



Not as bad as we feared? (except where it is)

OC&C updated perspectives on the impact, opportunities
and risks from COVID-19 on the TIC sector

TIC Council Webinar

7 July 2020



OC&C
Strategy consultants

uncommon sense

Introductions

**Bennet
Summers**
Partner



**Henry
Charrington**
Associate
Partner



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 12 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

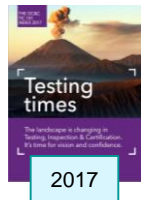
April 2020 TIC Council Covid Webinar



'TIC101' Proprietary Database and Published IP



2015



2017

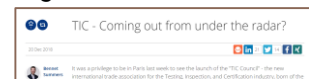
2017 ACIL Conference Speech



2019 Barclays Conference Speech



Regular sector commentary



Our findings are based on a survey of TIC Council members run at the end of Q2, as well as recent experience & in-depth conversations in the space

Sources Overview

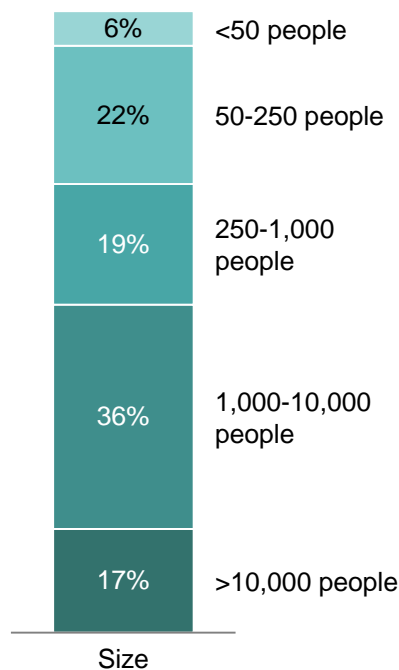
In conjunction with the TIC Council, we surveyed a diverse set of TIC senior executives covering a range of industries, sectors, and sizes...

... addressing a broad set of topics

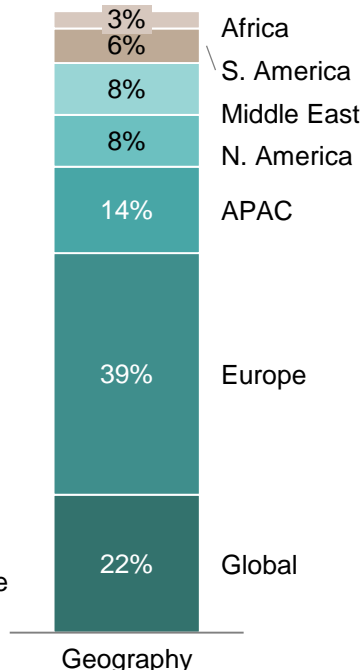
Survey Responses Split

Share of respondents, N=36

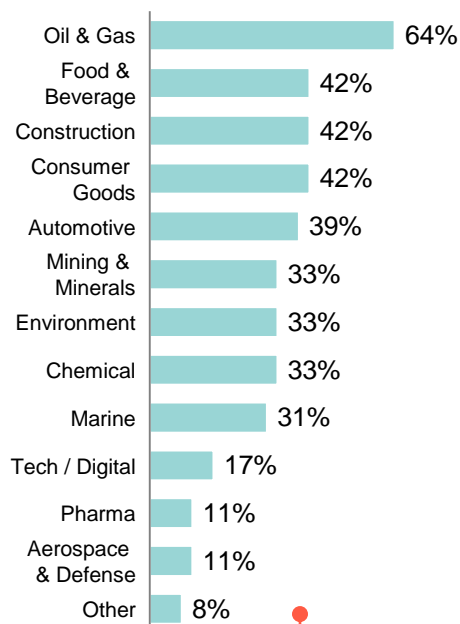
Scale (by #FTE)



Primary Operating Region



End Sector Coverage



- Impact of Covid on level of business activity, and drivers of that change
- Expected timeframe for a return to “normal” – and what “normal” might look like
- Operational initiatives introduced by TIC players as a result of Covid
- Changes in customer behaviour – and how likely these changes are to remain in the long-term
- Risks & opportunities beyond Covid
- Role of regulators in supporting TIC Cos

c.70% of respondents reported being exposed to 3 or more industries

What did we find out?

Looking up from lockdown

Updated view of macro impacts of Covid-19

The crisis is far from over. Daily cases are still rising, despite many countries emerging from lockdown

The most severe economic shocks have been contained (so far) but its impact will be more prolonged than we first thought

Not as bad as we feared? (except where it is)

Impact on TIC markets and key players (so far)

TIC has been resilient overall – despite operating constraints and customer challenges – but some end sectors badly hit

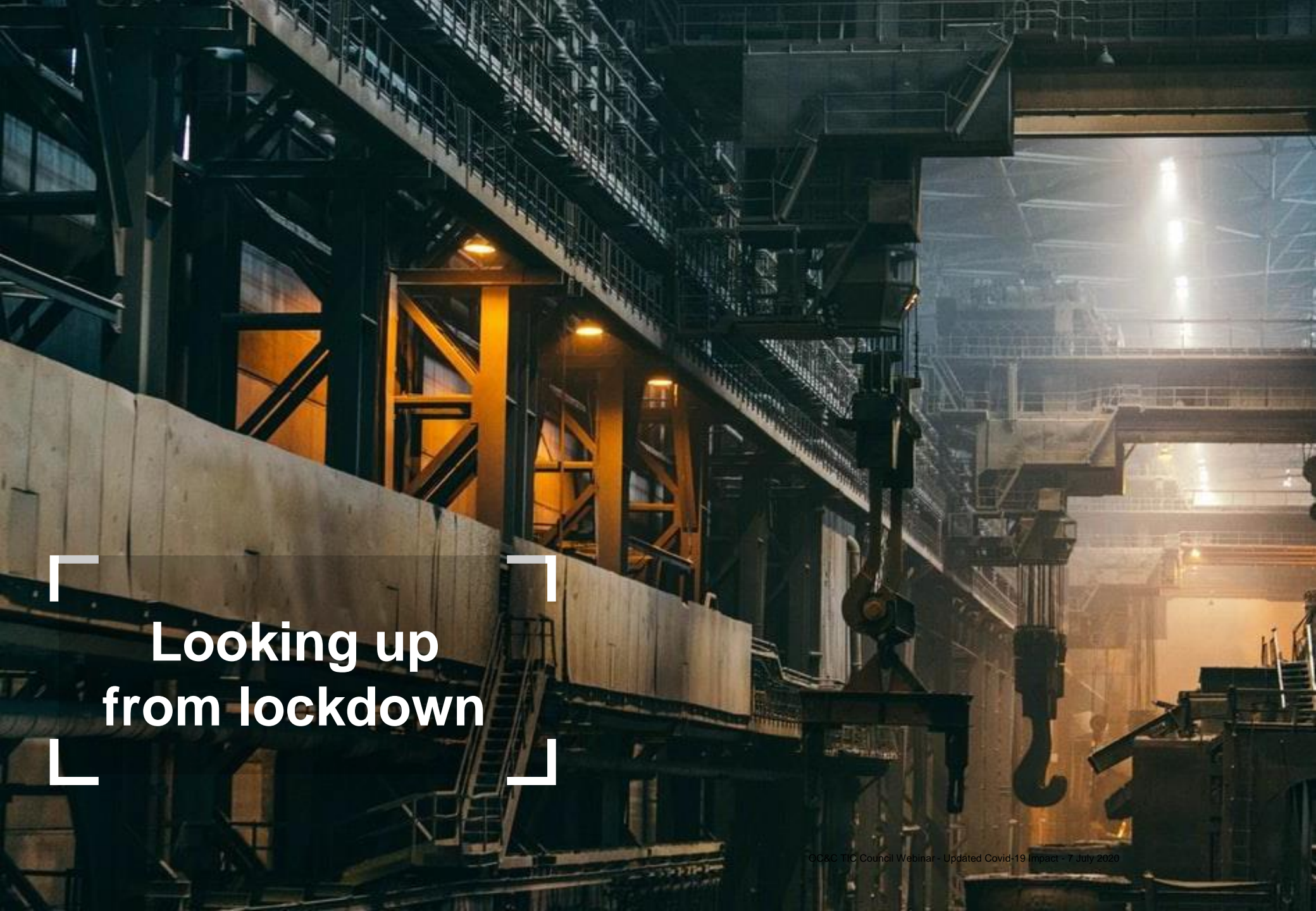
Providers have adapted their operating models and offerings to address new customer demands (where regulators allow...)

Creating the new normal

Opportunities and risks for TIC providers post-Covid (and now)

TIC players can help create the “new normal” for customers who are receptive to redefining how they operate...

... such as a heightened focus on safety and risk, more digital interactions, and bringing forward ESG in all decisions



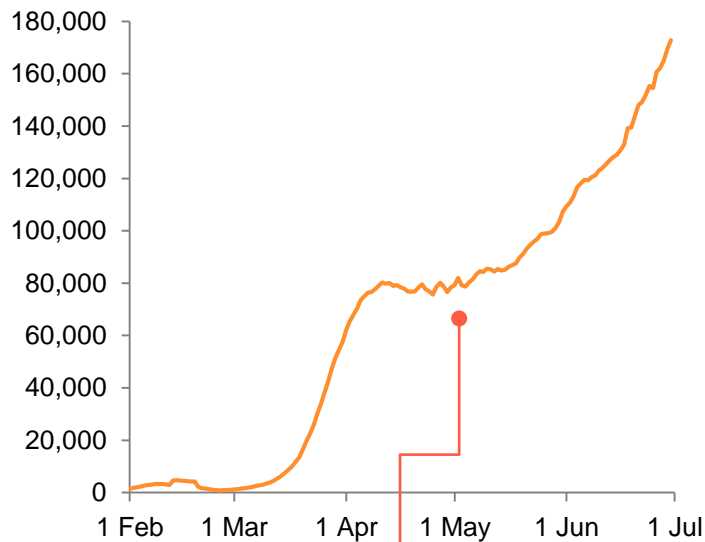
Looking up
from lockdown

The crisis is far from over – although most Western economies contained the pandemic it is still on the rise in many economies (including, of course, USA)

