

Engineering Firm Buying Companies to Rev Up Sales

GROWTH: National Technical Systems has 100 companies on radar, and deals in the works.

By **MARK R. MADLER**
Staff Reporter

National Technical Systems, a provider of engineering services and high-tech product testing, is buying up smaller test labs in bid to achieve double-digit revenue growth.

After receiving \$14 million from a private investment firm and a \$20 million line of credit in the last seven months, the Calabasas-based company says it is well positioned to grow, especially through acquisitions.

National Technical has identified 100 companies across the country as potential candidates, CEO Bill McGinnis said. Three to four deals are expected to close within six months, he said, declining to divulge details.

McGinnis said he is eyeing the future with hopes of making the firm the dominant player in the testing and evaluation industry, not just in the U.S., but globally.

"As we acquire companies and are successful, we can expand the (credit line) to acquire more," McGinnis said.

The company also is focused on growing market share and staying on top of innovation involving materials and parts that are used by clients in the aerospace, defense, automotive, and telecommunication industries, he said.

Funding for National Technical's future



Bill McGinnis



PHOTOS COURTESY OF NATIONAL TECHNICAL SYSTEMS

Water: Shipboard heavy weight shock testing at the Rustburg, Virg. facility.

buyouts comes from two sources: \$14 million from Mill Road Capital from the sale of new shares of common stock and a subordinated note, and a \$65 million senior credit facility, which includes a \$20 million acquisition line, from a banking group led by Comerica Bank.

National Technical has purchased seven companies in the past five years.

Through these past purchases, the company either entered markets it had not previously served, or expanded its existing services.

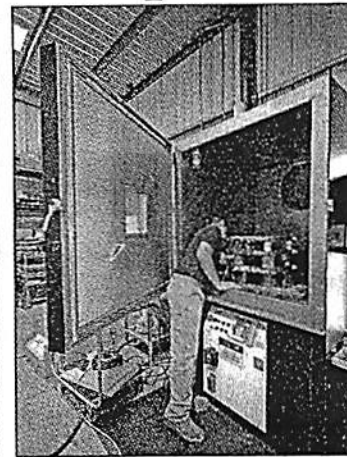
The 2007 acquisition of United State Test Laboratory LLC in Kansas, for example, brought capabilities to test helmets and body armor used by the military and police departments. B&B Technologies Inc., in New Mexico, added engineering services used by defense, aerospace and commercial companies.

Future purchases are expected to boost National Technical's business of validating products and components by putting them through rigorous testing in harsh environments, McGinnis said.

The end goal — double-digit revenue growth — was established when McGinnis became chief executive in 2005, replacing company founder Jack Lin. At the time, revenues were in a decline and something needed to change at the company, McGinnis said.

The plan to achieve double-digit revenue hinges on a three-part strategy: growing market share, keeping tabs on emerging technologies and expanding through acquisitions.

McGinnis said the company expects to increase revenue growth by about 6 percent to 7 percent by improving its capabilities and customer service.



Test: Humidity chamber in Santa Clarita.

To stay ahead of emerging technologies, the company invested \$1 million in test equipment for use on composite materials manufacturers use to build aircraft, McGinnis said. National Technical also is testing components used in solar energy products and in electric and hydrogen vehicles.

New acquisitions give the company the opportunity to further diversify with engineering services, such as product development and testing procedures, McGinnis said.

"With the addition of acquisitions we feel we could gain about 10 percent (growth) a year," he said.

National Technical's strategy comes at a time when the merger and acquisitions activity is forecast to accelerate.

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In a report from January, investment research firm Morningstar expected resurgence in buyouts and mergers as a means to improve profitability and purchase growth. With credit markets stabilizing some of the acquisitions could change the landscape of their respective industries, the report said.

Acquiring another company is a complicated process requiring a careful and stringent background check of finances and personnel issues — a "glorified kicking the tires," in the words of Keith Zimmet, an attorney who has handled his share of mergers and acquisitions.

"When you buy a company you are buying cash flow down the road," said Zimmet, of Lewitt Hackman in Encino. "You want to make certain there are no surprises."

Proper due diligence includes closely evaluating financial performance, assets and liabilities,



PHOTO COURTESY OF NATIONAL TECHNICAL SYSTEMS

Sites: National Technical Systems pressure test facility in Santa Clarita.

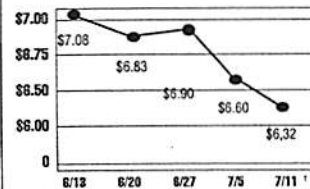
ities, the physical condition of assets and real estate, pending or potential claims and lawsuits, and issues with employees, such as benefit claims, any union involvement, as well as the possible existence of any wage, harassment or discrimination claims or benefit issues, Zimmet said.

McGinnis said another key objective is finding companies whose culture and commitment to customer service is similar to National Technical's.

"We've walked away from deals when they did not fit our cultural standards," McGinnis said.

National Technical Systems Inc. (NasdaqGM: NTSC)

- Headquarters: Calabasas
- CEO: Bill McGinnis
- Employees: 1,000
- Market Cap: 65.51M
- PE: 29
- EPS: \$0.22
- Closing PriceE: (as of July 13) \$6.32



Source: Yahoo! Finance