

# **2016 Half Year Results Presentation**

**Double Digit Revenue and  
Earnings Growth**

**1 August 2016**



## Cautionary statement regarding forward-looking statements

Intertek

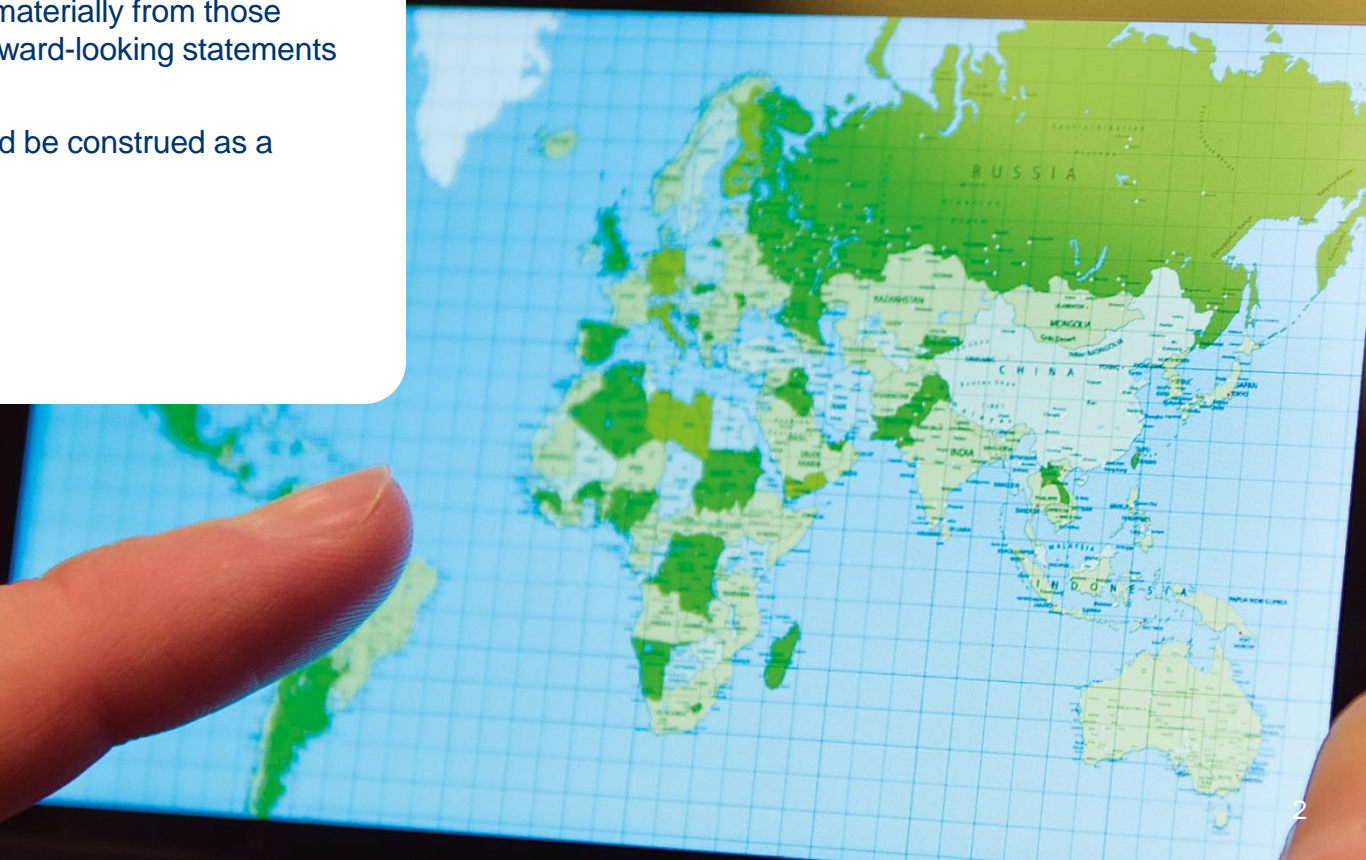
This presentation contains certain forward-looking statements with respect to the financial condition, results, operations and business of Intertek Group plc.

These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future.

There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

Nothing in this presentation should be construed as a profit forecast.

1 August 2016





# Agenda

Intertek

01 Performance Highlights

02 Financial Results

03 Business Update



# Performance Highlights

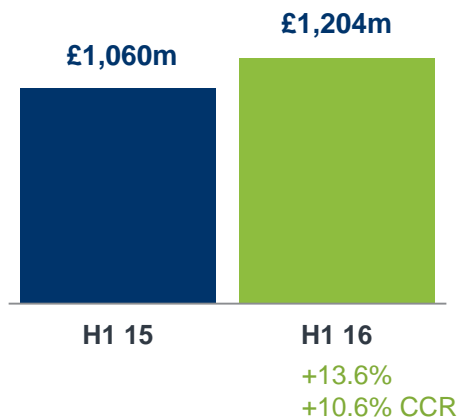
**André Lacroix**  
Chief Executive Officer