Daily New Cases, Worldwide and Selected Countries

Worldwide daily cases continue to rise: the crisis is far from over

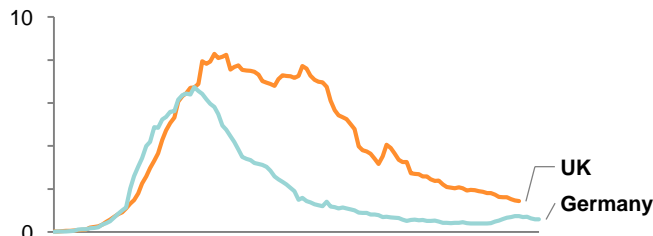
Daily New Cases¹, Worldwide



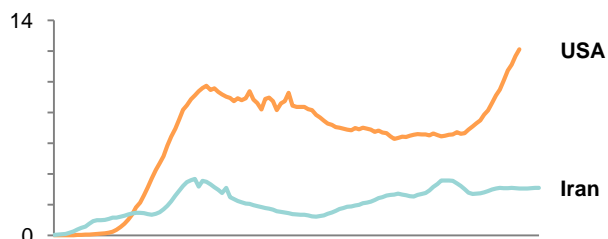
After initial containment in April and May, the daily case count has started to accelerate again, driven by US and LDCs still in “First Wave”

Globally, countries fall into one of three categories

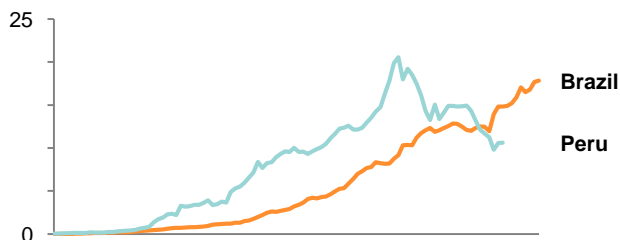
Country Categories, Daily New Cases Per 100,000¹



Over the worst
Covid mainly contained, restrictions easing. Significant impacts expected thru 2021



High risk of 2nd wave
Premature lifting of lockdown leading to high risk of 2nd wave (or continued 1st wave?)



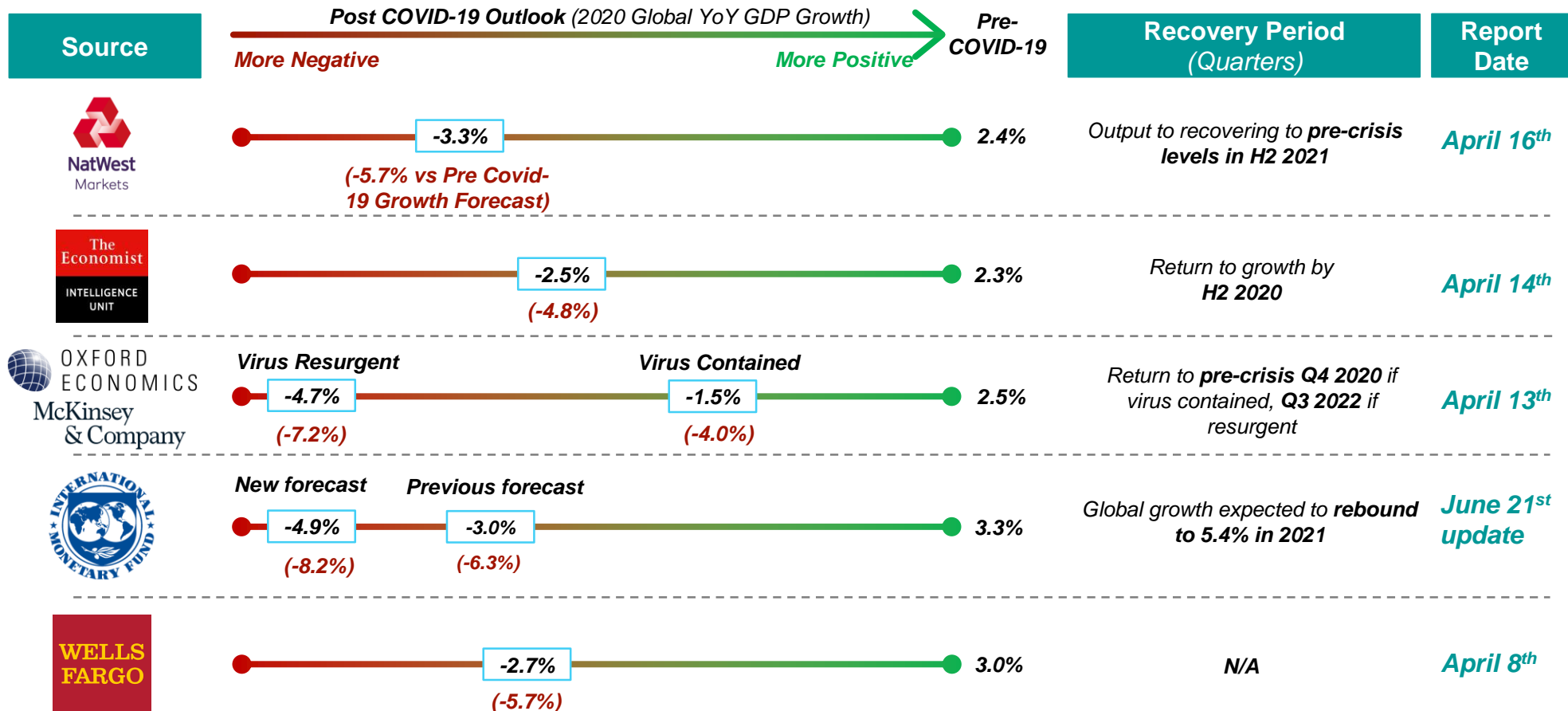
Still in 1st wave
Mainly LDCs, significant disruption and uncertainty to come



The available macro economic forecasts are no more confident about the outlook than back in April – the consensus is -4% to -7% global GDP in 2020

Global Economic Forecasts

Selected 3rd Party Forecasts

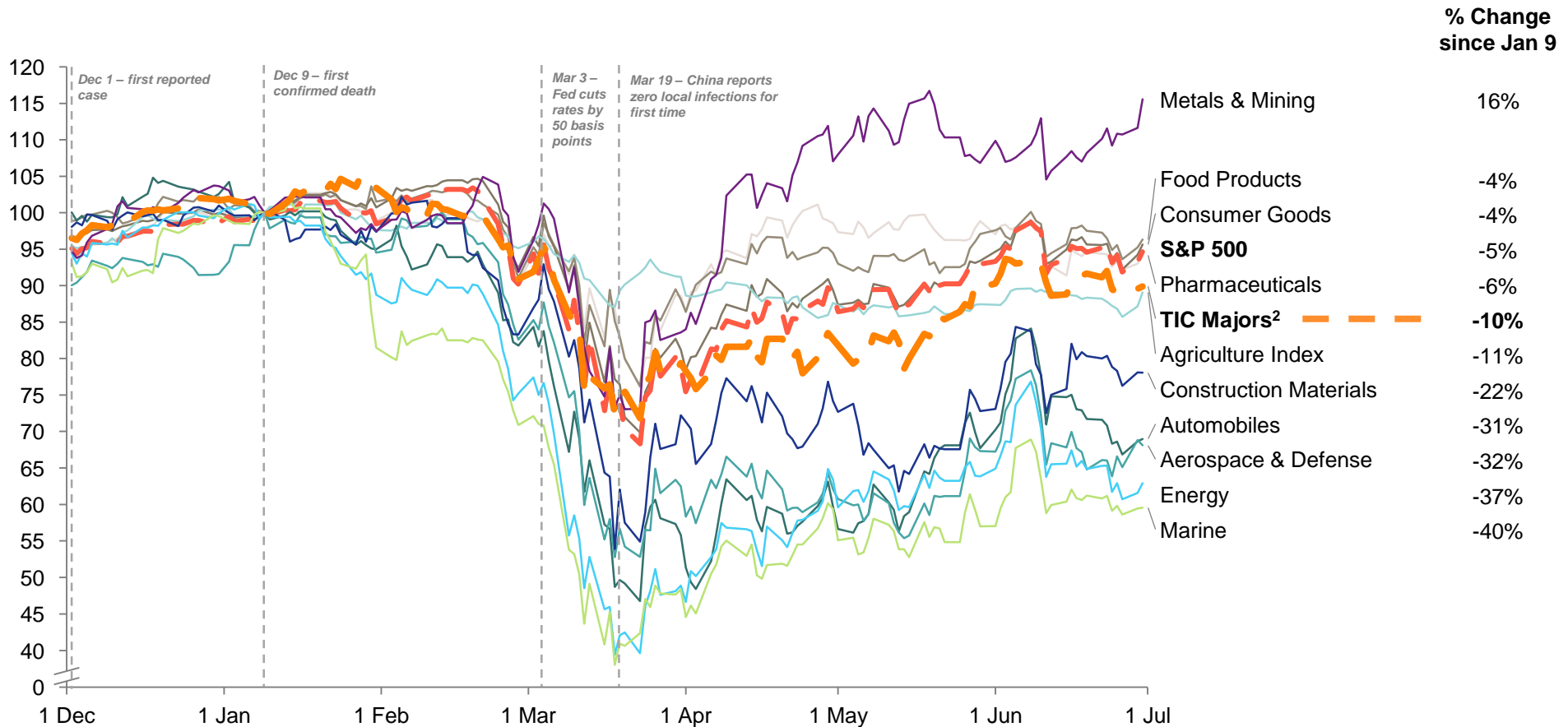


Other sources reviewed include Morningstar, Morgan Stanley, Goldman Sachs, Deutsche Bank, Morningstar, Roland Berger, Moody's

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 Performance¹ Against Market & TIC Majors,
2nd Dec 2019 – 30th June 2020

