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**Private Equity Project
Investment Committee Paper on Applus+ – Company Analysis**

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Abstract

The Testing, Inspection, and Certification (TIC) industry plays a vital role in ensuring safety, quality, and compliance across sectors. This paper analyzes Applus+ Services, S.A.'s strategic initiatives to drive growth and profitability within the TIC market. Through a combination of product mix realignment, operational improvements, and strategic acquisitions, Applus+ focuses on high-margin segments like Laboratories and Non-Destructive Testing (NDT). The analysis highlights the company's ability to capitalize on industry megatrends, including sustainability, digitalization, and globalization. By leveraging financial flexibility and operational efficiencies, Applus+ is well-positioned to deliver sustainable value creation and meet evolving market demands.

Keywords

LBO, Private Equity, TIC, Leverage, Capital structure, Returns, Market, Company

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1 Group Part

1.1 Introduction

Applus+ Services, S.A. is a global leader in Testing, Inspection, and Certification (TIC), helping companies across the world ensure safety, quality, and compliance. In a rapidly changing world, where stricter regulations, globalization, and the energy transition are reshaping industries, the TIC market is more critical than ever. Valued at €253 billion in 2023, it's expected to grow steadily at 4.5% annually through 2030. Applus+, with operations in over 70 countries, combines deep technical expertise and a wide range of services to support industries like energy, automotive, aerospace, and infrastructure.

The company is organized into four key divisions. Energy & Industry is the largest, offering inspections, non-destructive testing, and consultancy to improve safety and efficiency in areas like renewables, oil and gas, and infrastructure. Automotive plays a key role in vehicle inspections and emissions testing, adapting as the industry moves toward electric and self-driving vehicles. IDIADA helps automotive manufacturers design and test new products, with cutting-edge facilities in Spain and China driving innovation. Finally, the Laboratories division provides material testing, cybersecurity assessments, and product certifications, supporting industries like aerospace, healthcare, and electronics.

Applus+ earns over half its revenue in Europe, where strong regulatory frameworks and a focus on sustainability create steady demand for its services. But it's not stopping there. The company is expanding into high-growth regions like Asia-Pacific and the Americas, where industrial growth, infrastructure projects, and new regulations are accelerating the need for TIC expertise. Financially, Applus+ has delivered consistent growth, with revenue increasing at an average of 3.8% per year between 2017 and 2023. This success comes from a mix of strong customer relationships, organic growth, and smart acquisitions. The company has maintained healthy

EBITDA margins of 16.3%, driven by efficiency improvements and a focus on innovation. By embracing digital tools, improving operations, and staying ahead of industry trends, Applus+ is well-positioned to capture new opportunities and deliver long-term value.

At its core, Applus+ is about helping businesses navigate complexity. Whether it's ensuring a wind farm runs safely, certifying a new car model, or testing materials for cutting-edge technology, Applus+ provides the trust and expertise companies rely on to succeed in a fast-changing world. With its global reach, technical excellence, and forward-thinking approach, Applus+ isn't just keeping up with change — it's helping to shape it.

1.2 Company Overview

Applus+ Services, S.A. is a leading global provider of Testing, Inspection, and Certification (TIC) services, with a focus on safety, quality, and regulatory compliance. Located in more than 70 countries and employing 26,770 people, the company serves diverse sectors, including energy, automotive, aerospace, and infrastructure, through its four key divisions: Energy & Industry, Automotive, IDIADA, and Laboratories (Applus+, 2023a).

The Energy & Industry division, which generates 53% of the company's revenue, focuses on non-destructive testing (NDT), inspections, and consultancy. It plays a vital role in ensuring asset integrity and operational efficiency across sectors such as renewables, oil & gas, and infrastructure. Through advanced NDT technologies, Applus+ detects structural weaknesses and ensures compliance with strict safety standards (Applus+, 2023b).

The Automotive division, contributing 19% of revenue, specializes in vehicle inspections, emissions testing, and homologation services. Long-term partnerships with regulators and manufacturers provide stability, while advancements in electric and autonomous vehicle technologies position Applus+ as a key partner in driving automotive innovation (Applus+, 2023b).

The IDIADA division, responsible for 16% of revenue and partially owned (20%) by the Catalanian government, focuses on automotive product development and testing. Its exclusive management of the IDIADA Automotive Testing Center enables global manufacturers to advance electric and autonomous vehicle technologies, supported by state-of-the-art infrastructure in Spain and China (Applus+, 2023b).

