Planning for uncertainty

Tools for Success In Managing an Economic Downturn

ACIL

21 July 2020

OC&C
Strategy consultants

uncommon sense
Introductions

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

- 2017 ACIL Conference Speech
- ‘TIC101’ Proprietary Database and Published IP
- 2015
- 2017
- April 2020 TIC Council Covid Webinar
- 2019 Barclays Conference Speech
- Regular sector commentary

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Topics for discussion today

**Market context**
- What has been and will be the impact of covid on the economy and key sectors…?
- … and the TIC (Testing, Inspection, and Certification) industry in particular?

**Lessons from history**
- What happened in the previous financial crisis?
- What’s the same this time around…
- … and what will be different?

**Opportunities for TIC providers**
- What will the ‘new normal’ look like over the medium term?
- What are the current opportunities for third-party TIC providers?

**Planning ahead**
- How do you plan for a recession that may – or may not – happen?
- How can you make your operating model more flexible? What about human capital?

**Commercial actions**
- Where should sales efforts be focused? Is now a good or a bad time to be looking at new customers, new services, and new markets?
- What about pricing?
Market context

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

Globally, countries fall into one of three categories

Daily New Cases\(^1\), Worldwide

Country Categories, Daily New Cases Per 100,000\(^1\)

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

- **High risk of 2\(^{nd}\) wave**
  - Premature lifting of lockdown leading to high risk of 2\(^{nd}\) wave (or continued 1\(^{st}\) wave?)

- **Still in 1\(^{st}\) wave**
  - Mainly LDCs, significant disruption and uncertainty to come

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1. 7 Day moving average; commences date of 100\(^{th}\) infection in country

Source: data.europa.ea, OC&C analysis
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

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Wells Fargo</strong></td>
<td><img src="image" alt="More Negative" /> -3.8% (-5.7%)</td>
<td>3.0%</td>
<td>N/A</td>
<td>July 9th update</td>
</tr>
<tr>
<td><strong>International Monetary Fund</strong></td>
<td><img src="image" alt="More Negative" /> -4.9% (-8.2%)</td>
<td>3.3%</td>
<td>Global growth expected to rebound to 5.4% in 2021</td>
<td>June 21st update</td>
</tr>
<tr>
<td><strong>NatWest Markets</strong></td>
<td><img src="image" alt="More Negative" /> -3.2% (-5.7% vs Pre Covid-19 Growth Forecast)</td>
<td>2.4%</td>
<td>Output to recovering to pre-crisis levels in H2 2021</td>
<td>April 16th</td>
</tr>
<tr>
<td><strong>The Economist Intelligence Unit</strong></td>
<td><img src="image" alt="More Negative" /> -2.5% (-4.8%)</td>
<td>2.3%</td>
<td>Return to growth by H2 2020</td>
<td>April 14th</td>
</tr>
<tr>
<td><strong>Oxford Economics McKinsey &amp; Company</strong></td>
<td><img src="image" alt="Virus Resurgent" /> -4.7% (-7.2%)</td>
<td><img src="image" alt="Virus Contained" /> -1.5% (-4.0%)</td>
<td>Return to pre-crisis Q4 2020 if virus contained, Q3 2022 if resurgent</td>
<td>April 13th</td>
</tr>
</tbody>
</table>

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

Source: Desk Research, OC&C analysis
The primary determinant of segment impact of Covid within TIC is the end sector served, in both depth and duration.

Negative Impact on TIC End Market Sub-Sectors

- **Resilient**: Low (or +ve) Impact
  - Food & Agri
  - Pharma & Life Sciences

- **Medium-Term Recovery**: Medium Impact
  - Financial Services
  - Environment/Sustainability
  - Marine
  - Construction
  - Consumer Goods

- **Embedded Need**: High Impact
  - Tech/Digital
  - Govt’ Services
  - Chemical
  - Mining
  - Auto
  - Aerospace
  - Oil & Gas

**Expected Duration of Impact**
- 0-3 months
- 3-6 months
- 6+ months

Significant variation in impact and duration in these industries, especially by stage of lifecycle (see later)… and also the current highest level of uncertainty about how demand will evolve in the future.

Source: OC&C analysis
The impact of Covid has varied widely by end-market, ranging from broadly flat (food), V-shaped rebound (commodities), to deeper impact (Auto).