As at 30th June 2020



1. Indexed to 100 – Jan 9th 2020: based on S&P and Down Jones Indices for Industries

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

Source: Capital IQ, OC&C analysis



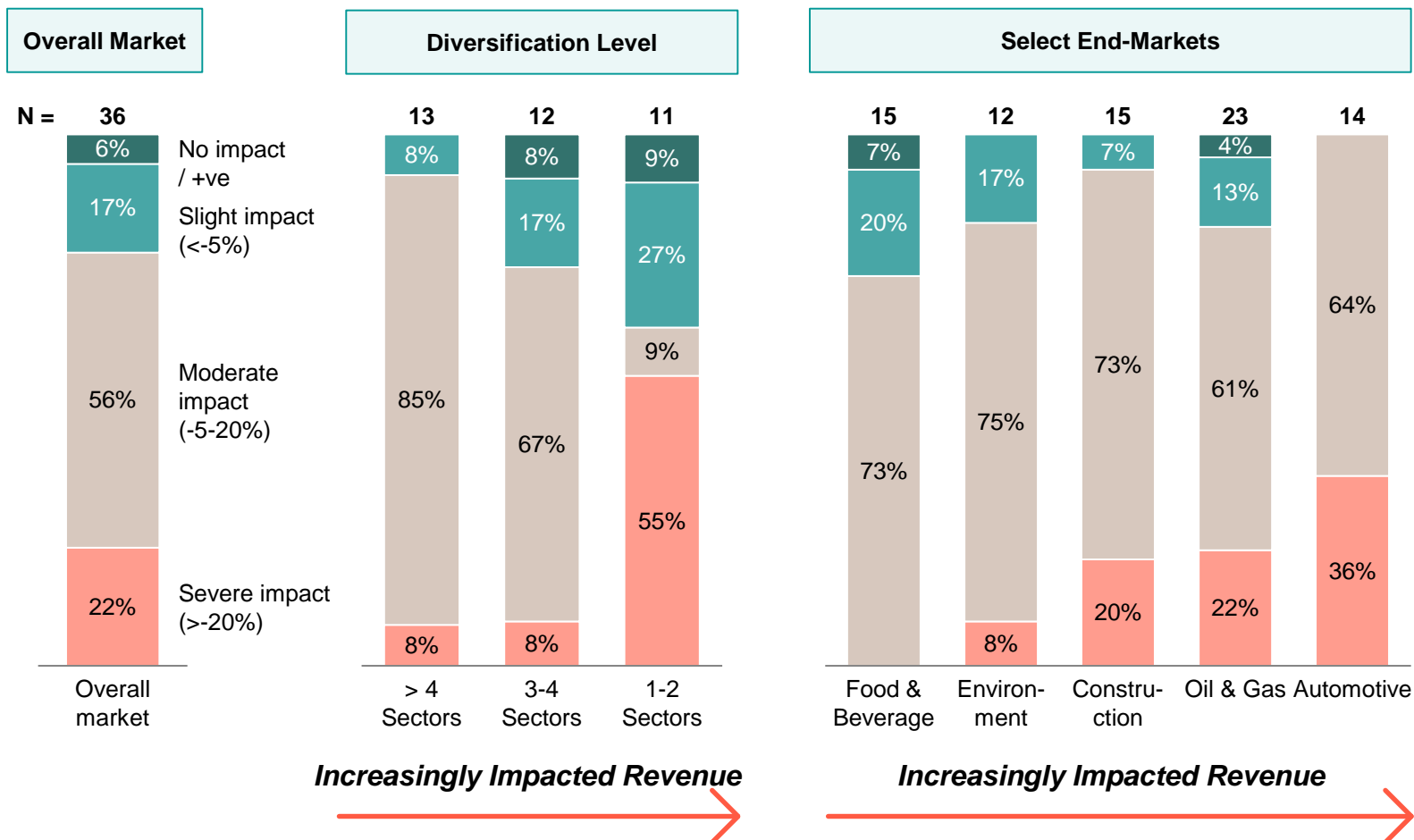
Not as bad as we feared?
(except where it is)

Not as bad as we feared? (except where it is) – impact on TIC markets and key players

Survey results indicate TIC revenue has on average seen “moderate” impact (ie, 5-20% down in H1) – but with high variation due to end market exposure

Covid Impact by End-Market

% of respondents rating severity of impact¹



“Some plant control programmes have been **delayed**. Lockdown is preventing logistics of samples and **limiting ability of inspectors to attend sites**”

“**It’s a mixed picture**, some end markets will recover more quickly, others will be more **structurally challenged**”

1. Survey question: “Which of the following best characterize the impact that COVID-19 has had on your business so far in 2020? Please select one”

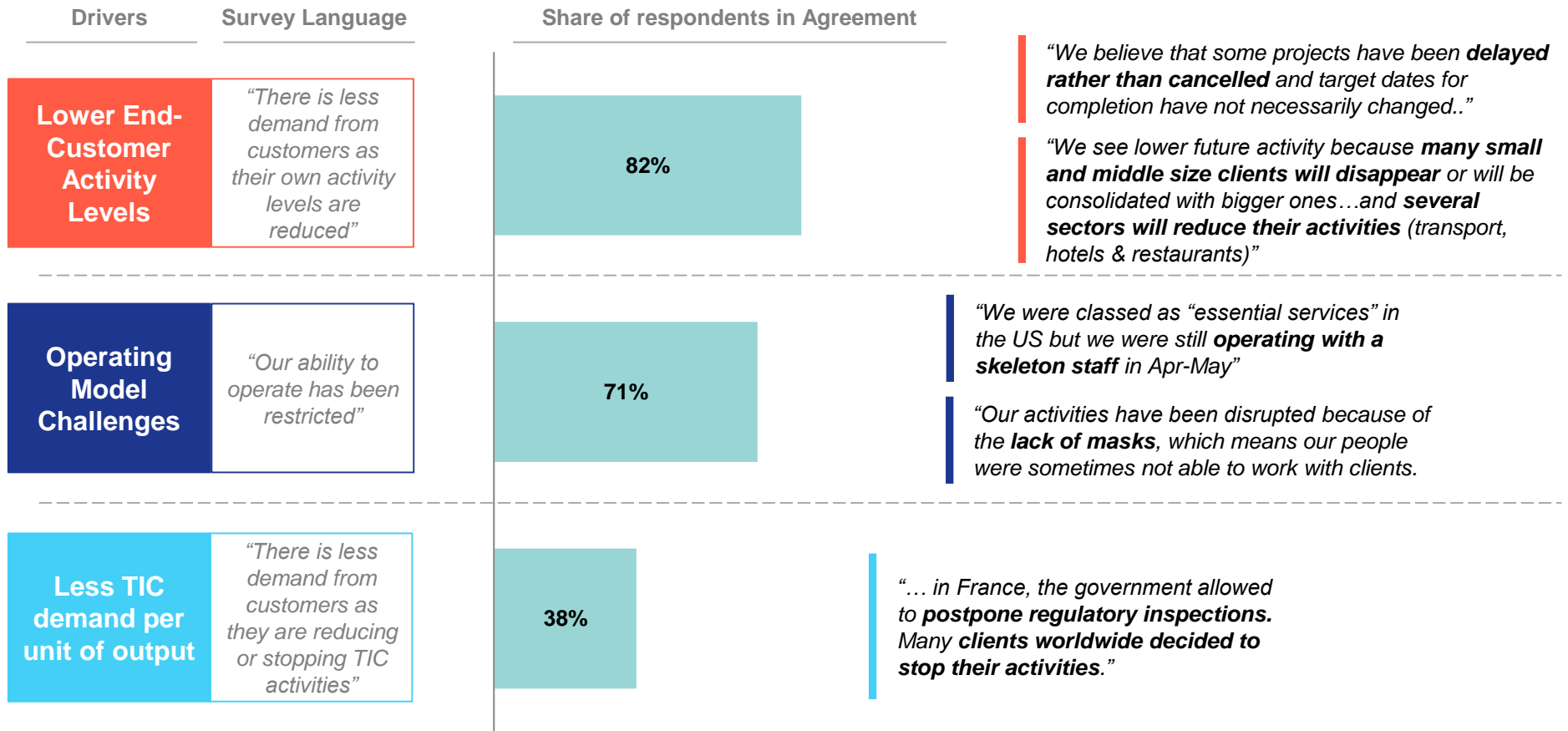
Source: OC&C & TIC Council Joint Survey July 2020, OC&C analysis

Not as bad as we feared? (except where it is) – impact on TIC markets and key players

Reduced ability to operate and end-user demand reduction are the two main drivers of this 2020 decline – suggesting high bounce back potential

Drivers of Covid Impact

% of respondents reporting an impact agreeing with each statement¹, N=34



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 analysis

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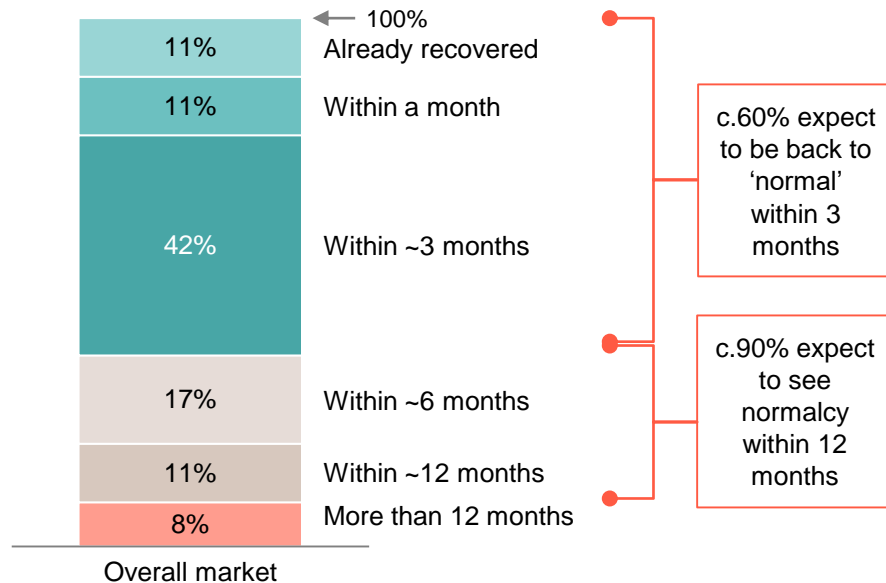
Not as bad as we feared? (except where it is) – impact on TIC markets and key players

A return to stability is expected soon, though this is approached with caution as 30-40% of respondents expect TIC activity levels to be suppressed

Expected Recovery

Execs expect revenues to return to stability fairly quickly...

