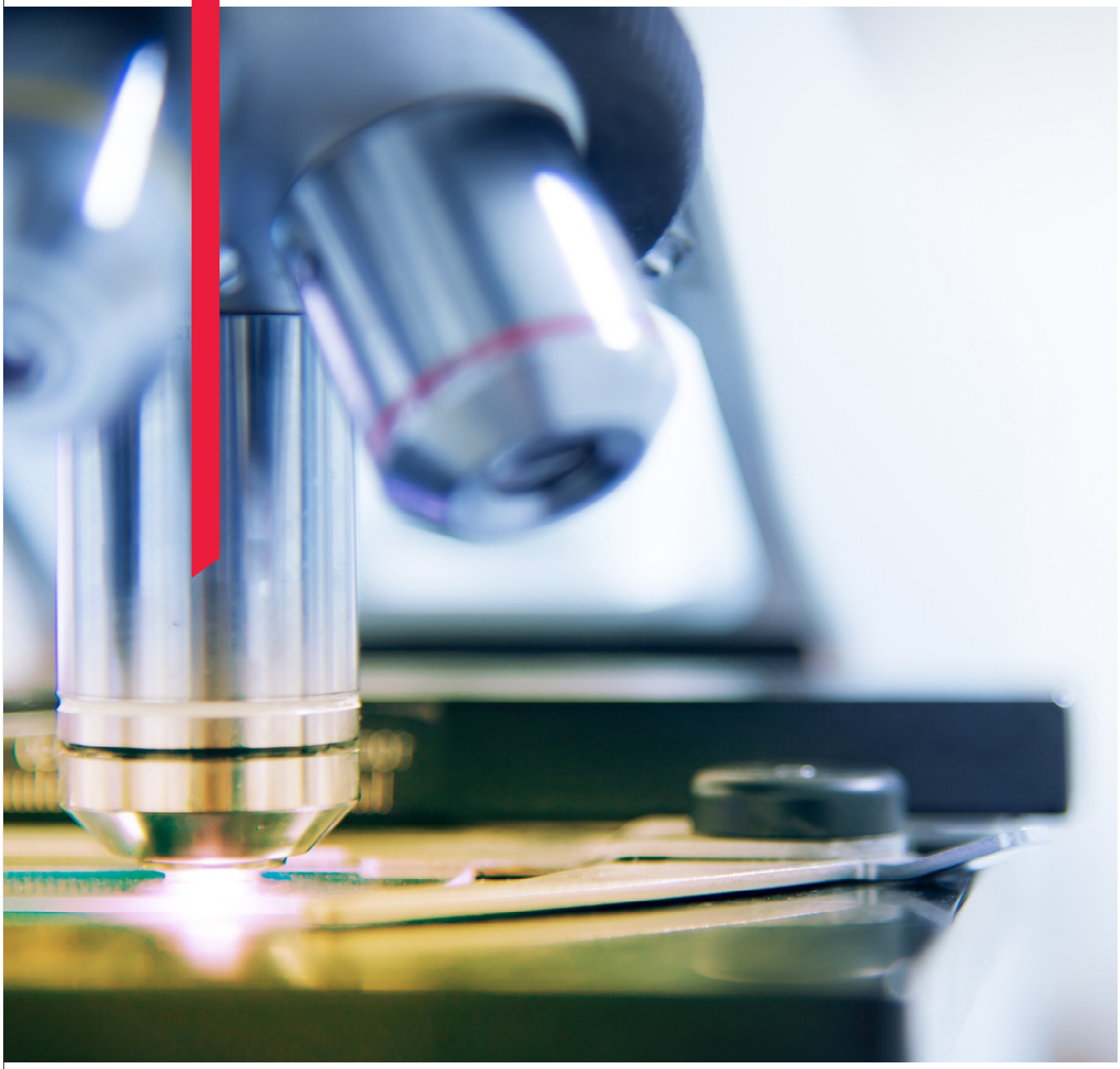


TEST & MEASUREMENT

M&A HIGHLIGHTS

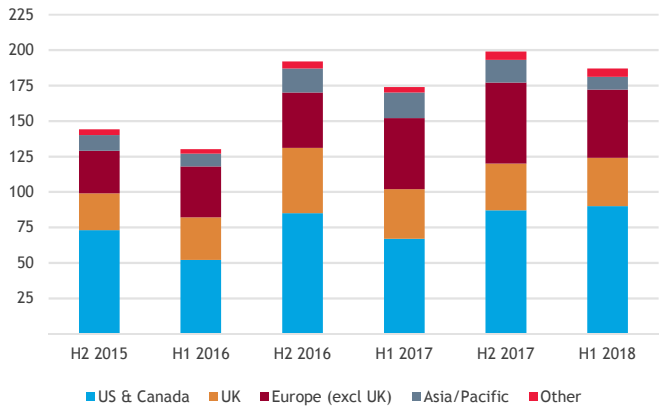
H1 2018: Private Equity platforms driving value

BDO

TEST & MEASUREMENT
M&A HIGHLIGHTS – H1 2018

- Test & Measurement deal volumes continue to increase year on year.
- The US continues its impressive growth trajectory, leading the market in deal volumes, deal values, and private equity investment.
- The UK remains a hub of quality T&M businesses and continues to attract a high proportion of overseas investors.
- Private equity remains firmly committed to the sector, with notable players making focused investment decisions to build cohesive platforms that will drive value.

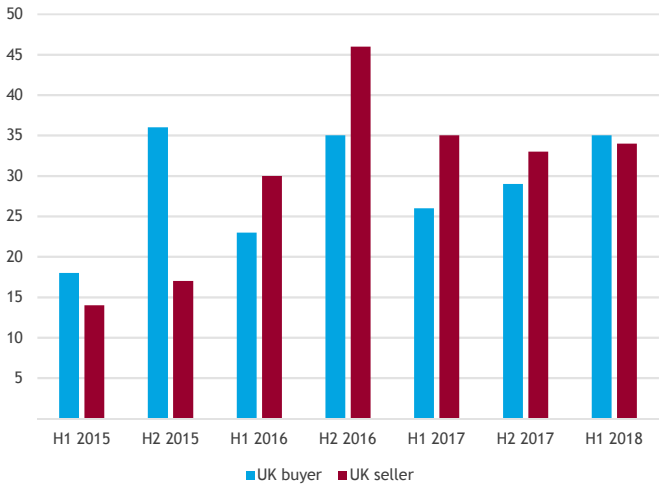
TEST & MEASUREMENT DEAL VOLUMES STRONG
INTERNATIONAL DEAL VOLUMES BY SELLER GEOGRAPHY



Source: Market IQ (Experian), BDO Analysis

- High levels of M&A activity are being sustained in the T&M sector, with 2018 set for another year of growth in transaction volumes. Trends reveal that the first half of the year (H1) tends to be quieter for deal-making, but overall, deal volumes are rising year on-year.
- H1 2018 saw 187 deals complete, 7.5% more compared to H1 2017 and 43.8% more compared to H1 2016.
- Deal volumes increased most notably in the US, which is the largest market for M&A. H1 was a record-breaking period for the US market, with 90 T&M transactions reported. This represents a 34% hike in activity levels compared with H1 2017.
- A number of the big US consolidators, including Thermo Fisher and Emerson, took advantage of opportunities to complete big ticket transactions. Thermo Fisher acquired Gatan, a subsidiary of Roper Technologies for US$925m, while Emerson agreed to acquire the Tools & Test business of Textron for US$810m.