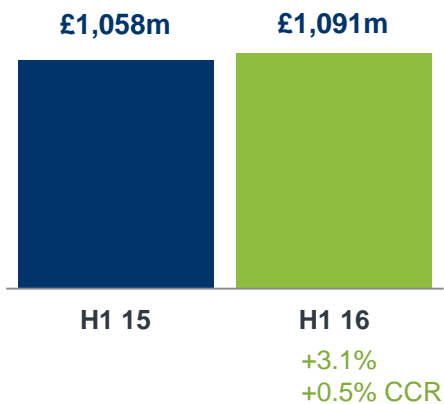
# Double digit revenue and earnings growth

Intertek

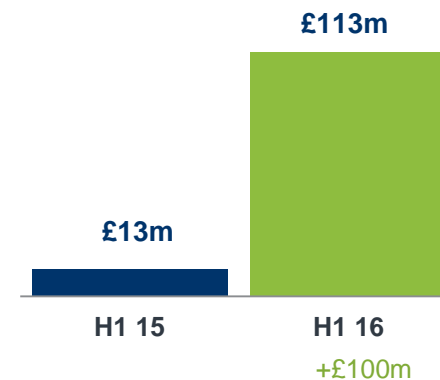
Revenue



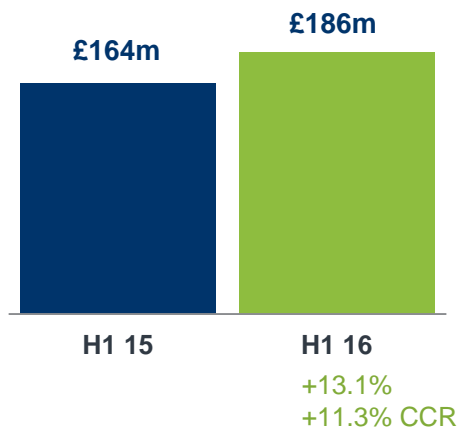
Organic Revenue



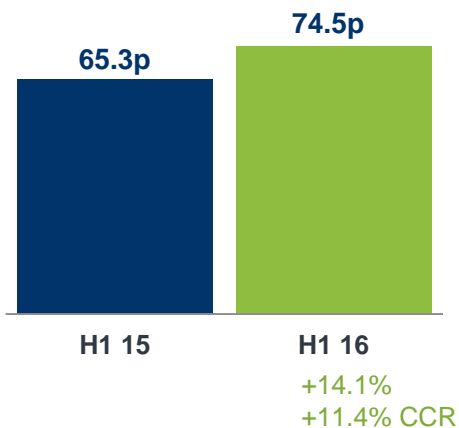
Revenue from Acquisitions



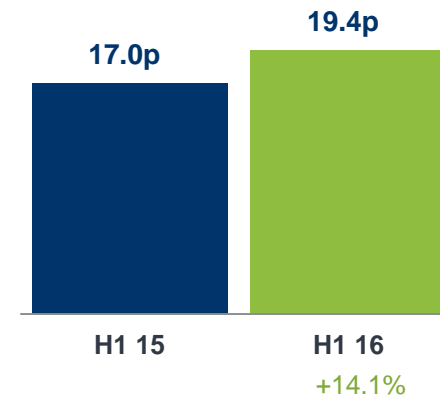
Adjusted Operating Profit



Adjusted EPS



Interim Dividend



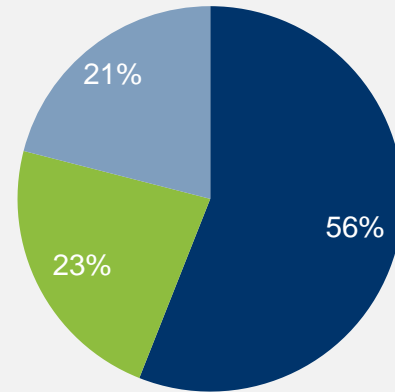
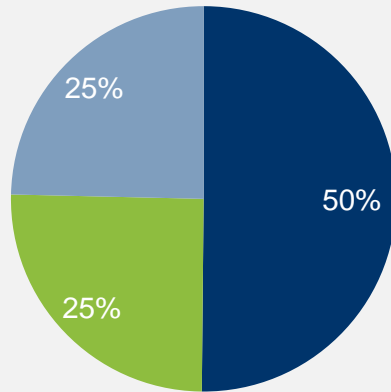
# Portfolio shift towards attractive growth and margin opportunities

Intertek

H1 15

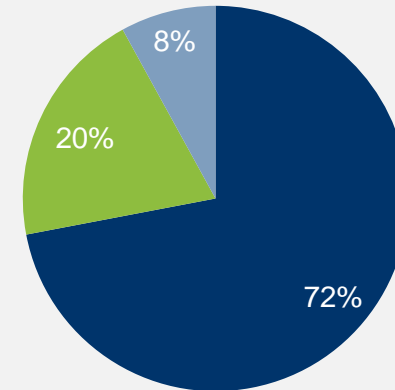
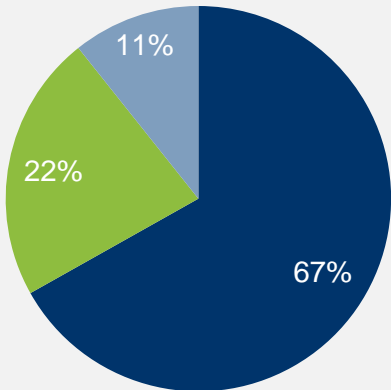
H1 16

