AUDIOCAST 07.45AM UK – 23 November 2023
Nov Trading Update 2023 Script

Introduction

Good morning to you all and thanks for joining us on our call.

I have with me Colm Deasy, our CFO and Denis Moreau our VP of Investor Relations.

There are 5 take-aways from our call today:

1. The demand for our ATIC solutions is robust and in the first 10 months of the year, we have delivered the highest LFL revenue growth in the last 10 years.

2. We are on track to deliver our FY targets of mid-single digit LFL revenue growth at CCY with margin progression and strong free cash flow, given our robust YTD performance.

3. Our margin progression is healthy. We are benefiting from our pricing initiatives, good operating leverage and from our disciplined cost approach.

4. We are delivering a strong cash performance, which combined with our strong balance sheet enables us to invest in growth and accelerate performance.

5. We are laser focused on the execution of our AAA strategy to unlock the significant value growth opportunity ahead.

The Most Frequently Asked Questions

I want to start our call today by answering the most frequently asked questions in our meetings.

Question 1: Do you see any signs that the inflationary pressure is easing and how is your pricing approach working.

Inflationary pressure has peaked in Q2 in NAM and Europe, and we are seeing a gradual reduction of cost increases in our businesses.

We continue to implement our pricing policy.

We are absorbing 50% of higher wages through productivity gains and passing the other 50% through price increases.

In the July to October period, 2/3 of our revenue growth was driven by volume and 1/3 by pricing.

Question 2: How is your performance in China?

Following a LFL revenue growth of 7.1% in H1, our China business delivered a low-single digit LFL revenue growth in the last 4 months.

This revenue momentum slow-down in LFL revenue growth is driven by two factors:

- First, a base line effect. Post the Covid lock-down last year in Q2 in Shanghai, we benefitted from a rebound of activities in the summer, particularly in the Consumer Products division

- Second, retailers in NAM and Europe are concerned about demand and are not investing in new product developments to control costs and reduce inventory.

Stepping back from these short-term trends, let's recap where the Chinese export business is compared to 2019.

As you would remember, the Chinese economy did not see a big impact from Covid in 2020 and benefitted from a strong demand in consumer products in 2021 and the first half of 2022.

While Chinese export activities were down 11% in Q3, they are up 32% compared to 2019.

We have a strong business in China, and our Consumer Products business is very resilient.

We outperformed the overall exports sector in the July-October period with a low-single digit LFL revenue growth.

We remain confident about growth opportunities in China given the manufacturing excellence that China offers to western brands and the untapped opportunities in the domestic markets.

Question 3: When do you expect the destocking of retailers to end?

The level of inventory remains higher than normal within the NAM and European fashion retailers while the general retailers are back on track.

I meet our customers regularly and at the moment retailers are concerned about a slow-down of demand in discretionary categories.

We will continue to monitor the situation a quarter at a time.

We are now starting the testing for the spring season which we expect to be mixed.

Value brands will benefit from higher demand and will invest in new products while premium brands will continue to keep their investments in new product development under review.

What does this mean moving forward?

Several brands took significant price increases in 2021, 2022 and 2023 and this is impacting their volume performance.

We are confident that over time, these brands will have to invest in innovation to increase their value proposition.

This will be beneficial to our Consumer Products testing business.

We believe that the slow-down in new product development by retailers is temporary.

Question 4: Given that LFL revenue growth in the pre-Covid period averaged 3%, what makes you confident that you will deliver mid-single digit LFL revenue growth going forward?

We are confident in our ability to deliver mid-single digit LFL revenue growth for 3 reasons:

First, our industry has strong structural growth drivers and intrinsic defensive characteristics.

Our solutions are mission critical for corporations to operate safely and regulatory requirements will continue to increase over time.

Second, in a world where real-time information is available to all on social media, stakeholder expectations in quality, safety and sustainability are getting higher every day.

Based on our research, these attractive structural growth drivers will be augmented by:

- increased investments in safer supply to make businesses more resilient
- increased investments in innovation to make businesses stronger
- increased investments in ESG reporting given the growing importance of sustainability
- increased investment in renewables to get to Net Zero
- and an increase in new clients, as consumers want more choices

Third, our portfolio is poised for faster growth.

At the global level, our portfolio is well positioned to benefit from the increased demand for our ATIC solutions.

We expect all our Global Business lines to deliver sustainable growth.

In addition, at the local level 55% of our revenue is exposed to the fast-growing segments.

Question 5: How is the M&A market today, how are valuations trending and do you see more, or less, opportunities?

The M&A market has been more active in the last 12-18 months but is not at the level seen before 2019.

We have made a few bolt-on acquisitions recently and remain very selective in our M&A approach.

We will have to wait for lower cost of borrowings before seeing a higher level of M&A activities.

Let's now discuss our trading performance.

Trading Performance in the period by Business Line

In the last four months, the Group has delivered a 5.2% LFL revenue growth at CCY which is in line with our expectations:

- Our Consumer Products division delivered LFL revenue growth of 1%.

  The high-single digit LFL revenue growth we saw in Electrical and Connected World was offset by the low-single digit negative LFL performance in SL and HL due to the reduction of new product development by our clients.