### Food – operationally resilient, with demand upside

<table>
<thead>
<tr>
<th>2020 Growth Trends</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>April-June</td>
<td>0% YoY</td>
</tr>
<tr>
<td>Full Year 2020</td>
<td>+1% YoY</td>
</tr>
<tr>
<td>3-5 Year Market Tailwinds</td>
<td></td>
</tr>
<tr>
<td>Overall Growth</td>
<td>+4-6%pa</td>
</tr>
</tbody>
</table>

- 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)

### Environmental – briefly paused, some delays to new regulations

<table>
<thead>
<tr>
<th>2020 Growth Trends</th>
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</tr>
</thead>
<tbody>
<tr>
<td>April-June</td>
<td>-2-0% YoY</td>
</tr>
<tr>
<td>Full Year 2020</td>
<td>0-1% YoY</td>
</tr>
<tr>
<td>3-5 Year Market Tailwinds</td>
<td></td>
</tr>
<tr>
<td>Overall Growth</td>
<td>+0-2%pa</td>
</tr>
</tbody>
</table>

- 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

### Commodities – “V shape” impact with gold price upside

<table>
<thead>
<tr>
<th>2020 Growth Trends</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>April-June</td>
<td>-5-10% YoY</td>
</tr>
<tr>
<td>Full Year 2020</td>
<td>0-1% YoY</td>
</tr>
<tr>
<td>3-5 Year Market Tailwinds</td>
<td></td>
</tr>
<tr>
<td>Overall Growth</td>
<td>+0-5%pa</td>
</tr>
</tbody>
</table>

- 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

### Auto – susceptible to operational + structural downsides

<table>
<thead>
<tr>
<th>2020 Growth Trends</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>April-June</td>
<td>-30-40% YoY</td>
</tr>
<tr>
<td>Full Year 2020</td>
<td>-5-15% YoY</td>
</tr>
<tr>
<td>3-5 Year Market Tailwinds</td>
<td></td>
</tr>
<tr>
<td>Overall Growth</td>
<td>+1-4%pa</td>
</tr>
</tbody>
</table>

- 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

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

© OC&C Strategy Consultants 2020
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

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

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

**Time to return to stability**, % of respondents, N=36

<table>
<thead>
<tr>
<th></th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Already recovered</td>
<td>100%</td>
</tr>
<tr>
<td>Within a month</td>
<td>11%</td>
</tr>
<tr>
<td>Within ~3 months</td>
<td>42%</td>
</tr>
<tr>
<td>Within ~6 months</td>
<td>17%</td>
</tr>
<tr>
<td>Within ~12 months</td>
<td>11%</td>
</tr>
<tr>
<td>More than 12 months</td>
<td>8%</td>
</tr>
</tbody>
</table>

“**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)”

**Level of stable recovered activity**, % of respondents, N=36

<table>
<thead>
<tr>
<th></th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower activity levels</td>
<td>39%</td>
</tr>
<tr>
<td>Same activity levels</td>
<td>31%</td>
</tr>
<tr>
<td>Higher activity levels</td>
<td>31%</td>
</tr>
</tbody>
</table>

“**It’s a mixed picture, some end markets will recover more quickly, others will be more structurally challenged, but the long term 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
Lessons from history
Lessons from history

In the 2008/9 recession, the TIC industry displayed resilience, with several players showing continued YoY Growth

Analysis of Effects of Recession on the Global TIC Players

**Effect of the 2008/9 Global Financial Crisis (GFC)**

- Testing market largely resilient from severe impact of 2008/9 recession – only ALS entered negative growth, though all majors saw growth reduce
- Impact largely dependent on segment exposure – ALS suffered from high mineral exposure, BV benefited from broad portfolio of services & maintained regulatory business (50% revenue), only 30% Intertek business dependent on global trade
- All players largely recovered by 2011, though extent to which also dependent on geographical presence (US and Europe slower recovery)
- Impact felt more on cyclical end industries such as mineral exploration & construction, with a decline in building and exploration volumes – i.e. BV saw -8% construction decline in 2009, SGS overall decline driven by c.-15% minerals and -3% O&G decline

**What was the impact?**

**How did they mitigate it?**

1. Financial Year reporting for ALS is March – March; therefore FY2009 = classed as 2008 given ¾ of year is in 2008, to align to other players reporting

Source: Annual Reports, Capital IQ, OC&C analysis

10
There was an active reduction in M&A activity in 2009, with TIC players typically focusing more on organic growth and cost cutting initiatives