Revenue



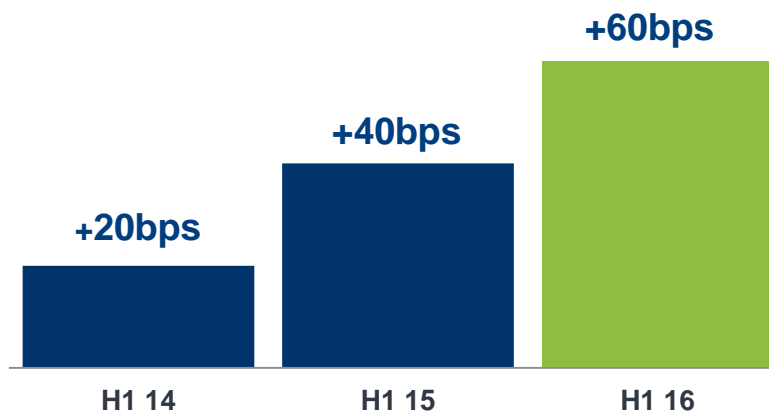
■ Products  
■ Trade  
■ Resources

Adjusted  
Operating  
Profit



H1 Products profit grew by 22%

## Organic operating margin improvement<sup>1</sup>



### Cost reduction activities

	Headcount	Savings <sup>2</sup>
2014	1,100	£10m
2015	200	£4m
2016	400	£7m

### Productivity management

- Monthly performance reviews for Top 30 countries/16 Business Lines
- Business line and country monthly benchmarking with financial and non-financial metrics
- Site span of performance management with best in class tools

### Continuous margin discipline

- Portfolio review
- Consolidation of facilities
- Consolidation of offices
- Process streamlining
- Purchasing synergies



# Financial results

**Edward Leigh**

Chief Financial Officer





## Double digit revenue, profit and EPS growth

		YoY %	
	H1 16	Actual Rates	Constant Rates
Revenue	£1,204m	13.6%	10.6%
Organic revenue <sup>1</sup>	£1,091m	3.1%	0.5%
Operating profit <sup>2</sup>	£186m	13.1%	11.3%
Operating profit margin <sup>2</sup>	15.4%	(10)bps	10bps
Adjusted Diluted EPS <sup>2</sup>	74.5p	14.1%	11.4%