  We also saw double-digit negative LFL performance in GTS, due to the exit of two large contracts in 2022.

- Our Corporate Assurance division delivered LFL revenue growth of 6.6% at CCY driven by high-single digit LFL revenue growth in Business Assurance and negative mid-single digit LFL performance within Assuris, which cycled a strong 2022 comparative.

- Our Health and Safety division delivered LFL revenue growth of 6.5% at CCY driven by mid-single digit LFL performance in Food, Chemical & Pharma and Agriworld.

- Our Industry and Infrastructure division delivered LFL revenue growth of 5.7% at CCY driven by double-digit LFL performance in Minerals and Industry Services, while B&C delivered a low-single digit LFL performance.

- Our World of Energy division delivered LFL revenue growth of 8.7% at CCY driven by double-digit LFL performance within Caleb Brett and CEA, and low-single digit LFL performance within our TT business.

Intertek Performance Highlights

Turning now to the performance at the Group level on a YTD basis.

Revenue for the ten months to end October was £2.77bn, with a growth of 7.3% at CCY and 5.1% at actual rates.

LFL revenue growth was broad-based at 6.3% at CCY benefitting from both volume and pricing.

Acquisitions contributed £26m revenue on a YTD basis.

The SAI, JLA and CEA acquisitions we made in 2021 and 2022 to scale up our portfolio in attractive growth and margin sectors are performing well while the integration of the more recent acquisitions, Controle Analytico and Player link, is on track.

Our margin progression is in line with expectations, as we benefitted from our pricing initiatives, good operating leverage and disciplined cost controls.

We delivered a strong free cash flow performance enabling us to operate with a strong balance sheet.

We continue to invest in organic and inorganic growth opportunities.

Let's now discuss our financial guidance for the full year 2023.

2023 Outlook

We continue to expect to deliver mid-single digit LFL revenue growth at the Group level at CCY, with

- Low-single LFL in Consumer Products
- High-single digit LFL in Corporate Assurance, Industry and Infrastructure, World of Energy and
- Mid-single digit in Health and Safety.

We continue to expect margin progression YoY and a strong free cash flow performance.

Our net finance costs guidance is unchanged, in the range of £40-42m.

Our guidance regarding tax rate is slightly better than previously guided, between 25-26%.

Our minority interest guidance is unchanged between £22-23m.

Our Capex investments guidance is also unchanged, in the range of £115-125m.

Currencies have remained very volatile, and we are updating our currency guidance for the year.

The average sterling rate since the beginning of the year applied to the full year results of 2022 would reduce our revenue by 300bps and of our earnings by 500bps.

Our financial net debt guidance, excluding future change in FX rates or M&A is unchanged at £630-680m.

AAA Differentiated Growth Strategy

In the last part of our call today, I would like to make a few remarks on strategy.

Our good to great journey continues and all of us at Intertek are very energised about the significant value growth opportunity beyond 2023.

We are laser focused in executing the AAA differentiated growth strategy we presented at our Capital Market Event in London.

Our clients understand the need to increase their investment in risk-based quality assurance to operate with higher quality, safety and sustainability standards and make their businesses stronger.

We are experiencing faster growth for our ATIC solutions and we expect this to continue.

Geographically we operate a well-diversified earnings model with the right exposure to the right growth opportunities in the global economy.

Let me remind you of our targets.

In the medium to long term, we are targeting mid-single digit LFL revenue growth at constant currency with the following expectations by division.

- Low to mid-single digit in Consumer Products.
- High single-digit to double-digit in Corporate Assurance.
- Mid to high-single digit in Health and Safety.
- Mid to high-single digit in Industry and Infrastructure.
- Low to mid-single digit in the World of Energy.

Margin accretive revenue growth is central to the way we deliver value, and our target is that over time we will return to our 17.5% peak margin performance and go beyond from there.

To continue to deliver sustainable growth and value for our shareholders, we will stay focused on our Virtuous economics.

That is the compounding effect year after year of mid-single digit LFL revenue growth, margin accretion, strong free cash-flow, and disciplined investments in high growth and high margin sectors.

importantly, we believe in the value of accretive disciplined capital allocation.

We pursue the following priorities:

- First – we support organic growth through capital expenditure and investments in working capital.

- Second – we deliver sustainable returns for our shareholders through the payment of progressive dividends and a targeted pay-out ratio of circa 50%.

- Third – we pursue M&A activities that strengthen our portfolio in attractive growth and margin areas, provided we can deliver good returns.
- And fourth – we maintain an efficient balance sheet with the flexibility to invest in growth. Our leverage target is 1.3 – 1.8 net debt to EBITDA.

Conclusion

Let me summarise the highlights of our trading statement today before taking your questions.

The demand for our ATIC solutions is robust and we are delivering the best LFL revenue growth performance in the last 10 years.

We are converting our robust revenue growth into healthy margin progression and a strong cash performance.

We are on track to deliver our 2023 targets and are laser focused, implementing our strategy to unlock the significant value growth opportunity ahead.

Thank you for joining our call today. We will now answer any questions you may have.