Management Actions to Deal with 2008/9 Recession

TIC majors actively reduced their M&A activity during 2009

- M&A activity significantly declined in 2009, with TIC players stating they were choosing to be prudent given uncertain market conditions, conserve costs and make only strategic investments
- Given likelihood of lower value multiples meaning cheaper assets, many reduced activities in 2009, gradually returning in 2010

# of Acquisitions, Selected TIC Majors, 2008-10

<table>
<thead>
<tr>
<th>Year</th>
<th>BV</th>
<th>Intertek</th>
<th>Eurofins</th>
<th>SGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>15</td>
<td>14</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>2010</td>
<td>8</td>
<td>7</td>
<td>2</td>
<td>10</td>
</tr>
</tbody>
</table>

“*We have acquired over 50 businesses in the past 5 years to complement and enhance our service portfolio. In 2009 we reduced our investment in acquisitions to reflect the uncertain market conditions and provide increased capacity to fund medium or larger acquisitions should suitable opportunities arise*”  Wolfhart Hauser, CEO, Intertek, 2009

“In 2009 we had a high degree of prudence on acquisitions…we were actively monitoring a large number of potential options but often felt it was prudent to wait further….high multiples that have been distorting the market have come down, and this is likely to continue in 2010”  Dr Gilles Martin, CEO, Eurofins, 2009

Operationally there was a renewed focus on fat costs and integration (alongside some organic growth hotspots)

Revenue Actions

- **Doubling down on less cyclical divisions** – such as those driven by regulation
  - i.e. BV – doubled down on Certification to capture global accounts, pursue customised solutions and rising demand for new sectors (led to +6% sector growth 2009)
- **Renewed focus on fast growing markets**, (i.e. Asia, Australia, Africa) vs stagnant Europe and North America during recession

Cost & Efficiency Actions

- The larger TIC players were able to **significantly reduce headcount and streamline operations in order to effectively cut costs**, without having a negative effect on output
  - **BV** – enacted both significant cost cutting and focused on strengthening local operations and presence on customer sites
  - **Intertek** – reduced costs by leveraging combined buying power across the group (central procurement); rolled up underperforming government services division into oil, chemical, agrifood
  - **Eurofins** – aimed for a ‘lean, fit for purpose’ business via consolidating & disposal of sites in Scandinavia and NL, and pushing back €1 billion revenue target from 2011 to 2013

- Focus on **integrating recently purchased assets** to ensure operational streamlining and optimisation of assets
  - i.e. BV – accelerated the integration and related synergies of recent acquisitions, notably in Spain and Australia

Source: Annual Reports, OC&C analysis
Lessons from history

So what might be different this time round? We see more opportunities to drive new growth, albeit within operational constraints and challenges

Covid recession impact vs 2008 GFC

<table>
<thead>
<tr>
<th>End sector demand impact</th>
<th>Different to 2008...</th>
<th>Better or worse?</th>
</tr>
</thead>
<tbody>
<tr>
<td>The major driver of performance is end-market exposure</td>
<td>Life Sciences markets not just resilient, but with upside given ongoing shadow of pandemic increasing pharma / clinical trial testing and general health risk awareness</td>
<td>✓✓ Positive impact vs 2008/9</td>
</tr>
<tr>
<td>More cyclical end markets hit more: Oil and Gas double-whammy of demand shock and major oil price reduction</td>
<td>Mining and Commodities much more resilient given copper &amp; gold prices</td>
<td>✓ Uncertain impact vs 2008/9</td>
</tr>
<tr>
<td></td>
<td>Less regulatory levers to pull to drive more national testing, unlike in 2008/9 – i.e. US consumer testing</td>
<td>× Negative impact vs 2008/9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>M&amp;A Activity</th>
<th>Same as 2008 GFC...</th>
<th>Different to 2008...</th>
<th>Better or worse?</th>
</tr>
</thead>
<tbody>
<tr>
<td>M&amp;A activity on hold at the onset, with debt markets tighter (or closed)</td>
<td>M&amp;A activity on hold at the onset, with debt markets tighter (or closed)</td>
<td>✓✓ Positive impact vs 2008/9</td>
<td></td>
</tr>
<tr>
<td>Many corporates focused on immediate resilience and core business not expansion</td>
<td>Many corporates focused on immediate resilience and core business not expansion</td>
<td>✓ Uncertain impact vs 2008/9</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nature of market shock</th>
<th>Different to 2008...</th>
<th>Better or worse?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both recessions have involved a market shock globally, requiring corporates to think hard about how to focus commercial activity</td>
<td>Whilst some segments have fared better than in 2008/9, today’s recession has been hit not only by demand constraints but also operational constraints imposed by lockdown</td>
<td>× Negative impact vs 2008/9</td>
</tr>
<tr>
<td></td>
<td>This time is more unpredictable &amp; unprecedented given nature of pandemic &amp; impact long term operationally</td>
<td>(?) Uncertain impact vs 2008/9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Global Impact</th>
<th>Same as 2008 GFC...</th>
<th>Different to 2008...</th>
<th>Better or worse?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both Covid and the GFC have had a truly global impact, affecting both high and low income countries</td>
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<td>✓✓ Positive impact vs 2008/9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>This crisis is truly global, with even traditionally high growth emerging markets under severe pressure</td>
<td>(?) Uncertain impact vs 2008/9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>In 2008/9, Asia, Africa and Australia less impacted, with faster recovery; US and Europe more affected</td>
<td>× Negative impact vs 2008/9</td>
<td></td>
</tr>
</tbody>
</table>