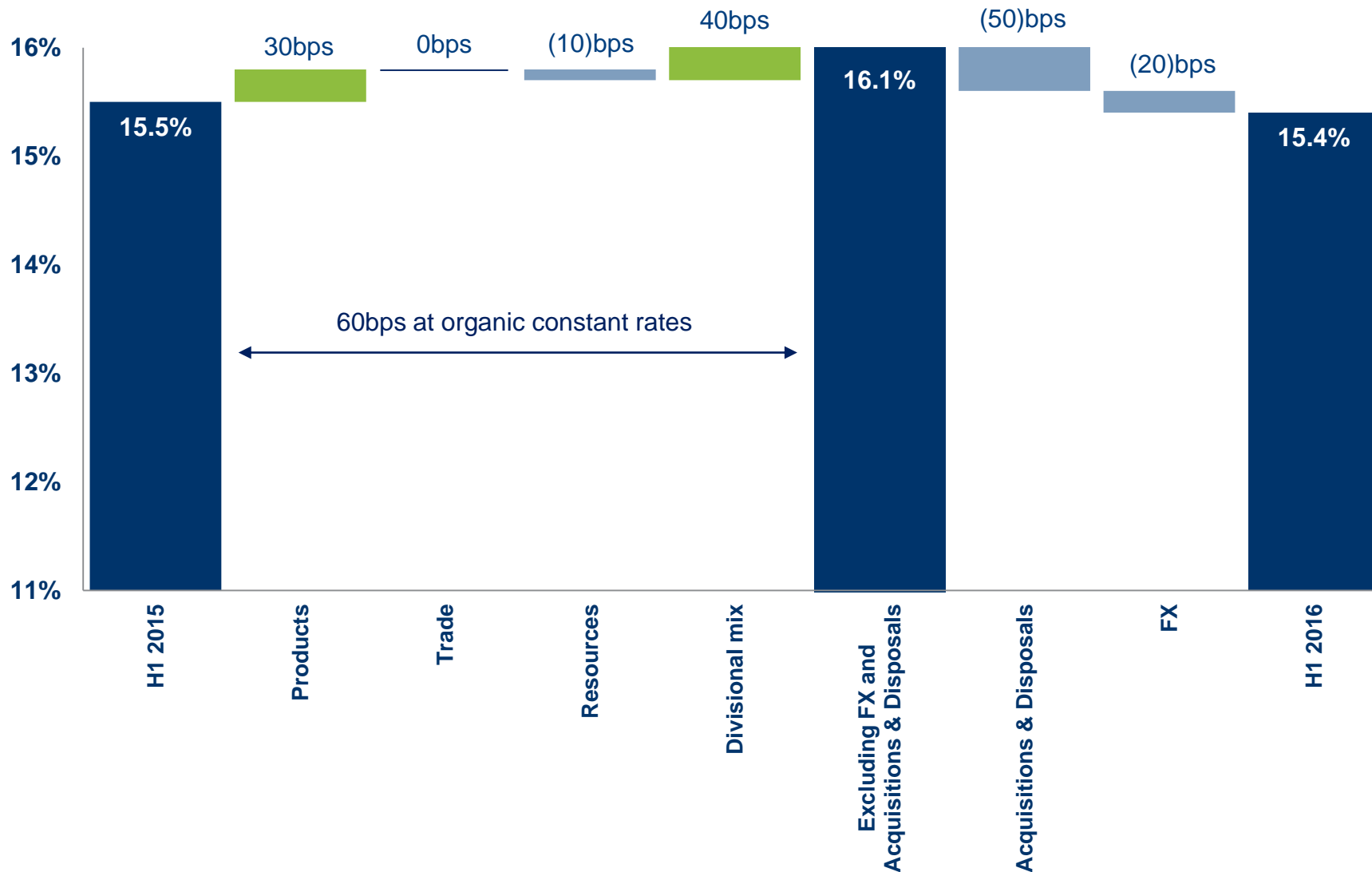
# H1 2016 Divisional Performance

**Intertek**

<b>Products</b>	£m	H1 16	Change at actual	Change at constant
	Revenue	677.9	27.5%	22.3%
	Organic revenue <sup>1</sup>	585.2	10.1%	5.6%
	Operating profit <sup>2</sup>	133.6	21.6%	18.0%
	Margin	19.7%	(100)bps	(70)bps
<b>Trade</b>	£m	H1 16	Change at actual	Change at constant
	Revenue	272.5	1.9%	1.1%
	Organic revenue <sup>1</sup>	272.5	1.9%	1.1%
	Operating profit <sup>2</sup>	37.0	0.3%	0.8%
	Margin	13.6%	(20)bps	0bps
<b>Resources</b>	£m	H1 16	Change at actual	Change at constant
	Revenue	253.5	(2.9)%	(4.2)%
	Organic revenue <sup>1</sup>	233.1	(9.8)%	(11.0)%
	Operating profit <sup>2</sup>	15.3	(13.1)%	(10.5)%
	Margin	6.0%	(70)bps	(50)bps

Note: (1) Organic revenue growth excludes the impact of acquisitions and disposals in 2015 and 2016; (2) Before separately disclosed items

# Operating Margin Bridge





# Cash flow

£m @ actual exchange rates	H1 16	H1 15
<b>Adjusted operating profit<sup>1</sup></b>	<b>185.9</b>	<b>164.4</b>
Depreciation/amortisation	42.4	41.6
Working capital	(76.7)	(40.5)
Other <sup>2</sup>	4.3	4.0
<b>Adjusted cash flow from operations</b>	<b>155.9</b>	<b>169.5</b>
Net capex	(47.6)	(42.0)
Other <sup>3</sup>	(59.4)	(48.7)
<b>Free cash flow</b>	<b>48.9</b>	<b>78.8</b>
Acquisitions <sup>4</sup>	(1.4)	(6.1)
Equity dividend	(56.8)	(53.2)
Movement in borrowings	34.5	7.7
Other <sup>5</sup>	(12.3)	(10.1)
<b>Net increase in cash</b>	<b>12.9</b>	<b>17.1</b>
Opening net cash	116.0	119.5
Effect of FX on cash held	11.6	(6.5)
<b>Closing net cash</b>	<b>140.5</b>	<b>130.1</b>

- Working capital down 5% YoY @ CCR, excl. PSI

- Investments in growth of £50m (Capex / M&A)

- Effective tax rate 25.3%

- Net debt £887m (incl. £90m FX)

*Note:*

(1) Before Separately Disclosed Items

(2) Comprises Special Pension payments, add back Equity Settled transactions and other Non-Cash Items

(3) Comprises: Exceptionals, Interest Paid/Received and Tax

(4) Total purchase price in H1 2016 £1.6m. Net of cash acquired £0.2m

(5) Comprises: Purchase of own shares, tax paid on share awards, dividends paid to NCI and purchase of minority/associate

	FY 2016 Guidance
Net finance cost	c.£30m
Minority interest	£15-16m
Capex	£110-120m <sup>1</sup>
Net Debt	£770-820m <sup>2</sup>
Effective tax rate	25-26%
Diluted shares (as at 30 June 2016)	162.5m