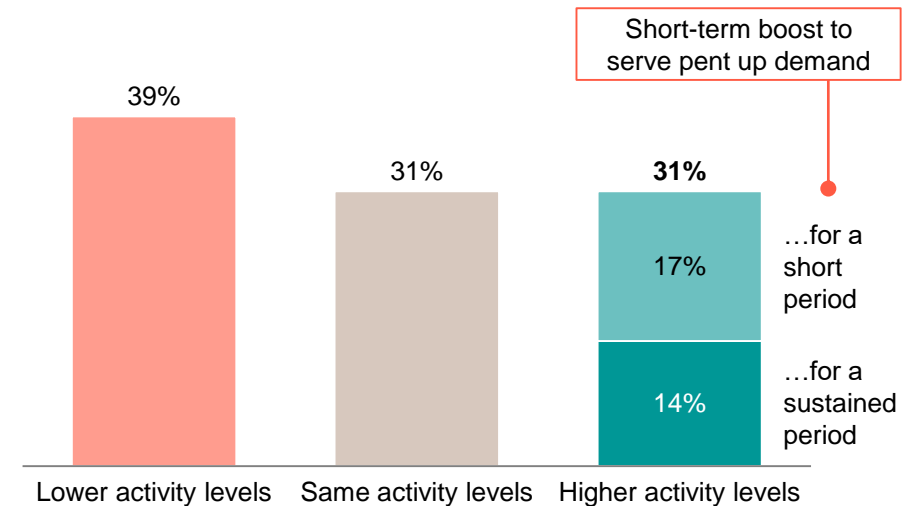
Time to return to stability¹, % of respondents, N=36



"We see lower future activity because many small and middle sized clients will disappear or will be consolidated with bigger ones...and several sectors will reduce their activities (transport, hotels & restaurants)"

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

Level of stable recovered activity², % of respondents, N=36



"It's a mixed picture, some end markets will recover more quickly, others will be more structurally challenged, but the long terms macro drivers of the industry will have ended up being strengthened by this period of dislocation"

"We expect more rely on the private TIC services due to weakening of the state TIC activities"

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"

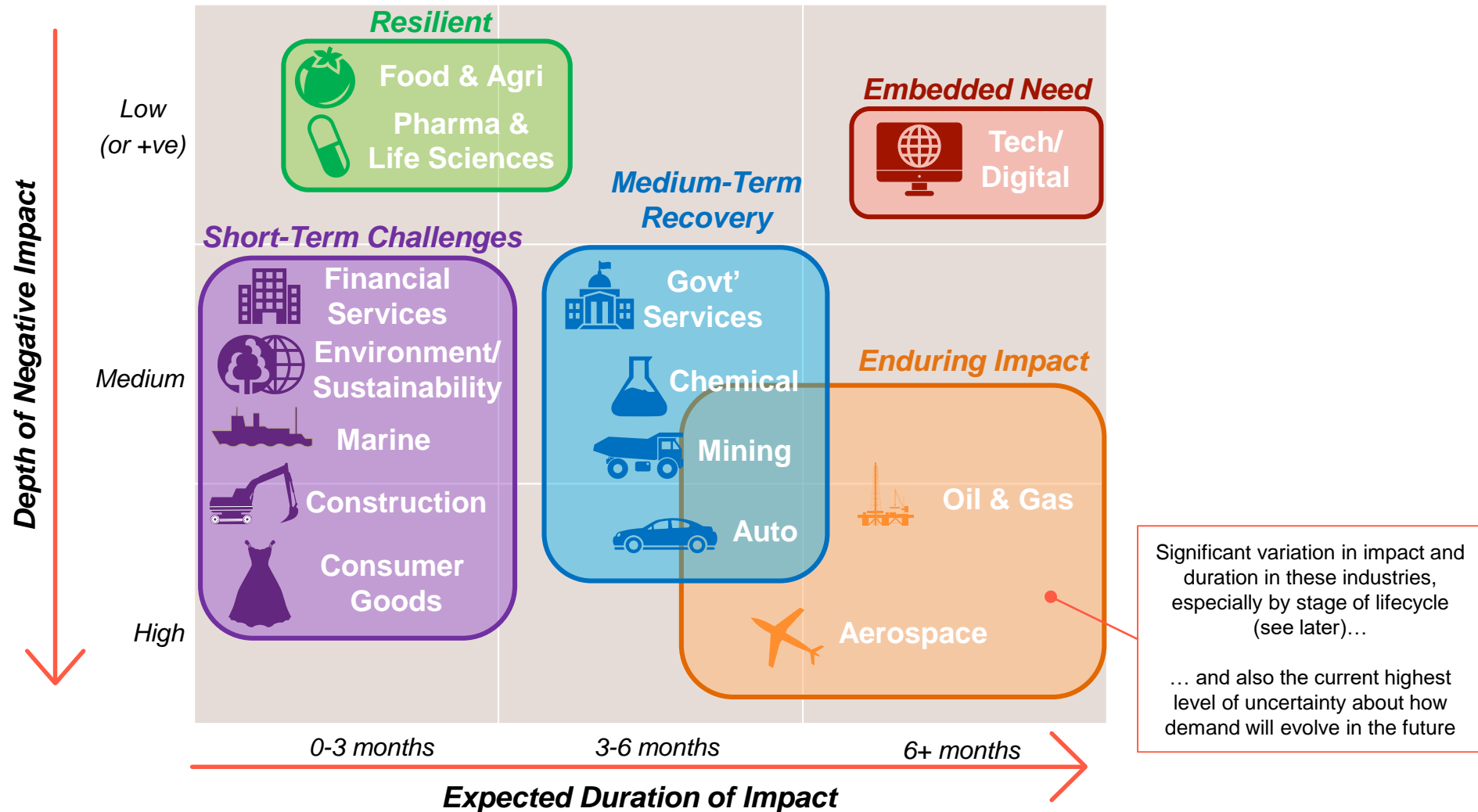
Source: OC&C & TIC Council Joint Survey July 2020, OC&C analysis

Not as bad as we feared? (except where it is) – impact on TIC markets and key players

In our April TIC Council presentation, we showed how we expected different sectors to be impacted, in both depth and duration...

Negative Impact on TICC End Market Sub-Sectors

Not Exhaustive

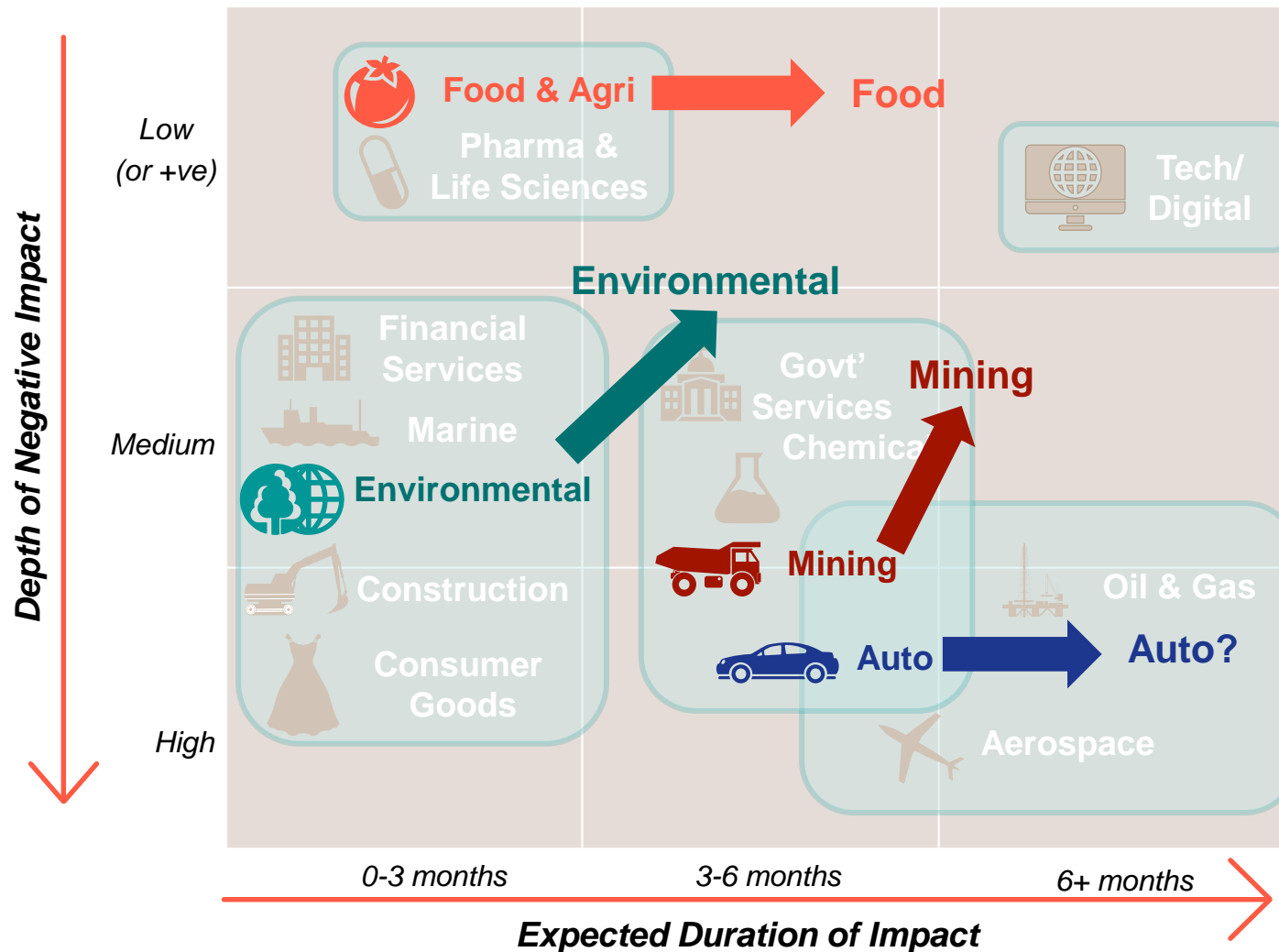


Not as bad as we feared? (except where it is) – impact on TIC markets and key players

As the crisis has unfolded some sectors have shown a healthier degree of resilience – albeit the timing of the recovery may be stretching out

Negative Impact on TICC End Market Sub-Sectors

Examples



Not as bad as we feared...