The Laboratories division, generating 12% of revenue, provides advanced material testing, cybersecurity evaluations, and product certifications. It caters to high-demand sectors such as aerospace, electronics, and healthcare, benefiting from investments in emerging fields like 5G and cybersecurity testing (Interview Jordi Redondo, 2024).

Applus+ maintains a geographically diversified revenue stream, with Europe contributing 53%, followed by the Americas (22%), Asia-Pacific (13%), and the Middle East & Africa (12%) (Applus+, 2023b). Through a strategic mix of technical expertise, innovation, and tailored solutions, Applus+ continues to meet the growing demands of global customers, positioning itself for sustainable growth in emerging markets and industries.

1.3 Market Overview

The TIC sector ensures product, system, and process compliance with regulatory standards, particularly in industries like automotive, aerospace, pharmaceuticals, and energy. TIC services testing for performance, inspection for quality, and certification for regulatory adherence—play a vital role in facilitating global trade and reducing manufacturers' compliance risks (Value of TIC Sector, 2020, p. 5; Persistent, 2024, p. 5). The TIC market was valued at €253 billion in 2023, with a projected CAGR of 4.5%, driven by outsourced services (60%) and rising demand in key regions, particularly Asia-Pacific (APAC), which leads growth with a 6.1% CAGR due to industrialization and infrastructure investments. Europe remains stable, driven by stringent

regulations and sustainability initiatives, while North America and emerging markets like the Middle East show steady growth (EY-Parthenon, 2023, p. 3; Bryan Garnier, 2023, p. 7).

Key industries driving TIC demand include automotive, aerospace, oil and gas, and renewable energy. The automotive sector is growing rapidly, fueled by electric vehicles (EVs) and stricter emissions standards, with TIC market revenues expected to reach €28.6 billion by 2030 (Bryan Garnier, 2023, p. 9). Aerospace relies on TIC for fleet modernization and material testing, while oil and gas demand focus on operational expenditure for life-extension projects and infrastructure maintenance (Houlihan Lokey, 2023, p. 8). Renewable energy, especially wind and solar, continues to expand TIC's role in ensuring safety and performance standards, particularly in Europe and APAC (IEA, 2024).

The sector's growth is driven by regulatory pressures, globalized supply chains, sustainability initiatives, and technological advancements. Stricter safety and environmental standards create consistent demand, while technologies like IoT and AI enable remote inspections and predictive maintenance, improving efficiency and cost-effectiveness (Persistent, 2024, p. 4; Houlihan Lokey, 2023, p. 5). Global players such as SGS, Bureau Veritas, and Applus+ dominate the fragmented market, where high barriers to entry and economies of scale limit competition. Notably, Applus+ stands out with a CAGR of ~9%, outperforming the industry average while maintaining competitive margins (Bryan Garnier, 2023, p. 11; EY-Parthenon, 2023, p. 7).

1.4 Historical Financials

Applus+ has delivered consistent financial performance from FY17 to FY23, driven by steady revenue growth, operational efficiencies, and strategic acquisitions. Total revenue grew at a CAGR of 3.8%, reaching €2.06 billion in FY23. This growth reflects a good recovery from pandemic disruptions, robust contract renewals, and an aggressive M&A strategy. Notably, the

Laboratories segment demonstrated the fastest growth with a CAGR of 21.6%, contributing 12% of total revenue in FY23. The Automotive segment grew at a moderate CAGR of 3.4%, while the Energy & Industry division, the largest revenue contributor at 53%, expanded at a more modest CAGR of 1%. Organic growth reached 9.7% in FY23, complemented by 2.1% inorganic growth from mid-sized acquisitions (Applus+, 2017–2023).

Applus+ maintained strong profitability, with gross margins consistently in the 89%–91% range. In FY23, the company reported an EBITDA margin of 16.3%, reflecting improvements through cost controls, operational efficiencies, and a focus on high-value services. EBIT margins remained stable at 7%–8%, showcasing strong operating performance despite inflationary challenges. Effective cost management has kept staff expenses, the largest cost category, steady at 54%–57% of revenue. Furthermore, working capital efficiency improved significantly, with working capital reduced to -1.6% of revenue in FY23 through optimized supplier terms and enhanced collection processes (Applus+, 2017–2023).