# Business update

**André Lacroix**  
Chief Executive Officer





## Quality Assurance market worth c.\$250bn

### 01 Structural Growth Drivers

- Continued growth in Testing, Inspection and Certification
- Increased demand for Assurance

### 02 Existing Customers


- Increase account penetration
- Assurance, Testing, Inspection and Certification cross-selling

### 03 New Customers

- New contracts
- Outsourcing

### 04 Industry Consolidation

- Expand geographic coverage
- Access to new solutions

- 
- The background of the slide features a photograph of two young children running on a sandy beach. They are seen from behind, moving away from the viewer towards the ocean. The child on the left is holding a white model airplane high in the air. The scene is set during sunset or sunrise, with a warm, golden glow from the low sun on the horizon. Long shadows are cast on the sand. The image is partially obscured by a dark blue overlay on the left side, which contains the list of goals.
- 01 Fully engaged employees in a safe working environment
  - 02 Deliver superior customer service
  - 03 Margin accretive organic revenue growth based on GDP + organic growth
  - 04 Strong cash conversion from operations
  - 05 Accretive disciplined capital allocation policy for both capex (5% of Revenue) and M&A

# 5x5 Strategy for Growth

**Intertek**







**Systemic Approach to Quality and Safety with ATIC Solutions**

## 5 Strategic Priorities

Strategic Priorities	Action Plans	KPIs
<b>01</b> Strong Brand Proposition	<ul style="list-style-type: none"> <li>Position Intertek as leading Quality Assurance provider</li> <li>Improve brand awareness across sectors and geographies</li> <li>Compelling Total Quality Assurance Brand positioning</li> </ul>	<ul style="list-style-type: none"> <li>Revenue growth</li> <li>New leads</li> <li>Customer acquisitions</li> <li>Pricing power</li> <li>A&amp;P effectiveness</li> </ul>
<b>02</b> Superior Customer Service	<ul style="list-style-type: none"> <li>Build customer loyalty and win new customers</li> <li>Measure quality of customer service delivery</li> <li>Develop innovative ATIC solutions</li> </ul>	<ul style="list-style-type: none"> <li>NPS</li> <li>Customer retention</li> <li>Customer acquisition</li> <li>Pricing power</li> <li>Growth from innovation</li> </ul>
<b>03</b> Effective Sales Strategy	<ul style="list-style-type: none"> <li>Increase existing account penetration</li> <li>Drive ATIC cross selling</li> <li>Business development with new accounts</li> </ul>	<ul style="list-style-type: none"> <li>Growth from existing customers</li> <li>Growth from new customers</li> <li>Customer cross selling</li> <li>Customer profitability</li> </ul>
<b>04</b> Growth and Margin Accretive Portfolio	<ul style="list-style-type: none"> <li>Prioritised business lines, geographies and service areas</li> <li>Invest in areas with good growth and good margin prospects</li> <li>Disciplined resource, capital and people allocation</li> </ul>	<ul style="list-style-type: none"> <li>Revenue growth</li> <li>Margin accretion</li> <li>Portfolio mix</li> <li>ROCE</li> <li>Capital allocation</li> </ul>
<b>05</b> Operational Excellence	<ul style="list-style-type: none"> <li>Continuous improvement to drive productivity</li> <li>Best in class management to reduce span of performance</li> <li>Eliminate non-essential costs - facilities/offices/processes/purchasing</li> </ul>	<ul style="list-style-type: none"> <li>Direct costs</li> <li>Overheads</li> <li>Productivity per employee</li> <li>Site capacity utilisation</li> <li>ROCE</li> </ul>

## 5 Enablers

Enablers	Action Plans	KPIs
<b>01</b> Living Our Customer Centric Culture	<ul style="list-style-type: none"> <li>Strong entrepreneurial culture</li> <li>Decentralised organisation</li> <li>Customer centric culture</li> </ul>	<ul style="list-style-type: none"> <li>Revenue and profit growth</li> <li>NPS</li> <li>Organisation engagement</li> <li>Employee turnover</li> </ul>
<b>02</b> Disciplined Performance Management	<ul style="list-style-type: none"> <li>Performance management with financial and non-financial metrics</li> <li>Forecast and review processes focused on margin accretive revenue growth with strong cash conversion</li> </ul>	<ul style="list-style-type: none"> <li>EBIT margin</li> <li>Working capital</li> <li>Cash conversion</li> <li>ROCE and ROIC</li> </ul>
<b>03</b> Superior Technology	<ul style="list-style-type: none"> <li>Upgrade business intelligence system</li> <li>Leverage back-office synergies</li> <li>Improve customer experience</li> </ul>	<ul style="list-style-type: none"> <li>Productivity/cost savings</li> <li>Customer feedback/NPS</li> <li>IT operating costs</li> </ul>
<b>04</b> Energising Our People	<ul style="list-style-type: none"> <li>Invest in capability</li> <li>Aligned reward system</li> <li>Promote internal growth</li> </ul>	<ul style="list-style-type: none"> <li>Internal promotions</li> <li>Employee turnover</li> <li>Organisation engagement</li> </ul>
<b>05</b> Delivering Sustainable Results	<ul style="list-style-type: none"> <li>Sustainable growth for customers and shareholders</li> <li>Importance of sustainability for the community</li> <li>Right balance between performance and sustainability</li> </ul>	<ul style="list-style-type: none"> <li>5 year revenue growth</li> <li>5 year profit growth</li> <li>CO2 footprint</li> <li>Health and safety</li> <li>Employee turnover</li> </ul>