UK BUSINESSES REMAIN HOT PROPERTY
UK TRANSACTION VOLUMES

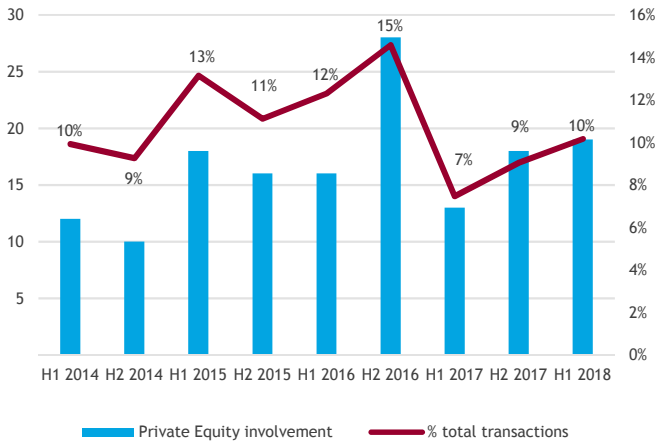


Source: BDO Analysis

- The flow of deals in the UK market has remained strong, with transactions involving a UK buyer or seller accounting for 22% of all deals in H1 2018.
- Over 30 UK target businesses have been sold each half year to corporate or private equity investors for the last five consecutive six-month periods.
- 44% of UK targets were sold in cross-border transactions in H1, reflecting the attraction of UK businesses to overseas investors.
- Eurofins continued its march in the sector, acquiring two businesses in the UK market: Edge Testing Solutions to extend software testing capabilities, and BLC Leather Technology Centre, provider of a range of leather related services, including testing of footwear.
- Meanwhile UK acquirer Intertek made two investments in overseas markets: Maltese cargo inspection business Aldo Abela Surveys and Columbian business Proasem, which provides laboratory testing, inspection, metrology and training services.

PRIVATE EQUITY BUILDING PLATFORMS IN THE T&M SECTOR

PE TRANSACTION VOLUMES



Source: BDO Analysis

- Private equity continues to be a major feature of the M&A landscape, with 10% of H1 2018 deals representing financial investment in the sector.
- The strong regulatory drivers and high growth potential underpinning much of the T&M market mean that it is highly attractive to investors.

  Private equity have large quantities of cash they need to invest, and competition for quality investments is high.
- Of the 19 PE deals completing in H1 2018, 13 of these investments took place in the buoyant North American market, with bolt-on deals likely to follow.
- Bridgepoint acquired Safety Technology Holdings Inc from Golden Gate Capital in February 2018. The business is a global leader in providing mission-critical safety test and measurement solutions and will continue to build its portfolio through acquisition. Sensors, safety testing equipment, data acquisition systems, life sciences & diagnostics, and finite element analysis are earmarked as key areas of growth, primarily in the North American and European markets.

PRIVATE EQUITY PLATFORMS DRIVING VALUE

CASE STUDY: BATTERY VENTURES

A number of private equity players, including Bridgepoint, Union Park and Battery Ventures are building platforms in the Test & Measurement market. To take an example, Battery Ventures has established a number of platforms targeted to different sub-sectors, and regularly acquires to build these into global groups of leading technologies and brands.

Battery's ethos is to build each platform into a sizeable business, drive synergies, economies of scale and cross-selling opportunities to ultimately develop a cohesive niche business that will be attractive to a large corporate acquirer in the future.

Process Sensing Technologies (PST) is Battery's platform in the process measurement market, which has seen swift development through recent investments both in the UK and abroad. Created following the acquisition of UK-based Michell Instruments in 2016, PST added California-based Analytical Industries in 2017, a manufacturer of electrochemical oxygen sensors and gas-analysis products. The acquisition of Rotronic AG, a Swiss manufacturer of humidity and temperature measurement solutions, followed later in the year. PST continued its spree in Q2 2018 with the acquisition of LDetek, a Canadian manufacturer of gas chromatography instruments and online analysers, and most recently added UK businesses Dynament and Status Scientific Controls, manufacturers of infrared gas detection sensors and instruments.

BDO ADVISED ON THE SALE OF DYNAMENT & STATUS SCIENTIFIC, sister companies based in Mansfield with significant global customer bases, to Rotronic, the Swiss business within PST's portfolio. The companies' founder will continue to be involved in the businesses as Chairman, and the existing executive teams will remain and work closely with PST Group's CEO Adam Markin. Joining PST will provide the businesses with many valuable resources as they continue to grow and develop globally.

Roger Buckley, M&A Partner at BDO, commented: *"Private equity has plenty of cash to deploy, and international investors are continuing to make significant investments in the UK, creating positive outcomes for sellers and encouraging deals to come to market. We see continuing confidence in the M&A market especially for quality businesses and expect 2018 to continue to be a strong year for deal making in the Test & Measurement market."*

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