On the balance sheet, total assets grew to €2.44 billion in FY23, primarily driven by acquisitions and investments in intangible assets. Net debt increased to €1.6 billion, reflecting the company's strategic use of leverage to fund growth initiatives. Despite the debt increase, the net leverage ratio remained manageable at 4.9x, supported by consistent cash generation. Return on capital employed (RoCE) stabilized at 7%–8%, reflecting disciplined capital allocation. Liquidity remained strong, with a current ratio of 1.2x–1.3x, ensuring the company's short-term financial stability (Applus+, 2017–2023).

Applus+ delivered robust cash flow performance, with unlevered free cash flow (UFCF) rising to €267 million in FY23. The cash conversion ratio improved significantly post-pandemic, reaching 96% in FY23, highlighting efficient working capital management and disciplined investments. Capital expenditures remained low due to Applus+'s capital-light approach, with

investments primarily directed toward intangible assets and digital solutions to support high-margin segments like Laboratories and Automotive (Applus+, 2017–2023).

Overall, Applus+ has successfully positioned itself for sustainable growth through revenue diversification, margin expansion, and disciplined capital deployment. Strategic acquisitions, combined with operational efficiency, have enabled the company to mitigate inflationary pressures while maintaining strong profitability and liquidity. This financial resilience underscores Applus+'s ability to navigate market challenges and capitalize on opportunities within high-value, high-growth segments (Applus+, 2017–2023).

1.5 Investment Thesis

Applus+ is well-positioned for international expansion through a strong financial foundation, strategic acquisitions, and operational improvements. With €267million in free cash flow and 16.5% EBITDA margins in 2023, the company maintains financial flexibility to pursue growth. Applus+ targets mid-sized, high-margin acquisitions in the fragmented TIC market, focusing on Laboratories and Non-Destructive Testing (NDT).

Product mix realignment involves divesting low-margin Oil & Gas CapEx and redirecting investments into high-growth sectors such as aerospace, electronics, and cybersecurity. Simultaneously, operational improvements, including ERP systems, data analytics, and automation, aim to reduce costs and enhance efficiency, achieving significant staff cost reductions over five years. These initiatives collectively project a 24% IRR and 2.2x MoM in the base case.

1.6 Business Plan

Applus+'s business plan focuses on driving significant revenue and EBITDA growth through a combination of organic expansion, strategic acquisitions, operational improvements, and

targeted investments. Over the holding period, revenue is projected to grow by €1.7 billion to €1.36 billion by FY31, while EBITDA increases sharply from €363 million in 2024 to €759 million in 2029, reflecting a cumulative margin improvement of 5.6%. This growth is primarily driven by shifts in the product mix, favoring Laboratories and IDIADA, which offer higher margins and growth potential.

The plan integrates a three-year add-on acquisition strategy involving Guardian Electrical (in 2026), EMTEK (in 2027), and NDT Global (in 2028). These acquisitions are expected to add €121 million to EBITDA, driven by higher target margins of up to 44.2% post-integration. Additionally, operational improvements, such as enhanced digital capabilities and predictive maintenance technologies, contribute a 2.3% EBITDA margin increase. Redeploying resources from low-growth Oil & Gas CapEx into high-margin sectors like NDT Laboratories further improves margins by 1.2%.

To support growth, the plan emphasizes sustainable CapEx investments and efficient cash flow management. Total CapEx is set to double, reaching €164 million in FY29, with a focus on maintenance and strategic growth initiatives. Net cash flow is projected to increase from €11 million in 2023 to a peak of €218 million in 2028, enabling deleveraging and improved Debt Service Coverage Ratios (DSCR). The financing strategy incorporates moderate leverage, EBITDA of 4.1x, with Net Debt/EBITDA declining to 1.1x by FY30, ensuring covenant compliance and financial stability.

1.7 Value Creation

The value creation strategy for Applus+ revolves around three interconnected pillars: strategic acquisitions, product mix realignment, and operational improvements, designed to drive sustainable growth, improve profitability, and enhance competitive positioning. The first pillar,

strategic acquisitions, focuses on targeting mid-sized, high-margin businesses that align with Applus+'s core segments, particularly in Laboratories and Non-Destructive Testing (NDT). Acquisitions such as NDT Global, Guardian Electrical, and EMTEK aim to consolidate fragmented markets, strengthen compliance and testing capabilities, and expand exposure to high-growth regions like China. These acquisitions are projected to contribute €122 million to EBITDA by exit while enhancing overall margins through the integration of complementary, high-value services.

