the major supply chain concerns / risks that your customers are dealing with?
  - How can you best help mitigate those concerns / risks with your portfolio or products?
- How can you differentiate here? Does this give you scope to add to your proposition (eg digital)?

2

## Sustainability

- Customers are facing increased pressure from customers and stakeholders to meet ESG standards; TIC players can play a critical role in helping achieve these goals

- How do you leverage existing customer relationships to ensure your offering fills a different niche from that of other types of providers (eg consultants)?
- How do you further solidify the value of ESG focused TIC services to your customers in cases where there isn't regulatory pressure?

3

## Proactive Risk Management

- Customers naturally look to TIC for more than just "ticking the box" ...
- ... but is especially evident now with the prominence of what TIC does can do on the agendas of C suite
- Opportunities for TIC players to take this role, but it comes with challenges

- How can you best mitigate customer risks...while still offering a financially attractive proposition to customers who are not obliged by regulation to purchase (while ensuring it is profitable for you)?
- How can you ensure that you avoid disintermediation by consultants or other service providers?

**+ Given these (and other!) structural market shifts, how is your portfolio set up to respond / take advantage? Are there organic initiatives / acquisitions that you should be making now?**

Want to discuss how you could take  
advantage of these shifts?  
Please do get in touch – we'd be  
delighted to discuss



CONTACT US

Or contact us direct:

**Bennet Summers**

[Bennet.Summers@occstrategy.com](mailto:Bennet.Summers@occstrategy.com)

**Henry Charrington**

[Henry.Charrington@occstrategy.com](mailto:Henry.Charrington@occstrategy.com)



**OC&C**  
Strategy consultants



*"During COVID, we had fewer clients in certain sectors, but since we acquired TIC Council membership at the beginning of the pandemic, our regular clients have trusted us more and stayed with us" [Survey Response]*