01

Capex and working capital investment to support organic growth (target c.5% of revenue in capex)

Sustainable shareholder returns through payment of progressive dividends

02

03

M&A focused on strong growth and margin prospects in businesses with leading market positions or in new exciting growth areas, geographies or services

Efficient balance sheet with flexibility to invest in growth with Net Debt / EBITDA target of 1.5x - 2.0x

04

# Structural organic growth drivers

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## Profit Mix<sup>1</sup>

72%

## Economic Sectors

### Products

Softlines, Hardlines, Electrical & Wireless, Business Assurance, Building & Construction, Transportation Technologies, Chems & Pharma and Food

56% Revenue<sup>2</sup>



- Quality solutions for end-products, their components, processes and R&D
- Product variety, brand and supply chain expansion, innovation and regulations
- Increasing quality and sustainability demands by developed and emerging economies
- Increased Corporate focus on risk

### Trade

Cargo & Analytical, Government Services & Agri

23% Revenue<sup>2</sup>



- Global and regional trade-driven, through GDP growth
- Increased customer focus on quality and quantity controls

### Resources

Industry Services & Minerals

21% Revenue<sup>2</sup>



- Capex & opex investment supporting world economic growth
- Servicing oil & gas and other sectors of the economy

## Mid-Long Term Growth

Continuing growth from expanding investment in quality & innovation

Trade-flow growth: global & regional

Long-term growth

'Global GDP Plus' Organic Revenue Growth



- **We had prepared ourselves for a Brexit scenario**
  - we do not believe that Brexit will impact the future growth opportunities of Intertek
- **Corporations will continue to invest in quality and safety improvements**
  - the fundamental strengths of our business model remain unchanged in a World that needs more quality assurance
- **The foreign exchange impact for Intertek relates to translation**
  - 92% of our Group revenues in 2015 were generated outside the UK
- **We recognise that it will take time for the UK Government to negotiate an exit of the EU**
  - we will implement any new measures, step by step, when these are articulated

# Group Outlook in 2016

## Robust constant currency performance

Intertek

- Solid organic growth momentum
  - Continued robust growth in product related businesses
  - Solid growth in Trade related activities
  - Resource businesses will remain challenging
- Benefits from acquisitions
- Broadly stable margin
- Capex £110-120m<sup>1</sup>
- Net Debt £770-820m<sup>2</sup>

Note: (1) Before any material change in FX rates; (2) Before any material change in FX rates and any additional M&A



# Products – Excellent revenue performance up 28% YoY

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## H1 Trading

**5.6%** organic revenue growth<sup>1</sup>

**19.7%** operating margin

- **Softlines** delivered robust growth from supply chain expansion
- **Hardlines** had robust growth, benefiting from strong global relationships
- **Transportation Technologies** saw double-digit growth from powertrain investment
- **Business Assurance** delivered double-digit growth as corporations increase their focus on risk management
- **Electrical & Wireless** benefited from higher regulatory standards, delivering solid growth
- **Food** delivered good growth with increased focus from corporations on food safety
- **Chems & Pharma** saw solid growth, leveraging structural growth opportunities
- **Building & Construction** had robust growth with growing demand for greener and higher quality buildings

(1) at CCR

## H2 Outlook

**Continued robust organic growth expected in H2 2016**

- **Softlines:** Supply chain inspection in Vietnam, Cambodia and India; Strong growth in footwear sector
- **Hardlines:** Supply chain expansion in India and Mexico; Innovative factory inspection technology
- **Transportation Technologies:** Testing for electric and hybrid vehicles
- **Business Assurance:** Integration of DIC acquisition; Growth in Supplier Audit management
- **Electrical & Wireless:** Expansion of our operation into the fast growing EMC sector; Increased demand for IoT testing
- **Food:** Integration of the FIT acquisition capitalising on the growth of the Food service sector
- **Chems & Pharma:** Structural growth drivers; Supply chain expansion; Product innovation and regulation
- **Building & Construction:** Growth of commercial and civil construction markets in the USA; Further integration of PSI

## Intertek Innovative Solutions

Remote Vibration Monitoring



Medical Electrical Equipment



Food Traceability, China



## H1 Trading

**1.1%** organic revenue growth<sup>1</sup>

**13.6%** operating margin

- **Cargo/AA** delivered solid growth benefiting from structural growth drivers
- **GTS** was affected by reduced demand in Middle East and Africa
- **Agriculture** had robust growth from supply chain expansion