The second pillar, product mix realignment, emphasizes shifting resources away from commoditized and low-growth segments, such as Oil & Gas CapEx, into sectors offering stronger margins and growth opportunities. This includes increased focus on Laboratories, Renewables, and IDIADA, the latter of which is well-positioned to capitalize on the rising demand for electric vehicle (EV) and autonomous vehicle testing. By aligning with emerging trends in sustainability, cybersecurity, and regulatory compliance, this strategy aims to achieve a 5% revenue increase and a 1% improvement in overall profitability over the holding period, further diversifying Applus+'s market exposure and mitigating systematic risks.

The third pillar, operational improvements, seeks to drive efficiency through the implementation of advanced digital technologies and process optimizations. Key initiatives include scaling AI-based data analytics, robotic process automation, and remote inspections, which streamline service delivery, enhance productivity, and reduce costs. These measures are expected to increase revenue per employee by 7.6% and decrease labor costs per employee by 1%. By aligning operational metrics, such as labor costs and revenue per full-time employee (FTE), with industry benchmarks, Applus+ can achieve a leaner and more competitive operational structure.

Collectively, the integration of these three strategies provides Applus+ with a clear roadmap for value creation. Strategic acquisitions drive inorganic growth and margin improvement,

while product realignment and operational enhancements ensure long-term sustainability and resilience. This approach positions Applus+ to capitalize on industry megatrends, optimize resource allocation, and deliver strong financial and operational outcomes for stakeholders.

1.8 Valuation & Returns

The valuation for the Applus+ leveraged buyout (LBO) combines intrinsic and comparable methodologies to ensure a robust and realistic enterprise value. Using trading comparables, past transactions, discounted cash flow (DCF), and (LBO) models, the valuation converges at €3.6 billion, based on a weighted EV/EBITDA multiple of 10.0x. The trading comparables derive a median EV/EBITDA range of 7.0x–12.4x, while past transactions within the TIC sector indicate a median multiple of 8.0x. The DCF method, incorporating a WACC of 5.77% and terminal multiple of 10.9x, further supports this range. The LBO valuation focuses on entry multiples that align with achieving a 3.0x MoM for investors, emphasizing a realistic leverage structure.

The sources and uses of funds reflect a conservative 60/40 equity-to-debt split, balancing financial flexibility with operational stability. Total funding amounts to €3.67 billion, including €1.48 billion in senior Term Loan B debt at 4.1x EBITDA and €2.19 billion in equity contributions. This structure ensures robust covenant ratios, maintaining a minimum DSCR above 1x and net debt/EBITDA reducing to 2.0x at exit. Debt repayments, primarily through strong operating cash flow, are supported by the gradual deleveraging of the business.

Exit projections in 2029 reveal significant returns for investors and management. Investors achieve a 2.8x multiple on invested capital (MoM) and an internal rate of return (IRR) of 23%, while management realizes a 20.4x MoM due to a combination of performance incentives and sweet equity. The primary drivers of value creation are EBITDA growth (+€3.0 billion, 50%),

deleveraging (+€2.8 billion, 40%), and revenue expansion from both organic and inorganic strategies. Multiple arbitrage contributes marginally, reflecting a moderate increase in exit multiples. The final equity value of €8.1 billion underscores the success of the strategy, highlighting EBITDA margin improvement and operational efficiency as key enablers of value creation.

1.9 Exit and Due Diligence

The exit strategy for the LBO of Applus+ focuses on a strategic divisional sale, leveraging the standalone value of its key business units: Energy & Industry, Laboratories, and Automotive & IDIADA. This approach projects a consolidated exit multiple of 10.4x EV/EBITDA by FY2029, with the Laboratories division acting as the key driver of valuation due to its high margins, stable cash flow, and significant growth potential, commanding a premium 11.0x multiple. The Energy & Industry division, contributing 47% of total EBITDA, is projected to achieve a 10.7x multiple, primarily driven by appetite for renewables. In contrast, the Automotive & IDIADA division, accounting for 26% of EBITDA, is expected to yield a lower 9.5x multiple due to slower growth in the automotive sector.