- Most end sectors have traded through the crisis better than feared, albeit with a more stretched out recovery

... except where it is


- Harder hit sectors continue to suffer, and these are most likely to be hit by recession too
- Impact is likely to be prolonged by sustained pandemic outlook

Not as bad as we feared? (except where it is) – impact on TIC markets and key players


The impact of Covid has varied widely by end-market, ranging from broadly flat (food), V-shaped rebound (commodities), to deeper impact (Auto)

Select TIC End-Market Covid and Long-term Performance¹


Indicative – selected end-markets


Food – operationally resilient, with demand upside


2020 Growth Trends		Commentary
April-June	0% YoY	<ul style="list-style-type: none"> Modest reduction in food testing activity in April and May with staff already returning to labs and some backlog of testing Fundamental drivers robust with little change in testing demand – no easing of regulations, increased focus on safety – but segmental differences (food service exposed producers)
Full Year 2020	+1% YoY	
3-5 Year Market Tailwinds		
Overall Growth	+4-6%pa	


Environmental – briefly paused, some delays to new regulations

2020 Growth Trends		Commentary
April-June	-2-0% YoY	<ul style="list-style-type: none"> Underlying testing intensity and need remains – increase in regulation over 3-5 years due to recent scandals (eg, Flint water scandal in US) New construction projects paused briefly during Covid (although often first to return) New legislation paused
Full Year 2020	0-1% YoY	
3-5 Year Market Tailwinds		
Overall Growth	+0-2%pa	


Commodities – “V shape” impact with gold price upside

2020 Growth Trends		Commentary
April-June	-5-10% YoY	<ul style="list-style-type: none"> Temporary mine closures in H1 2020 impacted testing volumes... ...but rebounding in response to copper & gold prices, as well as demand picking up from restart of the global economy (particularly China) Longer-term (3-5 year) growth projections uncertain due to more unpredictable commodities prices
Full Year 2020	0-1% YoY	
3-5 Year Market Tailwinds		
Overall Growth	+0-5%pa	


Auto – susceptible to operational + structural downsides

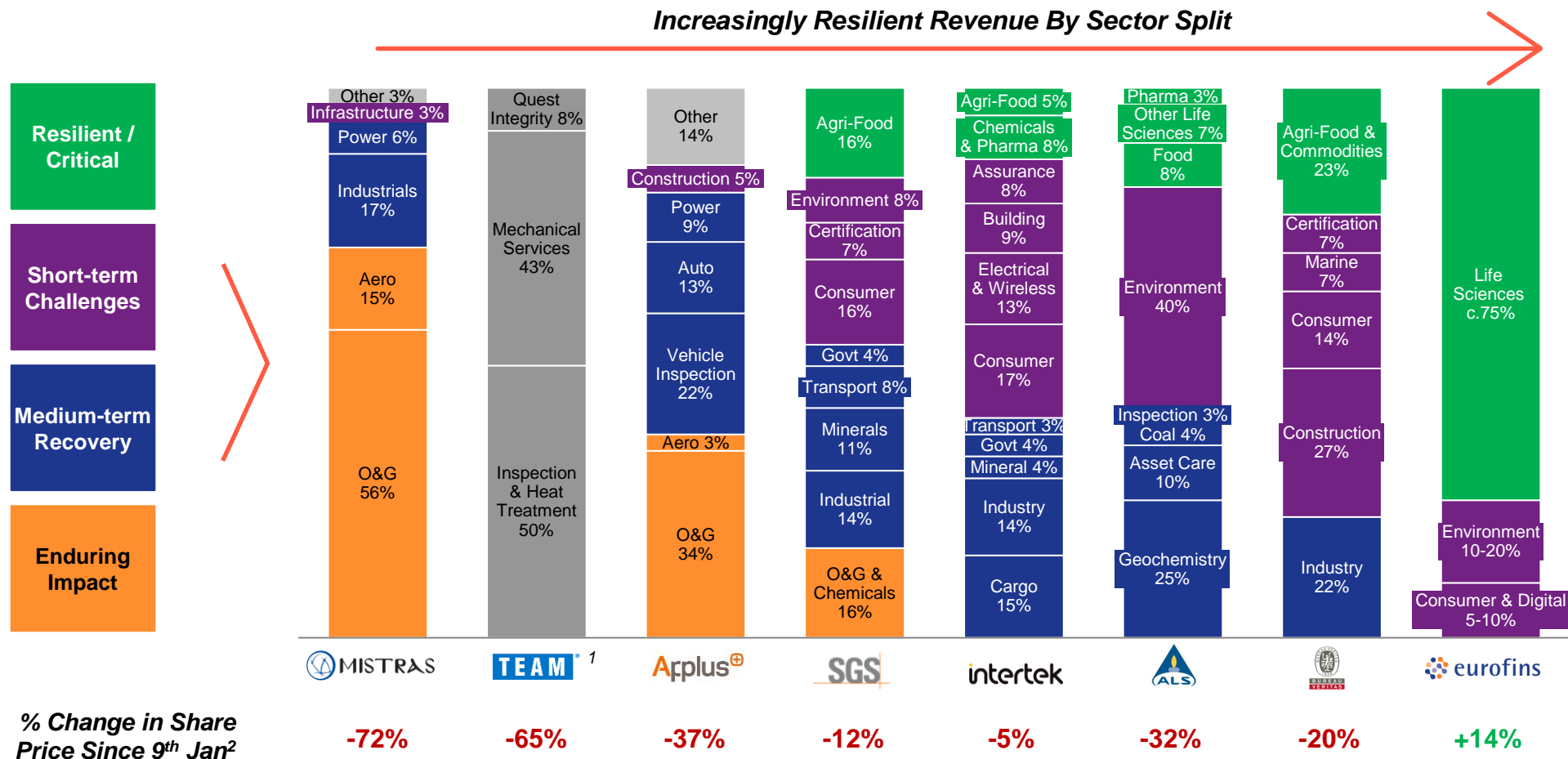
2020 Growth Trends		Commentary
April-June	-30-40% YoY	<ul style="list-style-type: none"> Vehicle production halted and sales almost zero during lockdown; R&D-related spend more resilient but ultimately driven by sales Medium term growth expected due to intensity of auto technology change... ... but Auto volumes are cyclical so most exposed to recessionary risk
Full Year 2020	-5-15% YoY	
3-5 Year Market Tailwinds		
Overall Growth	+1-4%pa	

1. Revenue performance of TIC players within these end markets
Source: OC&C project experience, Survey responses within target markets, OC&C analysis

Not as bad as we feared? (except where it is) – impact on TIC markets and key players

End-sector exposure continues to drive valuation differences for listed TIC providers, with an increasing divergence in fortunes between major players

Revenue by Sector of Key TIC Players, 2019



1. A more granular split out is not available for TEAM Inc, however given the industry focus (Aero, Refining, Petrochemical & Chemical, Pipeline, Power, Manufacturing, Mining, Pulp & Paper), it is assumed that the majority of revenue comes from customers in sectors that will face an Enduring Impact or Medium-term Recovery

2. Correct on Jun 29th






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

Not as bad as we feared? (except where it is) – impact on TIC markets and key players

Resilience has been recognised in recent financial results and investor sentiment for most (although this is vs a very bearish base case view in Q1)

Consensus and Comments on Latest Results, Selected TIC Players

Selected players only

TIC Player	Reporting Period	Consensus on Results	Quotes from Brokers/ Commentary
	Jan 1 st – March 31 st 2020	Above Expectation	<p><i>“Solid Q1 despite the lockdown”</i> – Auerbach Grayson</p> <p><i>“Q1 sales beat our expectations”</i> – ODDO BHF</p>
	Jan 1 st - Apr 30 th 2020	Above Expectation	<p><i>“Better than expected January-April figures”</i> – Société Générale</p> <p><i>“More resilient than expected”</i> – JP Morgan</p>
	Jan 1 st – March 31 st 2020	Above (a very low) Expectation	<p><i>Losses of 13-17% forecasted, actual loss was 10%: “due to our ability to quickly react to dynamic market conditions”</i> - Dennis Bertolotti, Mistras CEO</p>
	Jan 1 st – March 31 st 2020	Mixed opinions	<p><i>“Resilient Q1, Q2 not likely to hold up as well”</i> – RBC Capital Markets</p> <p><i>“Testing times for Bureau Veritas”</i> – Morningstar</p>
	Oct 1 st 2019 – Mar 31 st 2020	Mixed opinions	<p><i>“In line with expectations... Outlook a little soft”</i> – JP Morgan</p> <p><i>“April '20 revenues down 9% on pcip”</i> – ALS</p>

1. Revenue expectations pre-COVID for Bureau Veritas and Intertek were extrapolated from china impact
Source: Brokers reports, Annual reports, Results statements, OC&C analysis, Cap IQ Mistras Guidance