Source: OC&C analysis
Lessons from history

In terms of profitability, the TIC sector was hit hard in 2009-10 but rebounded stronger, and was 15% up vs 2008 within 3-4 years.

LTM EBITDA

<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-Crisis Peak</th>
<th>Crisis Trough</th>
<th>Subsequent Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$110</td>
<td>$103</td>
<td>$184</td>
</tr>
<tr>
<td>2007</td>
<td>$133</td>
<td>$103</td>
<td>$184</td>
</tr>
<tr>
<td>2008</td>
<td>$134</td>
<td>$134</td>
<td>$220</td>
</tr>
</tbody>
</table>

Market Capitalization

<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-Crisis Peak</th>
<th>Crisis Trough</th>
<th>Subsequent Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$811</td>
<td>$1,055</td>
<td>$2,090</td>
</tr>
<tr>
<td>2007</td>
<td>$1,553</td>
<td>$1,196</td>
<td>$2,345</td>
</tr>
</tbody>
</table>

LTM EBITDA Margin

<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-Crisis Peak</th>
<th>Crisis Trough</th>
<th>Subsequent Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>15.9%</td>
<td>17.1%</td>
<td>17.5%</td>
</tr>
<tr>
<td>2007</td>
<td>16.1%</td>
<td>17.1%</td>
<td>17.5%</td>
</tr>
<tr>
<td>2008</td>
<td>18.4%</td>
<td>17.2%</td>
<td>17.5%</td>
</tr>
</tbody>
</table>

EV/LTM EBITDA

<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-Crisis Peak</th>
<th>Crisis Trough</th>
<th>Subsequent Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>12.2x</td>
<td>8.1x</td>
<td>12.3x</td>
</tr>
<tr>
<td>2007</td>
<td>11.6x</td>
<td>10.0x</td>
<td>12.3x</td>
</tr>
<tr>
<td>2008</td>
<td>8.1x</td>
<td>11.3x</td>
<td>12.3x</td>
</tr>
<tr>
<td>2009</td>
<td>11.4x</td>
<td>11.4x</td>
<td>12.3x</td>
</tr>
<tr>
<td>2010</td>
<td>11.4x</td>
<td>11.4x</td>
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<tr>
<td>2011</td>
<td>11.4x</td>
<td>11.4x</td>
<td>12.3x</td>
</tr>
<tr>
<td>2012</td>
<td>11.4x</td>
<td>11.4x</td>
<td>12.3x</td>
</tr>
</tbody>
</table>

Note: Statistics above represent median figures as of December 31 of each year (adjusted for outliers).
Source: Houlihan Lokey
Opportunities for TIC providers
Opportunities for TIC providers

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 ESG 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

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1. ESG = Environmental and Social Governance
Despite the significant demand shocks across most sectors, there are significant opportunities for TIC providers to play a role in fighting Covid and rebuilding supply chains to support the recovery…

Call to action: today’s opportunities for TIC providers

1. Support the global fightback
   - TIC’s vital role in responding to the crisis is clear, testing for covid itself and critical medical equipment
   - Third parties have a key (and in some cases unprecedented) role in supporting the fightback