Among the exit options evaluated, a strategic divisional sale is deemed the preferred approach. This method offers premium valuations by allowing strategic buyers to integrate standalone divisions into their portfolios, maximizing synergies while minimizing antitrust risks. Compared to a full company sale, this approach aligns with Applus+'s segmented value proposition, particularly in high-growth divisions like Laboratories. While alternatives such as an IPO offer high visibility, liquidity, and potential for attractive public valuations, they pose challenges such as regulatory complexity, high costs, and market volatility. A secondary sale to private equity buyers, though feasible, is deprioritized due to its lower long-term stability and reduced alignment with Applus+'s scale.

The due diligence for Applus+ highlights key risks across market growth, financial stability, workforce shortages, regulatory compliance, and ESG factors. Commercial risks include misjudging growth in renewables and lagging in digital transformation, requiring targeted research and technology investments. Financial risks such as overestimated forecasts and debt covenant breaches demand deeper analysis of R&D and CapEx cash flows. Operationally, workforce gaps in renewables and digital testing could hinder competitiveness. Regulatory and ESG challenges, including stricter environmental laws, may increase compliance costs and disrupt operations if not proactively managed. Addressing these risks is crucial to ensure Applus+ maintains market leadership and long-term stability.

2 Company Analysis – Alexander Wassmiller

2.1 Historical Evolution of Applus+

Applus+ was launched in 1996 as *Agbar Automotive* by the Agbar Group, one of Spain's largest water companies, in response to the rising demand for mandatory vehicle inspections introduced in Spain. While originally started as a vehicle company, it soon became a national force for compliance with safety and environmental standards (Applus+, 2024a).

The turning point in Applus+'s journey occurred in 1999, when the Government of Catalonia granted it a 25-year concession—extended in 2024 for an additional 15 years—to run the IDIADA Automotive Testing and Research Center outside Barcelona. This marked the beginning of Applus+'s evolution from a regional compliance-focused service provider to a global force in automotive innovation. The IDIADA center, with its advanced capabilities in crash testing, aerodynamics, and emissions compliance, turned into an essential hub for automotive research and development, supporting major global manufacturers (IDIADA, 2024).

In the early 2000s, Applus+ began a strategic period of international expansion through acquisitions, anticipating market trends and setting itself up for growth. The 2003 takeover of the General Laboratory for Testing and Research (LGAI) allowed the company to diversify into highly specialized fields such as aerospace, telecommunications, and construction (Mergermarket, 2024). Similarly, the 2004 acquisition of Norcontrol widened Applus+'s capabilities in energy and infrastructure offerings, particularly in Spain and Latin America, establishing it as Spain's largest Testing, Inspection, and Certification (TIC) company (Applus+, 2024a).

The acquisition of the RTD Group in 2006 marked a significant step forward in Applus+'s technical expertise. As a Netherlands-based leader in non-destructive testing (NDT) technologies, RTD brought specialized capabilities in ultrasonic, radiographic, and acoustic emission testing—crucial for the oil and gas industry's inspection of pipelines, refineries, and offshore platforms. This deal solidified Applus+'s leadership in the development of proprietary NDT technologies and opened up its platform to higher-risk, technically demanding markets (Applus+, 2024b).

Despite challenges posed by the 2007-2008 global financial crisis, Applus+ demonstrated remarkable resilience, leveraging its diversified portfolio to maintain stable revenues (Carlyle Group, 2013). While construction and infrastructure projects slowed, demand for energy and automotive services remained robust. In 2008, the Carlyle Group became a major shareholder, speeding up Applus+'s global expansion through 20 acquisitions, including Velosi, a key provider of vendor TIC services (Mergermarket, 2024). By 2014, Applus+ reported that 70% of its revenue was generated outside its core market, Spain (Applus+, 2024a).

The company's Initial Public Offering (IPO) on the Madrid Stock Exchange in May 2014 was a defining achievement, raising €1.1 billion (Reuters, 2014). This enabled Applus+ to reduce

debt, fund further acquisitions, and raise its market visibility. By this time, Applus+ had undergone a period of strategic restructuring that boosted its financial performance and operational capacity. With revenues of €1.6 billion and a workforce of approximately 20,000 employees across more than 70 countries, the IPO marked Applus+'s rise as a key global player (Applus+, 2014).

Between 2015 and 2024, Applus+ remained on a strong inorganic growth path, closing more 30 acquisitions to consolidate its high-margin NDT services in energy, renewables, and aerospace (Mergermarket, 2024). To streamline its operations, the company merged RTD, Velosi, and Norcontrol into the Energy & Industry Division. At the same time, Applus+ invested in robotics, automation, remote inspection equipment, and digital systems to increase productivity and services (Applus+, 2024a).

