

ESI Group (ESI FP) / Keysight Technologies (KEYS)

UPDATE

We expect the mandatory offer to settle in the second half of 1Q2024.

Regulatory approvals

- EC, possibly France FDI approvals are required.

France FDI:

- [France blocked](#) the acquisition of Velan, a nuclear valve maker, citing fears that it did not think commitments made by U.S. bidder Flowserve were sufficient.
- Subsequently, there were fears, that [the sale of Circor](#) will also be scrutinized by the French government, but a the deal closed a few days later.
- **As per the ESI website, the company provides services to the nuclear energy industry.**
- ESI provides innovative methodologies and value-added services for Nuclear Component Engineering. Their modeling solutions are designed to enhance the engineering approach with virtual prototypes of the components.
 - Numerical simulation helps select appropriate materials, fine-tune high-quality manufacturing processes, and rigorous testing to verify the functioning of components and safety systems, as well as conformity with regulatory requirements.
 - ESI provides services to support Design, Maintenance, Lifetime extension and Decommissioning.
- **We note however, that ESI [sold its SYSTUS software](#) (and related services) business earlier this year that was a supplier to Framatome and EDF:**
 - The SYSTUS software is used in the nuclear industry to support the justification of the **integrity of primary and secondary components** such as the reactor vessel and steam generator. It is also used in the **design, manufacturing and maintenance phases** of other industrial components such as valves.
 - The software was originally developed by Framatome to support the design of their nuclear power plants and to **perform regulatory analyses** — all virtually.
 - SYSTUS has become an industry-proven solution for an extensive range of regulatory analyses mandated by international standards for nuclear engineering. It specifically addresses the requirements of the ASME code.
- **The activity represented €1.2m in license revenues, €3.2m in associated service revenues, and 27 people in 2022.**
- **As per ESI's annual report, in 2022 3.7% of total revenues (cca EU5mln) was related to Energy with customers like Framatome, EDF, Japan Atomic Energy Agency, GE.**
- **Based on the above, the divested business likely has represented most or all of its nuclear exposure.**

Antitrust:

- 60% of ESI revenue is generated in Europe.
- We haven't found evidence that ESI and Keysight would be close competitors.
- KEYS does not mention ESI as a competitor in its annual report.
 - As per industry reports, key players in the simulation software market include Siemens, Rockwell, Schneider Electric, Ansys, Autodesk, Dassault Systemes, Altair Engineering, PTC.
- Based on the above, we don't expect antitrust issues.
- As per the merger presentation, Serviceable Addressable Market (SAM) size is \$1b, while ESI has revenues of around \$140m.
 - Based on KEYS, the deal increases SAM by ~\$1B in verticals with attractive long-term secular growth trends.

Timing:

- "Obtaining the opinion of ESI Group's Workers' Council marks a new step enabling the signature, on **September 22 2023**, of a share purchase agreement between Keysight and the Sellers relating to this controlling block of shares."
- The acquisition is expected to be **completed in the fourth quarter of 2023**, subject to obtaining the necessary regulatory approvals. This would be followed by the filing of the tender offer.
- **We expect the mandatory offer to settle in the second half of 1Q2024**

Deal Terms	
1 ESI FP = EU155	
Target: ESI Group	
Country	France
Bloomberg	ESI FP
Sector	Application Software
Share price (EU)	149.5
Market cap (EUm)	910.8
Free float (%)	49
Acquirer: Xylem	
Country	Keysight Technologies
Bloomberg	KEYS
Sector	L
Share price (\$)	461.81
Market cap (\$m)	178,235.5
Free float (%)	99
Price Chart	
	
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