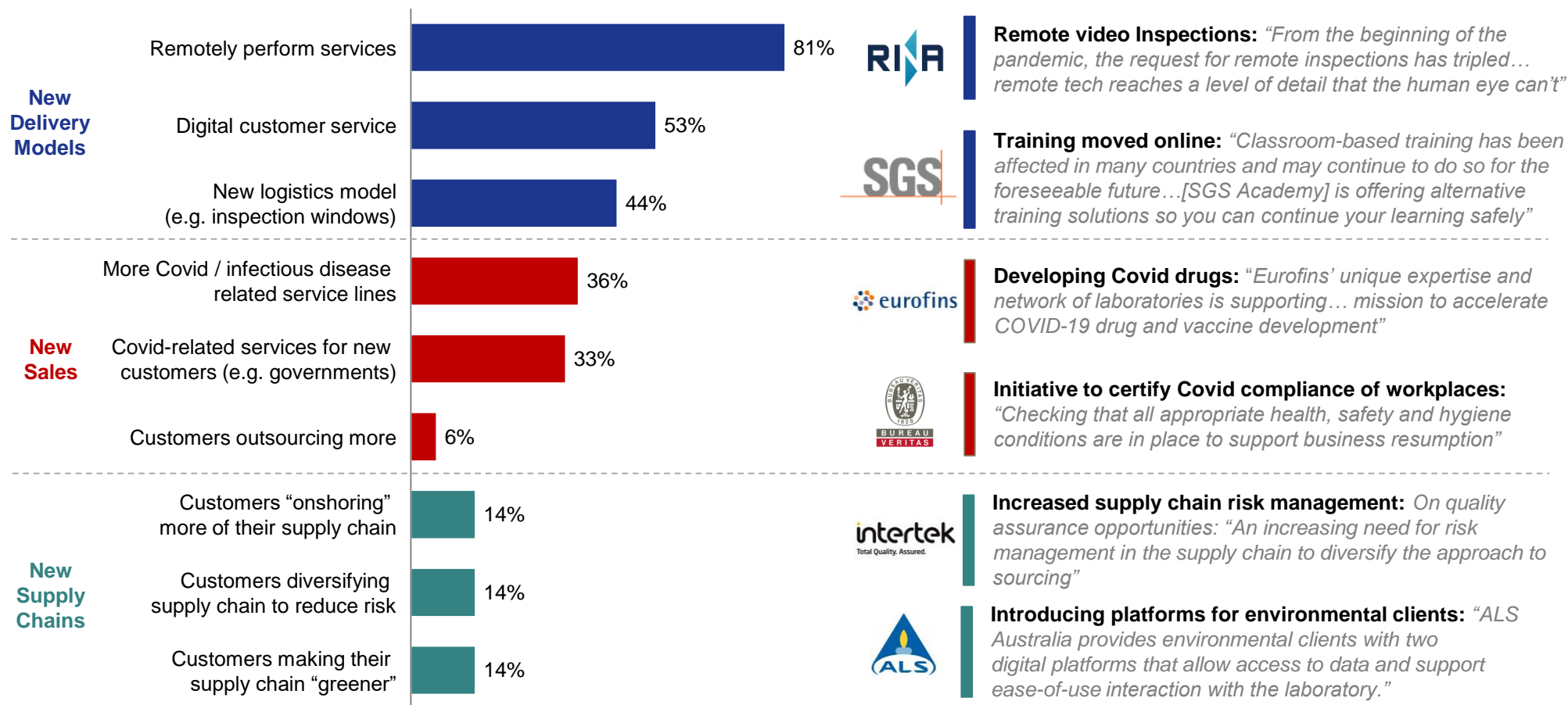
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Not as bad as we feared? (except where it is) – impact on TIC markets and key players

TIC providers have been swift to develop new services and new delivery models to manage the Covid-19 impact and smartly access latent demand

TIC Company Adjustments by Type

% of respondents agreeing with market change¹, N=36



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"

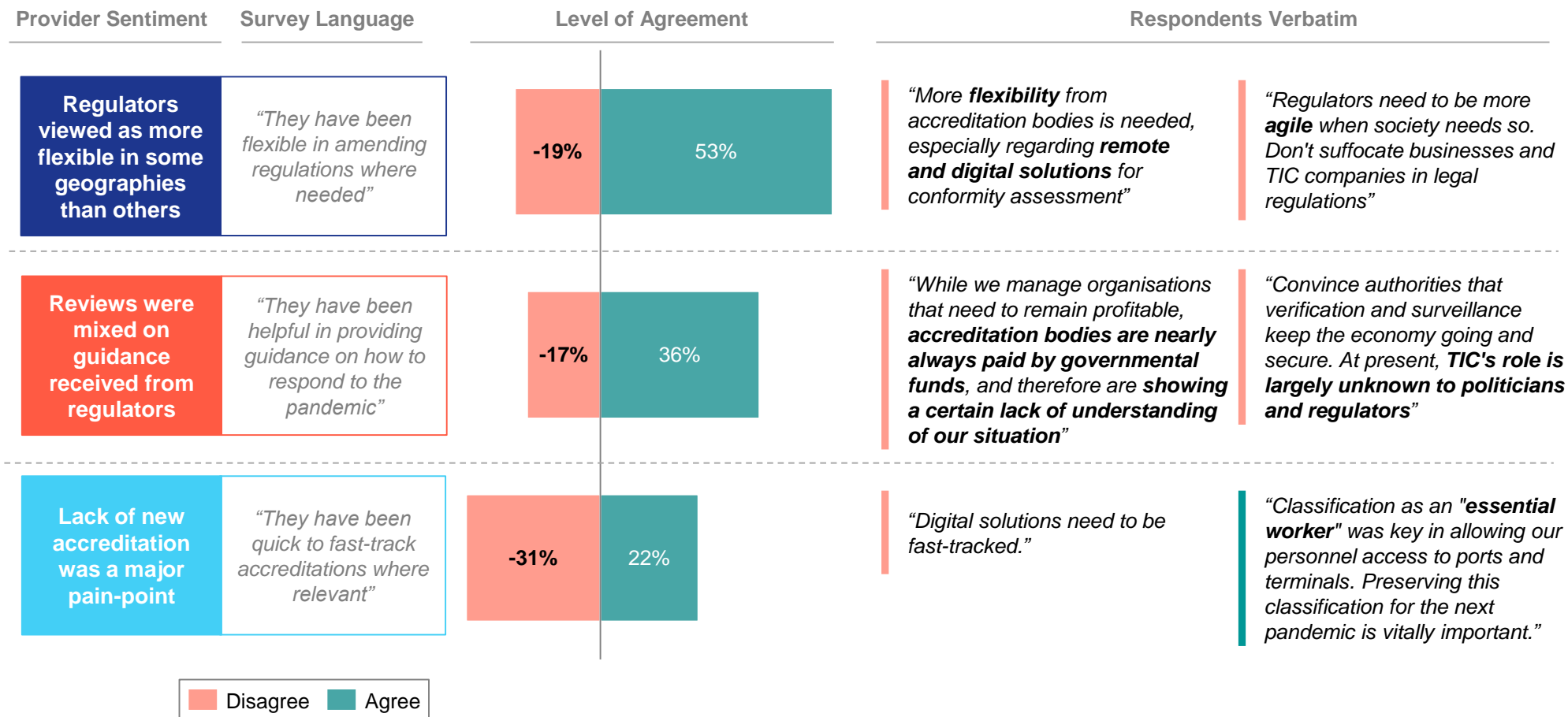
Source: OC&C & TIC Council Joint Survey July 2020., OC&C analysis, Company websites, Annual reports

Not as bad as we feared? (except where it is) – impact on TIC markets and key players

Perception of regulatory response was mixed – they were often flexible within existing frameworks but slow to support remote or digital solutions

Perceived Regulator Response by Geography

% of respondents, N=36



1. Survey question: "To what extent do you agree with the following statements about the most relevant regulator for your industry over the course of the pandemic so far?"

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

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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 "Creating the new normal" in white, bold font, framed by white corner brackets.

Creating the new normal

TIC players have an opportunity to help create a more sustained, sustainable 'new normal' for customers receptive to redefining how they operate

The 'new normal' will...

1 ... still be defined by Covid for a long time

- Need for testing, economic impacts, and structural customer changes will be prolonged
- Even post-vaccine, demand for Diagnostics and Workplace safety services will be higher and general customer awareness of risk and supply chain resilience will be heightened

2 ... be more digital / remote / automated

- It's already a cliché, but there has been a decade of change in a few months in terms of 'virtual' delivery and digital customer interaction – which is expected to stick post-Covid
- Workplace health concerns accelerate the case for more automation and remote delivery

3 ... see an increased focus on risk and resilience

- Risks are top of mind (for both TIC providers and customers) – primarily a global recession, a prolonged or new pandemic impact, customers going out of business
- Resilience is prized – not just operational but also commercial choices (who you target)

4 ... be Greener (probably)

- Customers don't always have Sustainability top of mind right now, but they are being forced to make decisions about rebuilding where ESG factors are significant
- The "S" in ESG¹ is now more prominent alongside 'flattening the curve' of climate change

5 ... require more flexible operating models

- Uncertainty and the need for rapid adaptation will define the next 12+ months
- TIC operators, regulators, and customers need to be more flexible in their operating models and embrace the role that third party providers can play in doing this

6 ... be defined by providers as much as by customers

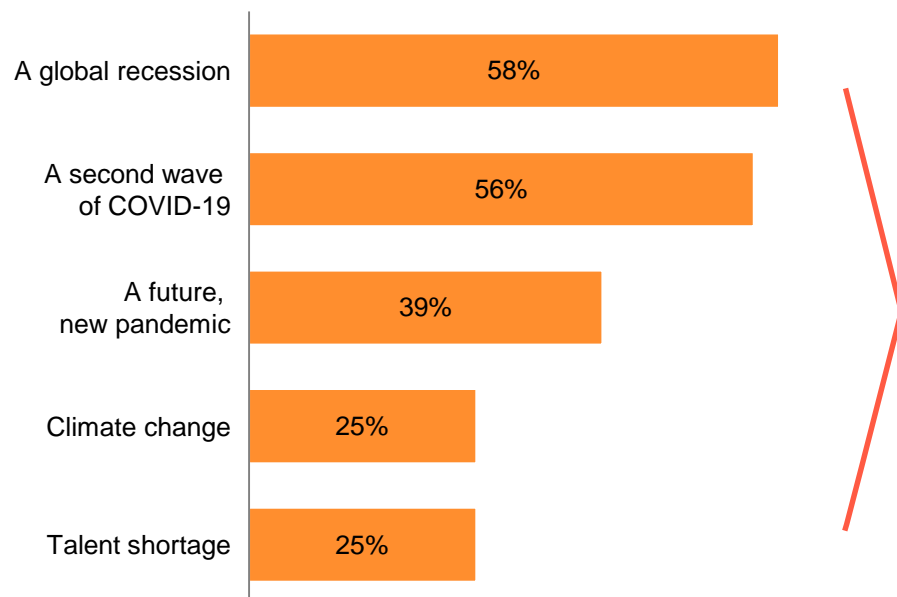
- A time of great structural change and "mass forced experimentation" is a unique opportunity to redefine operating models and customers are looking to TIC to do this
- In particular, Covid has accelerated the need for clarity and focus on strategic endgames

Covid will continue to define much of the sector's activity for some time to come, both in terms of the risks faced and the initiatives planned