With these emerging global trends in mind, Applus+ moved into renewable energy, electric and hydrogen car testing, and digital transformation. It expanded its services for wind and solar energy projects, reinforced its automotive testing capabilities to address the growing demand for EV development, and adopted innovative digital solutions to complement its service offerings (Mergermarket, 2024).

By 2023, Applus+ was solidifying its position as a leading TIC. With a global presence in 70 countries and more 26,000 employees, the company generated revenues of €2.1 billion (Applus+, 2023a). Its transformation from a regional vehicle inspection provider into a multinational industry leader highlights its strategic foresight, adaptability, and commitment to technological innovation.

With its rich history and expertise today, Applus+ keeps evolving its position as a industry leader in sustainability, advanced testing and digital solutions around the world. The company's

willingness to be flexible, innovative and provide value-added services is a major reason for its continuing dominance in the TIC market.

2.2 Business Model

Applus+ Services, S.A. comprises four functional divisions, each providing diverse services designed to ensure the quality, safety, and compliance of its customer's operations and products along different steps of its value chain. These units, i.e., Energy & Industry, Automotive, Laboratories, and IDIADA, are structured to address the specific needs of the industries such as automotive, energy, renewables, infrastructure and aerospace. Together, they form the backbone of Applus+' worldwide operations, enabling the firm to serve an eclectic, predominantly B2B clientele, including manufacturers, producers and both governmental and non-governmental regulatory authorities (Applus+, 2023a).

Energy & Industry (E&I) division

The E&I division, which accounts for 53% of the company's revenue in 2023, is the largest portion of Applus+'s business. This division specializes in non-destructive testing (NDT), inspections, and engineering consultancy services that are critical for ensuring the safety and operational efficiency of assets. More than half of the divisional revenue (55%) are generated within Renewables, Power, and Infrastructure, growing organically at a high single-digit rate with a ~9% operating margin. Oil & Gas contributes 55% of the divisional revenues, driven by double-digit OPEX, low single-digit CapEx growth, and ~7% operating margin. By leveraging advanced NDT technologies and a global network of highly skilled professionals, the Energy & Industry division enables clients to detect structural weaknesses, optimize asset performance, and comply with stringent regulatory standards. The division primarily serves multinational corporations and government entities, which rely on Applus+ to manage asset integrity and

ensure compliance with evolving environmental and safety regulations. The division's success is driven by its ability to provide customized solutions with its leading proprietary technologies, which are tailored to the unique challenges of each industry, thereby solidifying Applus+'s reputation as a trusted partner in mission-critical operations (Applus+, 2023b).

Automotive division

The Automotive division makes up 19% of Applus+'s total revenue, encompassing over 30 inspection programs and more than 13 million inspections completed in 2023. This segment focuses on vehicle inspections, emissions testing, and homologation services (Applus+ 2023b). For instance, vehicle inspections are critical to road safety and environmental compliance. Applus+ collaborates with regulatory authorities and automotive manufacturers to develop strict testing procedures, which meet both local and international standards (TIC Council 2020, 14). The division's long-term contracts with governments and the industry enable the division to maintain a stable and predictable revenue base that is crucial for its continued growth and viability. By staying at the forefront of technologies in vehicle testing and emissions reduction, the Automotive division addresses the growing needs for services related to electric vehicles (EVs) and autonomous driving systems. They are driving the future of the automotive industry, and Applus+ has a unique opportunity to take advantage of these trends with its experience and state-of-the-art facilities (Applus+, 2023b).

IDIADA division

The IDIADA unit contributes 16% of Applus+'s revenue and is uniquely positioned within the automotive market. Electric and Hybrid cars account for around 70% of its sales. This segment provides automotive product development, testing, and homologation services for the entire lifecycle of vehicle production. One of IDIADA's most valuable assets is its exclusive

concession with the Catalanian government, which holds 20% ownership in IDIADA and grants Applus+ the rights to manage and run the IDIADA Automotive Testing and Research Center. The division's ability to serve global automotive manufacturers, coupled with its access to world-class testing facilities such as two advanced testing tracks in Spain and China, positions the company well in addressing the growing demand for EV and autonomous vehicle testing. By integrating cutting-edge technologies and maintaining close relationships with long-standing customers, the IDIADA division reinforces Applus+'s commitment to driving innovation in the automotive industry (Applus+, 2023b).

