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November Trading Update Script

Introduction

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

I have with me Jonathan Timmis, our CFO and Denis Moreau our VP of Investor Relations.

There are three take-aways from our call today:

- In the last four months we have delivered a robust trading performance at constant currency with a broad-based good LFL revenue growth in Products and a LFL revenue growth acceleration in our Trade and Resources businesses.
- For the full year, we are confident that the Group will deliver robust LFL revenue growth with good earnings growth at constant currency, and at actual rates, strong earnings growth and a strong free cash flow.
- Looking beyond 2022, we will continue to deliver sustainable growth and value for all stakeholders, seizing the exciting organic and inorganic ATIC growth opportunities ahead.

The Most Frequently Asked Questions

I will start our call today, answering the most frequently asked questions regarding Intertek.

Question 1: How is inflation affecting your performance and how strong is your pricing power to offset inflation?

You will recall that we did not cut costs in 2020 as we wanted to keep our ATIC capability intact for our clients to help them resolve the Covid-19 disruptions they faced in their supply chains.

Based on the growth acceleration we have seen in the second half of 2021 and in 2022, we are investing in Opex capability but given the higher-than-expected inflation in North America, UK, Europe and Australia, this is impacting our margin in the current year.

Our superior ATIC customer service gives us a strong pricing power and notwithstanding the good pricing performance we saw this year, we have taken additional pricing in H2 in these markets which will be beneficial in 2023.

Question 2: How resilient is your business model in an economic recession?

We operate a high-quality growth business with excellent fundamentals and intrinsic defensive characteristics.

The ATIC solutions we offer are mission critical for our clients to make sure that they continue to operate safely.

Our revenue streams are highly diversified and we offer a broad range of ATIC solutions in 17 industries across more than 100 countries.

Importantly, we have built strong and lasting relationships with our clients benefitting from very high retention rates.

I would like to take a step back and compare Intertek today versus 2009.

In 2009 the company delivered a resilient performance with 3.5% LfL revenue growth,16.9% margin and a 26.5% ROIC.

Since then, our portfolio has evolved and became stronger given the compounding effect of the organic growth we delivered across our business lines and the investments we have made.

Specifically:

- our high margin Products business was 63% of the Group revenue in 2021 compared to 55% in 2010 which positions us well to benefit from the higher ATIC investments of our clients moving forward in innovation, assurance and sustainability.
- our Trade business was 21% of the Group revenue in 2021 compared to 32% in 2010
- our Resources business is now 16% of the Group revenue compared to 13% in 2010. Our strong ATIC portfolio in the World of Energy will enable us to benefit from the increased Capex investments in the oil and gas and renewables sectors.

Question 3: How are your Chinese operations performing?

We have an excellent business in China with leading scale positions.

The lockdown restrictions had a significant impact in our China business between March and June, with Shanghai being the most impacted.

It has been operating as normal from July onwards and as expected, our business has rebounded quickly delivering a good LFL revenue growth at constant currency in the July-Oct period.

However, we expect the revenue momentum in our Softlines and Hardlines businesses to slow in Q4 as some of our North American and European retailers have postponed the launch of new products as they focus in the short-term on reducing inventory levels.

Question 4: What is Intertek's M&A strategy and how is the pipeline?

Our M&A strategy targets investments in attractive growth and margin sectors to augment our organic growth.

Since 2014, we have invested circa £1billion and have acquired businesses that brought new solutions that we have scaled up through our global network or that have expanded our geographic coverage.

We have integrated and operationalised these investments successfully as evidenced by our excellent ROIC.

The recently acquired businesses – SAI Global, JLA Brazil and Clean Energy Associates have delivered £120m of revenue in the first 10 months of 2022.

We have built a superior operating platform to deliver attractive returns from acquisitions and M&A is an integral part of our value creation approach moving forward.

Our pipeline is healthy.

Question 5: What is the outlook for operating margins and is there any risk of deterioration?