Future Expectations

Perception of Future Risk

% of respondents scoring 4 or 5 – Very Concerned¹, N=36

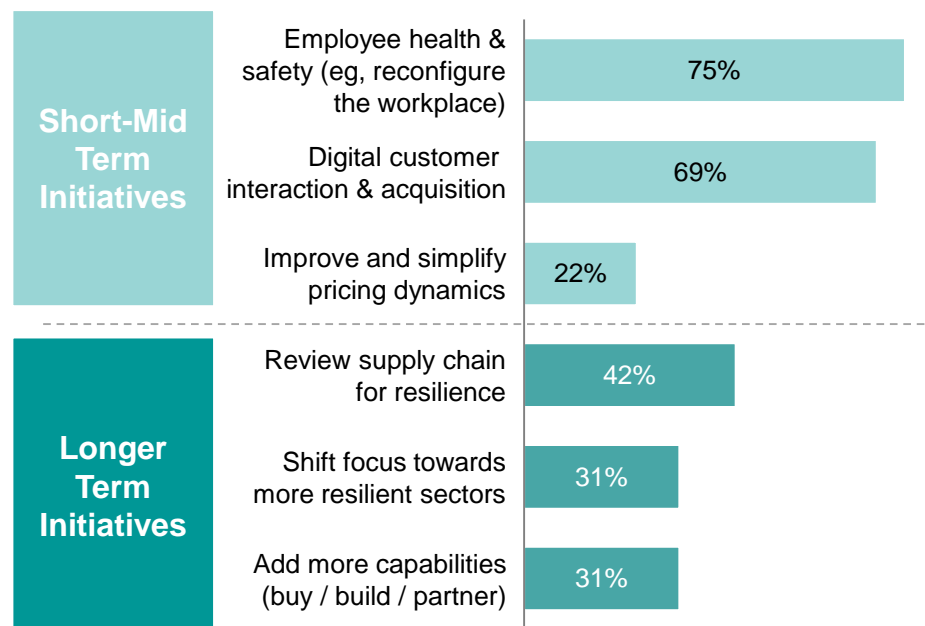


*“Widespread **infection of employees** is our biggest risk. As long as our personnel stays healthy, we are able to operate effectively.”*

*“The largest risk is **employees getting sick** while outside of the work environment in hot spots of infection.”*

Planned Internal Initiatives

% of respondents agreeing with initiative², N=36



*“Our greatest risk beyond Covid is a **global financial crisis**. We could address this by becoming more **resilient in our pricing dynamics**.”*

1. Survey question: “More broadly, how concerned are you about the following risks to your business? (Please rank on a scale of 1-5 from 1-not at all concerned to 5-very concerned)”

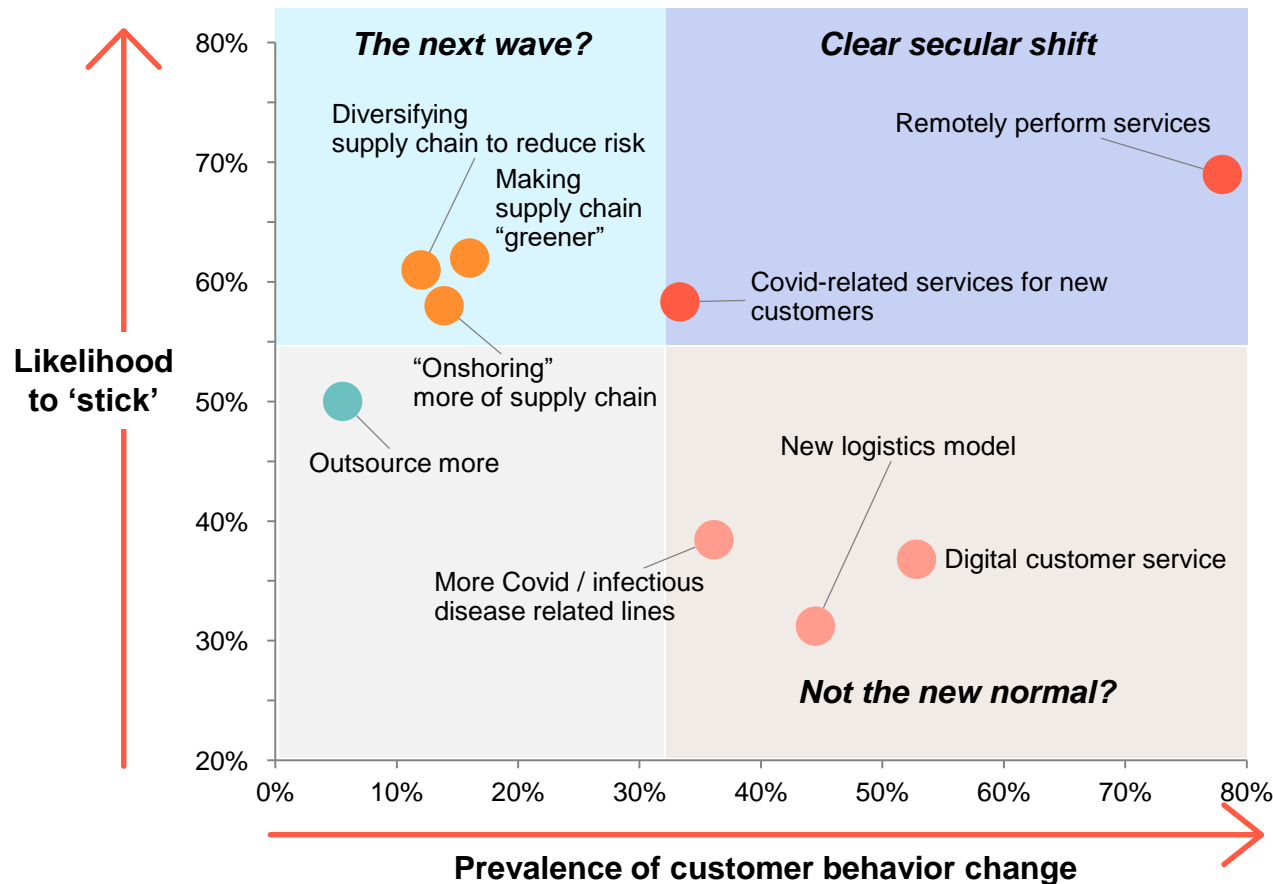
2. What initiatives are you planning on implementing within your company beyond Covid? (Please select all that apply)

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

“The revolution will be televised”... remote delivery and customer service are the biggest swings in customer behavior change and are likely to stick

Customer Behaviour Changes by Prevalence and Permanence

% selecting initiative as prevalent or likely to stick^{1,2}



Perspectives On Digital Shift

- +
- “The industry **needs data digitalization, and remote audit** [to emerge stronger out of this crisis].”***
- “Digitalization of TIC services and improvement of **remote inspection techniques** [should be introduced to ensure the TIC Industry is well positioned to deal with possible future pandemics].”***
-
- “Context is never given by a video, a picture,... and the real presence of a human being is necessary”***

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 2020, OC&C analysis

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Sustainability may not be top of mind right now, but customers are being faced with decisions about rebuilding, where ESG calls must be made

Top of the agenda... ... if not top of mind

- **Climate Change is not top of mind right now as a risk** (25% of respondents ranked climate change as key risk, #4 after global health / economy)...
- ... but consumers, employees, voters all report that they **want a 'green rebuild'** in most major economies...
- ... and customers are being **forced to make significant decisions** today about future supply chain etc



The 'S' in ESG is suddenly much more prominent

- Covid has **exposed inequality** like never before
- Employee **welfare a critical topic** for customers alongside aspects of diversity and social responsibility...
- ... both in-house and **across the supply chain**



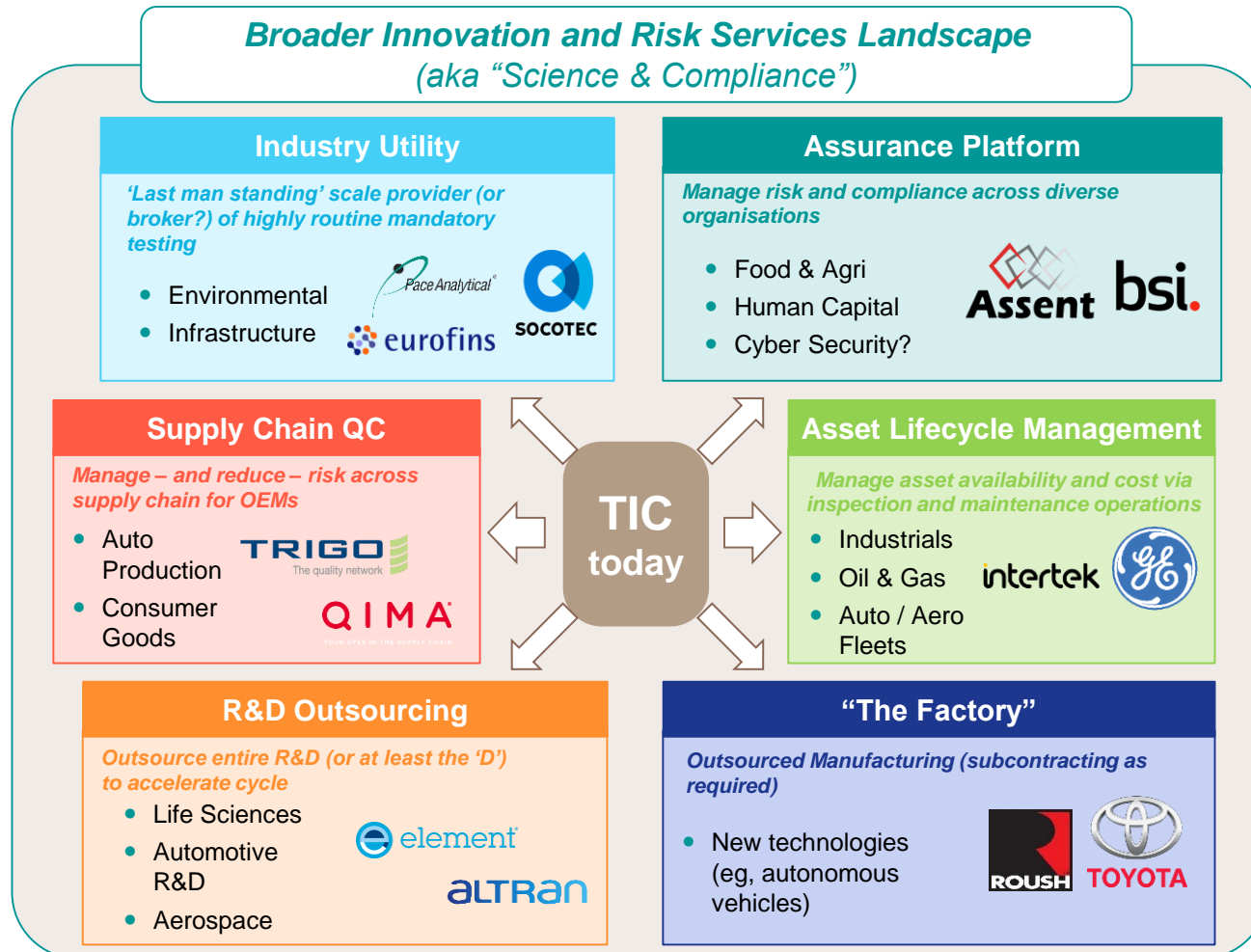
TIC can save the world (again!)

