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May Trading Update 2024 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:

- Trading in the first four months was slightly stronger than expected with 7.0% LFL revenue growth at constant currency.
- We delivered a robust margin performance driven by pricing, operating leverage, cost control and productivity improvements.
- Our disciplined cash conversion drove strong free cash flow.
- We are reconfirming our full year guidance at constant currency.
- The execution of our AAA strategy is on track.

Most frequently asked questions

I want to start our call today by answering the most frequently asked questions we've had in meetings since we announced our full year results in March.

Question 1: Why do you have the confidence to deliver mid-single digit LFL growth on a sustainable basis?

The ATIC growth opportunities are very attractive.

Companies have increased their investments in Risk-based Quality Assurance in the last two decades and importantly, based on the growing challenges they face in their supply chains and more demanding stakeholders, our clients will invest more moving forward.

Our customer research shows indeed that the structural ATIC growth drivers will be augmented by:

- The need to operate with safer and more resilient supply chains.
- Continued investments by corporations in new products and services.
- A step-change in how companies manage Sustainability.
- Increased investments in traditional Oli & Gas and renewables.
- An increase in the number of new clients, both in developed and emerging economies.

Against this backdrop, we operate a high-quality portfolio well-positioned to deliver faster growth.

That's why we expect to deliver mid-single digit LFL revenue growth on a sustainable basis.

Question 2: What are the building blocks to go to a 17.5%+ margin?

Margin accretive revenue growth is central to the way we manage performance at Intertek.

Between 2014 and 2019, we were the only global listed TIC company that delivered 200bps+ of margin accretion.

In 2021 and 2022, our margin performance was impacted by Covid-19 and the higher-than-expected inflation.

In 2023, we reported a 60bps margin improvement at constant currency. We have made further progress on margin in the first four months and are on track to deliver our medium-term margin target of 17.5%+.

You will recall that during our FY Results presentation, I gave specific examples about how we manage margin in each of our businesses.

When driving margin accretive revenue growth, we focus on five value drivers.

- The portfolio effect, based on volume, price & mix management.
- The fixed cost leverage linked to revenue growth.
- The variable cost productivity improvement.
- Targeted fixed cost reductions.
- Margin accretive investments in innovation, technology, and growth capability.

To execute these priorities, we operate with proven enablers.

- We run the company based on Daily/Weekly/Monthly performance management cadence.
- We do best-in-class benchmarking analysis every month.
- We are very disciplined on price, capitalising on our superior customer service.
- Our capital allocation policy is targeting investments in high-growth and high-margin segments.
- Our management incentive has been designed to reward margin accretive revenue growth.

We are confident we will achieve our medium-term target of 17.5%+ for three simple reasons: we have the proven tools and processes in place, we operate with a wide span of performance, and we pursue a disciplined accretive portfolio strategy.

Question 3: What is the performance of your consumer activities and what do you expect in 2024?

Our Consumer Products business delivered a 6.2% LFL revenue growth in the first four months which was slightly ahead of expectations.

Following a difficult 2023, fashion and general retailers entered 2024 with lower levels of inventory and started to invest in the development of new SKUs given the positive outlook for consumer demand in both discretionary and non-discretionary categories.

That’s why we saw a high-single digit LFL revenue growth in Softlines and a mid-single digit LFL revenue growth in Hardlines. Both the LFL revenue growth in Softlines and Hardlines were broad-based from a geographic standpoint.

The electrification of society continues to strongly support the growth for our Electrical business which delivered a high-single digit LFL revenue growth.

Finally, GTS was in line with expectations.

We are revising our 2024 guidance for our Consumer Products division, and we now expect to deliver mid-single digit LFL revenue growth.

Question 4: How well positioned are you in the context of changes in the global supply chains of your clients?

Supply chains never stand still, and we have seen several structural changes in the operations of our clients in the last few decades.

Our mantra at Intertek is to always anticipate where our clients are taking their supply chains using the 6,000 interviews we do with our customers every month.

Our global footprint and our capital-light business model make us very agile, giving us the ability to move fast if we need to build additional ATIC capability for our clients in existing or new markets.

Over the years, we have invested in many markets to expand our global footprint.

This is how we have built a strong presence in Vietnam, India, Bangladesh, Cambodia, Egypt, Türkiye, Greece, Morrocco, Guatemala, Brazil, Colombia, and Mexico.

There have been a lot of discussions about brands exiting their manufacturing footprint in China. I can tell you we only have seen a handful of brands doing so.

Changing production location is a high-risk decision for any business.

However, what we have seen is companies pursuing a China+1 strategy which consists of building their supply chains for new businesses, in a new country, to operate a more diversified footprint.

This has resulted in additional investments in countries like Vietnam, Cambodia, India, and Bangladesh while the manufacturing activities have continued to grow in China, benefitting from growth in existing categories and new brands, as well as expansion in new sectors like the solar and EV industries.

China has a track record of manufacturing excellence and good customer service.

That’s why the export economy in 2023 was 37% larger than in 2019 and that’s why our Chinese business has continued to deliver mid-single digit LFL revenue growth.

We also have seen investments in nearshoring to reduce the time to market and Co2 emissions, with the main beneficiaries being Egypt, Türkiye, Portugal, Morocco, Guatemala and Mexico.

Finally, we are seeing onshoring investments in the renewables sector with manufacturing investments in energy storage, solar, and wind, which are strategic sectors for the energy security of the European and North American markets. There is no question that the Inflation Reduction Act is triggering a significant step-up in greener energy investments in the USA.