Laboratories division

The Laboratories division, which accounts for 12% of Applus+'s revenue, is one of the fast-growing departments in the organization. In 16 years, it went from a € 25 million domestic business to a € 200 million international operation, positioning itself well in sector (Interview Jordi Redondo, 2024). This division offers advanced material testing, cybersecurity evaluations, and product certification services. The industries served by the Laboratories division include aerospace, electronics, and healthcare, all of which require highly specialized testing to meet stringent quality and safety standards. Applus+ has strategically invested in this division through targeted acquisitions and the development of cutting-edge capabilities, enabling it to cater to high-margin sectors that demand sophisticated technical solutions. The division's focus on cybersecurity evaluations and 5G telecommunications testing positions Applus+ at the intersection of emerging technologies and regulatory compliance. Such alignment with high-growth markets illustrate how crucial Laboratories is to Applus+'s broader business model. It enables the company to diversify its revenue streams and reduce reliance on more traditional markets (Applus+, 2023b).

Geographic Focus

Applus+ has a wide-ranging global footprint, with operations spanning over 70 countries on all continents. Most of its revenues comes from Europe, followed by the Americas, the Asia-Pacific region, and Middle East and Africa. Europe held a 53% share of total revenue in 2023 due to strong demand for TIC services in renewable energy, automotive, and infrastructure. The Americas added 22%, with notable growth in the oil and gas sectors, while Asia-Pacific's share of 13% reflects increasing industrialization and regulatory standards across the region. The Middle East and Africa accounted for 12% of total revenue in 2023, supported by infrastructure development, energy projects, and increasing demand for TIC services in the oil and gas industry (Applus+, 2023b).

Financial Performance

Applus+ exhibits robust financial performance. From 2018 to 2023, the company achieved a compound annual growth rate (CAGR) of 4.2% in revenues, rising from €1.7 billion to €2.1 billion. EBITDA margins have remained consistently healthy, averaging 13-17%, powered by a mix of long-term contracts and recurring revenue streams. The company's strategic investments in technology, coupled with its ability to adapt to market trends, have allowed it to maintain financial stability and drive sustainable growth across its divisions and regions (Applus+, 2023b).

Customer Base

Applus+ serves a long-lasting but diversified customer base, including multinational corporations, government agencies, and Tier-1 manufacturers. In 2021, the top 100 clients accounted for 51% of total revenues (Applus+, 2021). The company's clients span highly regulated and safety-critical industries such as energy, automotive, aerospace, and infrastructure. Government entities rely on Applus+ to ensure compliance with safety and

environmental regulations, particularly in vehicle inspection and energy infrastructure management. Meanwhile, leading corporations, such as Shell, Volkswagen, Airbus, and SpaceX, depend on Applus+ for mission-critical TIC services that guarantee the safety, quality, and efficiency of their operations. Applus+'s ability to deliver tailored, innovative solutions and secure long-term contracts underscores its position as a trusted partner for clients worldwide (Applus+, 2023b).

In conclusion, Applus+ leverages its strong divisional structure, geographic diversification, and its long-term relationships with a diversified customer base to drive growth and sustain its leadership in the TIC market. Through a combination of technical expertise, innovation, and a focus on emerging industries, the company ensures compliance, safety, and operational excellence for its clients globally.

2.3 SWOT Analysis

The SWOT analysis offers an in-depth understanding of Applus+'s strengths and weaknesses as well as opportunities and threats outside of its operations, which together determine its position and future direction.

Strengths

Applus+ demonstrates significant strengths that position it as a leader in the TIC industry. One of its primary strengths lies in its technological leadership, particularly in the NDT business. The company's proprietary, patented tools, such as IWEX for ultrasonic testing, enable Applus+ to differentiate itself in the highly competitive TIC market by delivering specialized, high-margin services (Interview Agnar Sidhu, 2024).

Another core strength is its diversified global presence. Operating in over 70 countries, Applus+ benefits from a broad geographic footprint, reducing its exposure to region-specific economic or political risks. This global reach not only ensures revenue stability but also positions the company to capitalize on emerging markets where industrialization and infrastructure development are driving demand for TIC services (Applus+, 2023a).

Furthermore, the company demonstrates strong financial flexibility, underpinned by stable free cash flow (FCF), including €425 million in 2023. This is reinforced by solid organic growth of 5-6% annually, consistently outperforming market averages, and a best-in-class cash conversion cycle of 96%, highlighting its financial efficiency and resilience (Applus+, 2023a).