- **Supply chain services and accreditation** key to tackling and monitoring ESG effectively
- “Environmental” services have gone from a compliance nuisance to being a **C-suite issue now**
- Prominence that ‘testing’ now has in corporate consciousness **raises profile of TIC industry**, and its duty to support

KIWA recent involvement in UK ‘Hydrogen Strategy Now’ group: *“Hydrogen holds huge potential to achieve our decarbonisation targets and in so doing support the UK economy back from the current crisis”* (KIWA UK Director)

Ultimately the “new normal” is to be created, not just anticipated – and the winners will be those with relentless customer focus and strategic clarity

Strategic End Games in TIC



- The fundamentals of how to win in TIC remain the same...
- ... Covid-19 has merely accelerated key trends in customer behaviour and operating model
- Leaders need to choose the endgame they will pursue in each sector...
- ... and not lose the opportunity to create the “new normal” for how they interact with customers
- Winners will be those that:
 - Re-examine their sector focus
 - Re-define their proposition to customers
 - Deploy technology smartly to deliver this

**Any
Questions?**



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Strategy consultants

uncommon sense

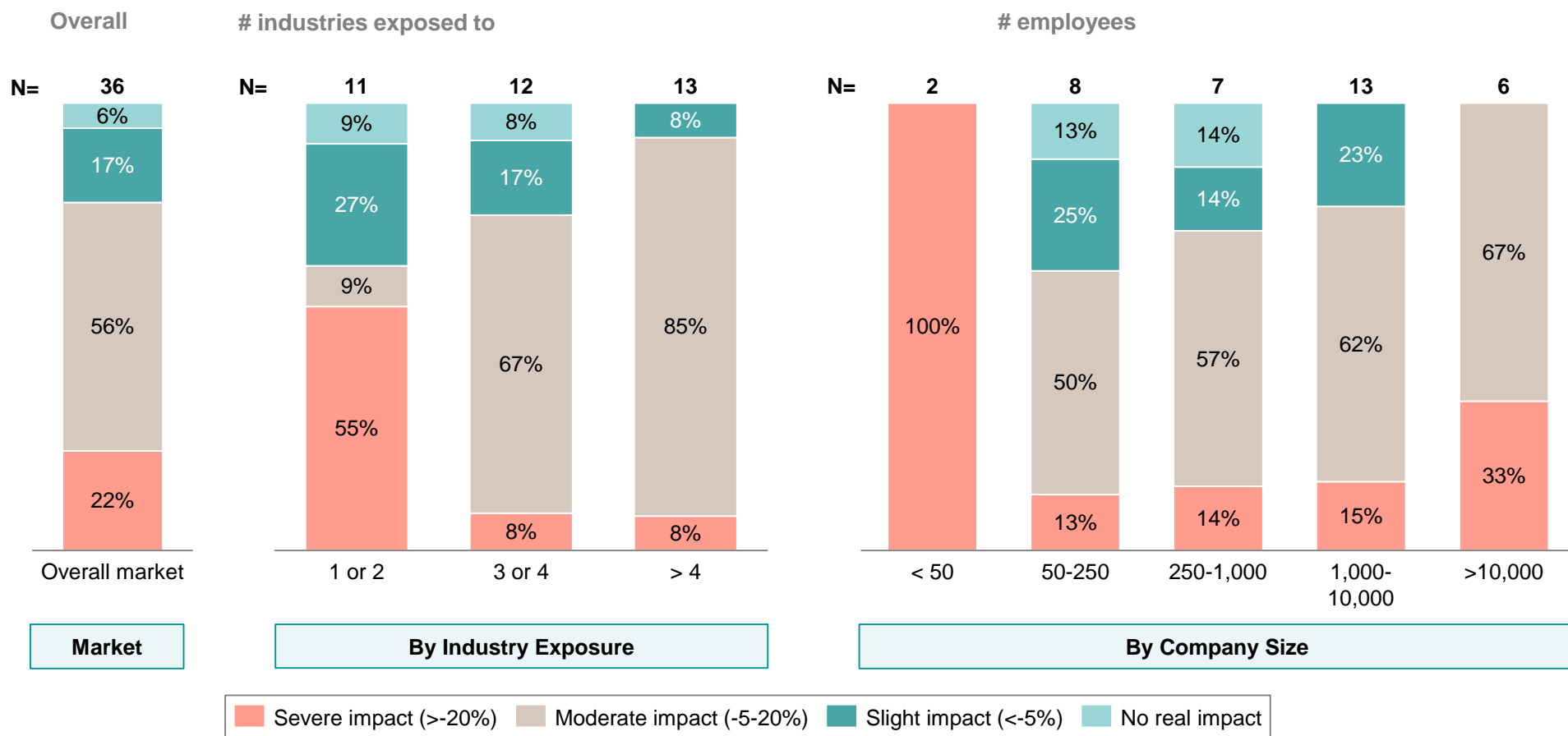
Appendix



Survey results indicate Covid's effects on TIC were mostly moderate

Covid Impact for Overall Market and by Industry Exposure and Company Size

% of respondents rating severity of impact¹, total N=35



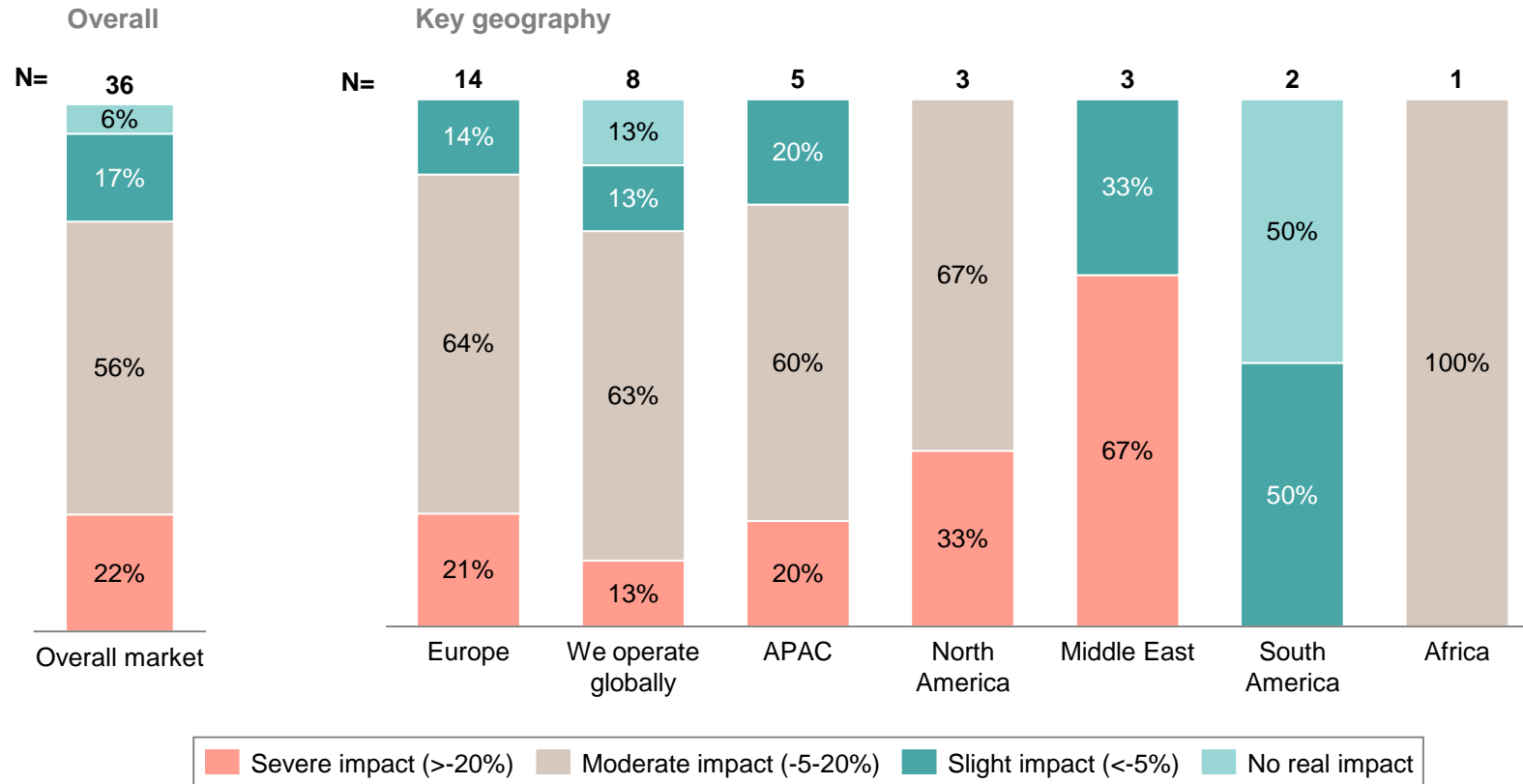
1. Survey question: "Which of the following best characterize the impact that COVID-19 has had on your business so far in 2020? Please select one"

Source: TIC Council Survey, OC&C analysis

Survey results indicate Covid's effects on TIC were mostly moderate

Covid Impact for Overall Market and by Key Geography

% of respondents rating severity of impact¹, total N=35



1. Survey question: "Which of the following best characterize the impact that COVID-19 has had on your business so far in 2020? Please select one"

Source: TIC Council Survey, OC&C analysis