2. Capitalise on opportunity to get closer to customers
   - Customers across sectors asking for flexible and rapid responses to new accreditations to bring on new suppliers and products…
   - … and require propositions that will help them “get back to work” sooner

3. Stimulate outsourcing and partnerships
   - Testing demand amidst supply constraints has highlighted importance of third party providers
   - Role to help reduce risk, variabilise cost, increase efficiency
   - Customers and public sector reconsidering in-house asset base

4. Support recovering supply chains
   - Rapid accreditations required as supply chains recover from major demand shock
   - Assurance platforms will be critical to provide visibility and manage risk during the recovery…
   - … and rebuild them in a new deglobalized world
Leading TIC players are proving their vital role in supporting the fightback and using the opportunity to get closer to customers in the process

TIC players supporting the fightback – examples

**Applus**
Fast tracking testing respirator and ventilator prototypes to reduce the time required to give them accreditation from multiple weeks to under 48 hours

**QIMA**
Offering free quality inspection services in China for the production of PPE

**Eurofins**
Has developed a comprehensive solution aimed at enabling end customers to resume business:

- Designing and auditing of COVID-19 related sampling and testing protocols as well as action plans
- Virus detection on site via wastewater testing and surface testing
- Assurance and consultative services to ensure safe working protocols

**Bureau Veritas**
Bureau Veritas has developed a ‘back to work’ solution to support business resumption and continuity

- The solution provides design, implementation and audit of workplaces and sites to ensure they meet the appropriate health, safety and hygiene guidelines
- Workplaces and sites are then provided with a certification which can be continuously monitored online

The scheme has already been rolled out and implemented by a series of end customers including:

- Center Parcs
- Jumeirah Al Naseem
- Klépierre Iberia malls

Source: Company Websites, Desk Research, OC&C analysis
Opportunities for TIC providers

... and emerge stronger tomorrow by accelerating long term trends in industry structure, customer behaviour, and technology adoption

Call to action: tomorrow’s opportunities for TIC providers

5. Increased use and acceptance of virtual or remote inspection
   - Remote inspection and monitoring enabled by technology (e.g., drones, virtual audit, continuous monitoring)
   - Will require regulatory, accreditation frameworks to evolve

6. Paradigm shifts in customer behaviour
   - Increased demand for digital and cyber testing (less travel, more digital interactivity)
   - Focus on sustainability and resilience increases demand
   - Expectations increasingly far above the ‘regulatory minimum’

7. Consolidation opportunities
   - Strong players will have opportunities to consolidate demand in fragmented market...
   - … through strategic customer conversations and roll-up M&A
   - Diversified players may be reconsidering portfolio footprint

8. Renewed end market focus
   - Opportunities to align towards more attractive and resilient end-sectors
   - “end-customer centricity” will be key to win in all sectors...
   - … so diversification for its own sake still a strategic sin
Planning ahead
Q&A #1 – Planning ahead
How do you plan for a recession that may – or may not – happen?

- **Forecasting**
  - Scenario planning is key in such uncertain times
  - What is your ‘base case’ view vs “making hay” vs “worst case”?

- **Feedback**
  - Ask your customers the same questions!

- **Flexibility**
  - Do you have the flexibility to adapt up or down to make the best of each scenario?
  - Best practice is to plan conservatively but ramp up aggressively to capture upside

- **Futureproofing**
  - What are the decisions that should be accelerated (eg, automation, human capital, cost efficiency measures) to emerge stronger?
  - Fortune favors the brave
Commercial actions
Q&A #2 – Commercial actions
Where should sales efforts be focused – new customers, new services, or new markets (or none of the above)? What about pricing?

• Pipeline development
  – Where should sales effort be focused? New vs existing customers, short term conversion vs longer term opportunities?
  – Is there a structural shift in sales methods? How do I mitigate loss of channels like trade shows?
  – Should you be taking advantage of competitors going through a tough time?

• Diversification and new markets
  – Is now a good or bad time to be looking at new markets?
  – Where are the hotspots? Which ‘new’ services will stick (see next page)?
  – Private vs public sector focus? Where is there more opportunity right now?

• Outsourcing
  – Will the crisis lead to more outsourcing opportunities? How are they best captured?

• What about pricing?
  – How do you ensure prices come back up as quickly as they go down?
  – Can you use a crisis to ‘reset’ pricing structures with clients?
“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. 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
Thank you!