## H2 Outlook

**Solid growth expected in H2 2016**

**Cargo/AA:** New lab openings in Australia, PNG, Texas; Increased shipment of refined products

**GTS:** Increased scope of activities in Saudi Arabia; New programmes in new markets

**Agriculture:** Business development with existing and new accounts in fast growing markets

(1) at CCR

## Intertek Innovative Solutions

iPort System for Agriculture



Customer Service Centre for Exporters, Vietnam



Mercury Contamination Detection





## H1 Trading

**(11.0)%** organic revenue growth<sup>1</sup>

**6.0%** operating margin

- **Capex inspection services** were impacted by lower investment and reduced exploration activities
- **Opex maintenance services** remained stable
- **Minerals** testing activities were stable

## H2 Outlook

**Challenging trading conditions expected in H2 2016**

- **Capex inspection services:** Focus on cost and capacity control
- **Opex maintenance services:** Continuous diversification with NDT services
- **Minerals:** Cost and capacity control in a flat market

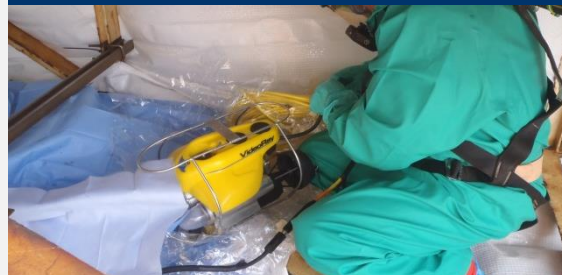
(1) at CCR

## Intertek Innovative Solutions

'Evolution' Management System



Remote Operated Vehicle Inspection



Pipeline In-Line Inspection





# Strategic expansion in US growth markets with PSI

- Integration plans on track
- Good revenue momentum
- Cost synergies year 1 delivered
- Operating margin up
- Strong pipeline of activity for H2
  - Significant wins in large projects
  - Attractive growth opportunities

## Recent Large PSI Project Wins

177 HOT Lanes, North Carolina



One of its largest projects on the East Coast, PSI is providing both Geotechnical Design services and Construction Quality Assurance Testing.

The new High Occupancy Traffic Lanes will add two 17.5-mile lanes in both directions. This will enhance mobility and travel time.

Harbor Bridge, Corpus Christi



The second largest project in PSI's history, involving geotechnical consulting and design for the replacement of the current bridge.

When completed, the Harbor Bridge will be the largest cable stayed bridge in the USA.

Tampa Airport Automated People Mover, Florida



PSI continues to expand its Nationwide Aviation/Airport services by performing Construction Quality Assurance Testing on one of the largest new developments for the Tampa International Airport that ties a new rail based system to the Terminal.

## Conclusion

- Double digit revenue and earnings growth
- Strong cash generation and disciplined capital allocation
- Attractive growth prospects
- High quality earnings model
- Strong balance sheet