The management team of Applus+ constitute another foundational strength for Applus+, combining agility and strategic foresight with a proven track record of navigating industry challenges. This was evident during the 2016/17 oil and gas downturn, where their swift response mitigated risks and ensured stability. With a combined 87 years of experience in the TIC industry, the team brings deep sector expertise, particularly in driving growth through strategic M&A and successful integration (Applus+, 2018).

Weaknesses

Despite its strengths, Applus+ faces internal weaknesses that could limit its operational efficiency and growth potential. A vulnerability is its reliance on specific sectors such as automotive and oil and gas, which exposes the company to cyclical market downturns. These sectors remain pivotal to its revenue structure, making it susceptible to industry-specific challenges such as fluctuating oil prices or declining vehicle production (Interview Terry Lafferty, 2024).

The company's growth strategy, which is heavily reliant on acquisitions, presents another potential weakness. While acquisitions have facilitated rapid expansion, they also carry risks related to integration, operational inefficiencies, and cultural misalignments. The complexity of managing newly acquired entities across diverse regions can strain resources and reduce the anticipated synergies from these transactions (Forbes, 2023).

Additionally, Applus+'s extensive geographic footprint introduces operational challenges. Managing a workforce of over 26,000 employees across multiple time zones and regulatory environments requires significant coordination and robust internal processes. Any inefficiencies in this regard could impact service delivery and client satisfaction (Interview Agnar Sidhu, 2024).

Opportunities

The global energy transition presents a wealth of opportunities for Applus+. With increasing investments in renewable energy, hydrogen, and carbon capture technologies, the demand for TIC services in these sectors is set to rise. Applus+ is well-positioned to capitalize on this trend, leveraging its expertise in asset integrity and advanced testing to support clients in achieving sustainability goals (Interview Agnar Sidhu, 2024).

The rise of digital transformation across industries offers another growth avenue. Investments in artificial intelligence (AI), machine learning, and cybersecurity have enabled Applus+ to offer cutting-edge solutions, such as predictive maintenance and digital asset management, which align with evolving client needs. The integration of such technologies not only enhances service efficiency but also opens high-margin revenue streams in emerging markets like smart infrastructure and IoT-enabled industries (Interview Agnar Sidhu, 2024).

Market consolidation in the TIC sector provides a strategic opportunity for Applus+ to strengthen its market share through acquisitions. By targeting niche players in high-growth regions, the company can expand its capabilities while accessing new client bases. Additionally, the growing regulatory frameworks in Asia-Pacific, the Middle East, and Latin America are driving demand for compliance services, further expanding Applus+'s addressable market (Interview Agnar Sidhu, 2024).

Threats

Applus+ operates in a highly competitive environment, with global giants such as SGS, Bureau Veritas, and Intertek competing for market share. This intense competition may constrain the company's pricing power and make it difficult to sustain or gain market share. To mitigate this risk, Applus+ must continue to innovate and offer differentiated services (Interview Matt Stead, 2024).

Technological disruption is another critical concern. As the TIC industry increasingly integrates automation and AI-driven solutions, Applus+ must invest heavily in R&D to remain at the forefront of innovation. Failure to do so could result in a loss of competitive edge and market relevance (Interview Matt Stead, 2024).

Lastly, regulatory risks are inherent in Applus+'s operations. Changes in compliance standards or political instability in key markets could impose additional costs or limit the company's ability to operate effectively. Adapting to these changes in a timely and cost-efficient manner will be crucial for sustaining long-term growth (Interview Agnar Sidhu, 2024).

The SWOT analysis highlights Applus+'s strong market position based on technological leadership, inorganic growth, and a globalized footprint. Although sector focus, acquisitions and competitive pressures pose barriers to the business, its innovation, sustainability and growth

strategies will ensure that the business stays ahead of them. Applus+ can build on its capabilities and take advantage of opportunities in order to sustain growth and maintain its TIC market leadership. But aggressively managing external risks and vulnerabilities will be vital to maintain this path.

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DECLARATION

I hereby declare that this thesis represents my own work which has been done after registration for the degree of Master of Finance (or PhD as appropriate) at Nova SBE and has not been previously included in a thesis or dissertation submitted to this or any other institution for a degree, diploma or other qualifications.


I have read the University's current research ethics guidelines and accept responsibility for the conduct of the procedures.

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