Question 5: How are the competitive dynamics inside the industry and what are ITK’s differentiating factors?

An important point to make is that our competitive set is very broad.

The tier 1 group made up of publicly listed companies, and the tier 2 group made of mid-size businesses, not-for-profit organisations or Private Equity-owned, together represent less than 25% of the global industry.

Intertek offers its clients a differentiated value proposition based on very distinct attributes:

- We have a decentralised and empowered organisation making Intertek truly customer centric.
- We operate a high-quality portfolio with well-capitalised scale businesses.
- We are the only player in the industry offering our clients end-to-end Risk-based Quality Assurance, with our comprehensive ATIC solutions.
- We have built over the years a suite of leading and lagging indicators for every business, and this gives us a very strong data advantage.
- Finally, we truly believe in continuous improvement. Our high-performance culture, combined with our data advantage means that we never stop challenging ourselves on how to improve our processes and solutions to provide better value.

Let's now discuss our trading highlights and all the comments I will make are at constant currency.

First four months trading highlights

In the last four months, the Group has delivered a 7.0% LFL revenue growth, slightly ahead of expectations:

- Our Consumer Products division delivered LFL revenue growth of 6.2%, driven by high-single digit LFL performance in Softlines and Electrical, while Hardlines delivered mid-single digit LFL growth. GTS was slightly below last year.
- Our Corporate Assurance division delivered LFL revenue growth of 7.6%, driven by high-single digit LFL performance in Business Assurance and mid-single digit LFL performance within Assuris.
- Our Health and Safety division delivered a LFL revenue growth of 9.9%, driven by double-digit LFL performance in Food and AgriWorld while C&P delivered a high-single digit LFL performance.

- Our Industry and Infrastructure division delivered LFL revenue growth of 4.2%, driven by mid-single digit LFL performance in our Industry Services and Minerals businesses and low-single digit LFL growth in Building & Construction.
- Our World of Energy division delivered a LFL revenue growth of 9.4%, driven by double-digit LFL increase in Caleb Brett and CEA, and mid-single digit LFL growth in TT.

Intertek Performance Highlights

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

Revenue for the four months to end of April grew 7.5% at constant currency and 2% at actual rates to £1,081m.

LFL revenue growth of 7% at constant currency was broad-based, benefitting from both volume and pricing.

Acquisitions contributed £5.6m revenue on a YTD basis.

The Controle Analítico, PlayerLync and Base Met Labs acquisitions we made in 2023 and 2024 to scale up our portfolio in attractive growth and margin sectors are performing well.

Margin progression was robust, as we benefitted from our pricing initiatives, good operating leverage, disciplined cost controls and productivity improvements.

We delivered strong free cash flow and continue to operate with a robust balance sheet.

We continued to invest in organic and inorganic growth opportunities.

Let’s now discuss our financial guidance for the full year 2024.

24 Outlook

We continue to expect the Group will deliver mid-single digit LFL revenue growth at constant currency.

In terms of our businesses:

Given the strong start to the year, we have raised our guidance in Consumer Products to mid-single digit, and to high-single digit for Health and Safety and World of Energy.

Our expectations remain for high-single digit growth in Corporate Assurance.

We are revising our outlook for Industry and Infrastructure to mid-single digit.

We are targeting margin progression.

Our cash discipline will remain in place to deliver strong free cash flow.

We will invest in growth with Capex of circa £135-145m.

We expect our financial net debt to be in the range of £510-560m, before any M&A or Forex movements.

A quick update on currencies for your model.

The average Sterling exchange rate in the last three months applied to the full year results of 2023 would reduce our full year revenue and operating profit, respectively by circa 200bps and 300bps.

Net/net, we are on track to deliver our full year guidance at constant currency and the market expectations for 2024, notwithstanding the forex volatility we are seeing in many markets.

AAA strategy execution on track

At our Capital Markets event in May a year ago, we presented our Intertek AAA differentiated growth strategy to unlock the significant value growth opportunity ahead.

All of us at Intertek are laser-focused on taking our company to greater heights and I am pleased to report that the execution our AAA strategy is on track.

We made strong progress between 2014 and 2023, delivering value for all our stakeholders, and our good to great journey continues, capitalising on our Science-based Customer Excellence ATIC advantage.

Our clients understand the mission-critical nature of 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.

To continue to deliver sustainable growth and value for our shareholders, we will stay focused on our virtuous economics, based on 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:

Our first priority is to support organic growth through capital expenditure and investments in working capital.

The second priority is to deliver sustainable returns for our shareholders through the payment of progressive dividends and we target a pay-out ratio of circa 65%.

The third priority is to pursue M&A activities that strengthen our portfolio in attractive growth and margin areas, provided we can deliver good returns.

And our fourth priority is to maintain an efficient balance sheet with the flexibility to invest in growth. Our leverage target is 1.3x – 1.8x net debt to EBITDA with the potential to return excess capital to shareholders subject to our future requirements and prevailing macros.

Conclusion

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

Trading in the first four months was slightly stronger than expected with 7.0% LFL revenue growth at constant currency benefitting from a broad-based performance.

Our pricing initiatives, strong cost control and productivity improvements drove a robust margin performance while our disciplined cash conversion delivered a strong free cash flow.

We are on track to deliver our full year guidance at constant currency and the market expectations for 2024, notwithstanding the forex volatility in many markets in the last few months.

Thank you for joining our call today.

We will now answer any questions you might have.