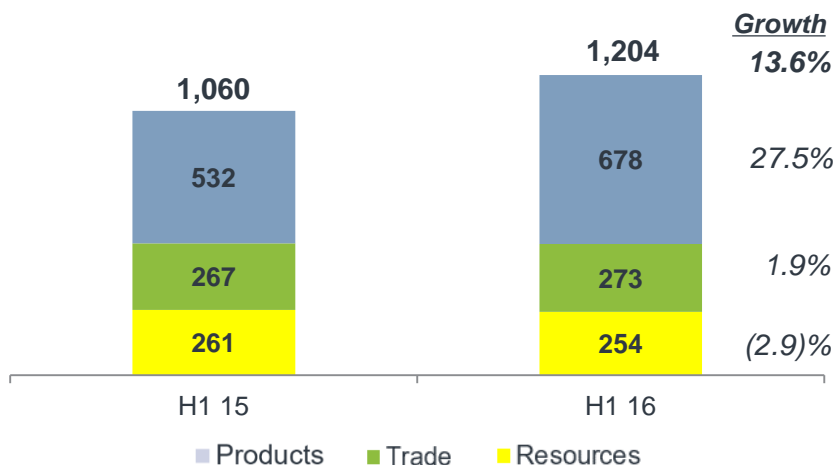




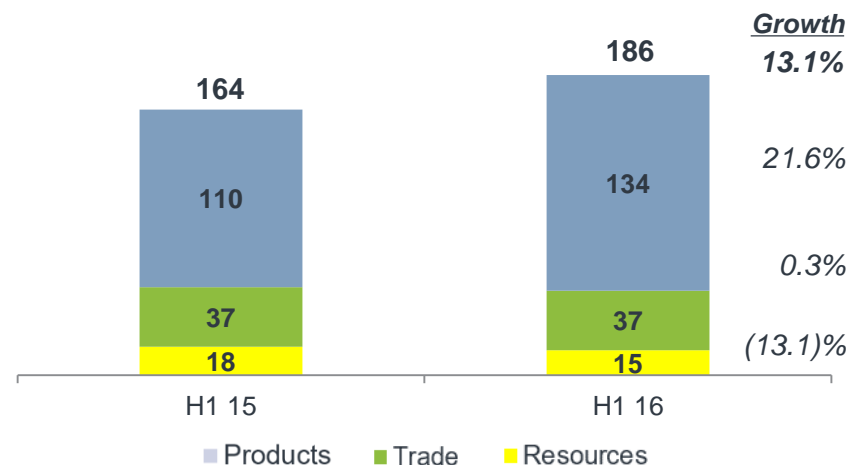
# Appendix

## 2016 Half Year Results Presentation

## Revenue<sup>1</sup> (£m)



## Adjusted Operating Profit<sup>1</sup> (£m)



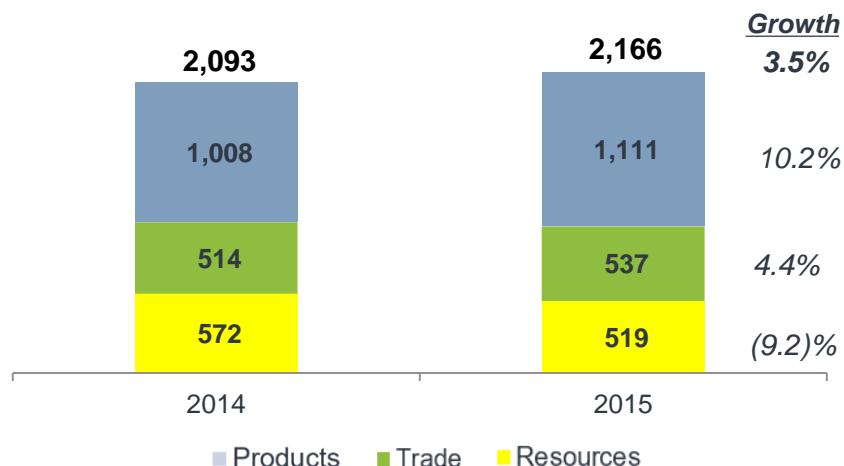
## Margin

	H1 15 <sup>2</sup>	H1 16
Products	20.4%	19.7%
Trade	13.6%	13.6%
Resources	6.5%	6.0%
<b>Group</b>	<b>15.3%</b>	<b>15.4%</b>

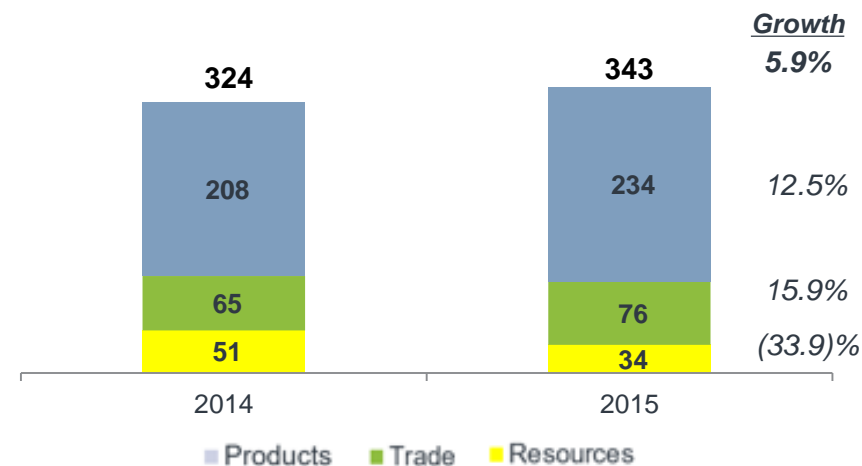
## Key Metrics

	% Group Revenue	% Group Profit	Organic Revenue Growth <sup>2</sup>
Products	56%	72%	5.6%
Trade	23%	20%	1.1%
Resources	21%	8%	(11.0)%
<b>Group</b>			<b>0.5%</b>

## Revenue<sup>1</sup> (£m)



## Adjusted Operating Profit<sup>1</sup> (£m)



## Margin

	2014 <sup>2</sup>	2015
Products	21.0%	21.1%
Trade	12.6%	14.1%
Resources	9.0%	6.5%
<b>Group</b>	<b>15.7%</b>	<b>15.9%</b>

## Key Metrics

	% Group Revenue	% Group Profit	Organic Revenue Growth <sup>2</sup>
Products	51%	68%	6.0%
Trade	25%	22%	5.4%
Resources	24%	10%	(10.2)%
<b>Group</b>			<b>1.6%</b>



## Adjusted EPS

£m @ actual exchange rates	H1 16	H1 15	
<b>Adjusted operating profit</b>	<b>185.9</b>	<b>164.4</b>	<b>13.1%</b>
Net interest expense	(13.4)	(14.6)	
<b>Profit before tax</b>	<b>172.5</b>	<b>149.8</b>	
Tax 25.3% (24.7%)	(43.6)	(37.0)	
<b>Profit after tax</b>	<b>128.9</b>	<b>112.8</b>	
Non-controlling interest	(7.9)	(7.2)	
<b>Net Profit</b>	<b>121.0</b>	<b>105.6</b>	
Fully diluted shares	162.5	161.8	
<b>Earnings Per Share</b>	<b>74.5p</b>	<b>65.3p</b>	<b>14.1%</b>