Given the impact of China in H1, the expected divisional mix, and the impact of inflation on the Opex capability investments we are making in North America, UK, Europe and Australia, our margin at constant currency in 2022 will be below 2021.

As you know, in 2021 we benefitted from £10.5m of additional government subsidies which means that our margin will be slightly below 2021, adjusted for those subsidies.

Margin accretive revenue growth is central to the way we deliver value in each part of our portfolio, and we are confident we will deliver progress on margin moving forward.

Let's now discuss our trading performance.

The Four-Month Performance by Business Line

The Group has delivered a robust LFL trading performance in the period at constant currency.

Our Products business delivered a good LFL revenue growth, which was slightly below our expectations.

Recently, we saw a slow-down in new product development from our Softlines and Hardlines clients as they focus on short term reduction of higher-than-expected inventory before year-end.

Also we have not seen our automotive clients increase their R&D investments in H2 given the challenges they face in their supply chains.

In the last four months, our Products LFL revenue growth was 4.0%, driven by:

- double-digit LFL revenue growth in Business Assurance
- high-single digit LFL revenue growth in Building & Construction and Food
- mid-single digit LFL revenue growth in Softlines
- low-single digit LFL revenue growth in Hardlines, Electrical and Chemicals & Pharma
- double-digit negative LFL revenue within Transportation Technologies

In our Trade division, the increased demand for Energy and Agri products has enabled us to deliver a robust LFL revenue growth of 7.1%.

In the Resources sector, we have delivered a strong trading performance with a 9.7% LFL revenue growth. The momentum acceleration in H2 was driven by increased Capex investment from our clients in traditional oil and gas and renewables, as well as new contract wins.

Intertek Performance Highlights

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

We delivered revenue growth of 9.0% at constant currency and 15.5% at actual rates.

LFL growth was robust and broad-based at 5.2% at constant currency benefitting from both volume and pricing.

As I have already mentioned, we have taken additional pricing during H2 to address the higher-than-expected inflation in North America, UK, Europe and Australia and that will be beneficial to the Group in 2023.

The SAI, JLA and CEA acquisitions we recently made to scale up our portfolio in attractive growth and margin sectors are performing well delivering 3.8% of revenue growth for the Group.

We continue to make progress on cost and productivity.

Our day-to-day cash performance discipline continues to deliver a strong free cash flow.

We continue to invest in Opex capability, innovation and capacity expansion to seize the exciting growth opportunities ahead.

Let’s now discuss the financial guidance for the full year 2022.

Outlook

We expect to deliver robust LFL revenue growth at the Group level at constant currency, with good LFL revenue growth in Products and robust LFL revenue growth in Trade and Resources.

Given the impact of China in H1, the expected divisional mix, and the impact of inflation on the Opex capability investments we are making in North America, UK, Europe and Australia, our margin at constant currency will be below 2021 and slightly below our 2021 underlying margin, if we exclude the £10.5m additional government subsidies we received last year.

We expect the net finance costs to now be in the range of £34-36m.

Our guidance regarding tax rate is unchanged, between 26.5-27.0%,

We expect our minority interest to be between £19-20m,

We expect our capex investments to be in the range of £120-125m.

A brief update on currencies.

The average sterling rate since the beginning of the year applied to the full year results of 2021 would provide an uplift of 600BPS /650 BPS at the revenue and earnings level.

Our financial net debt guidance, excluding future change in FX rates or M&A is £750-800m.

Overall, in 2022 we expect the Group to deliver good earnings growth at constant currency and a strong earnings growth and free cash flow at actual rates.

Looking beyond 2022

Looking beyond 2022, we are well positioned to continue to deliver sustainable growth and value for all our stakeholders.

Intertek's approach to value creation is based on the compounding effect, year after year, of margin accretive revenue growth, strong cash generation and disciplined investment in growth.

This approach has delivered 13% annual TSR in the last decade.

We are a high-quality growth business delivering value for all stakeholders, with excellent fundamentals in customer service, ATIC demand, margin management, capital allocation discipline, and operating culture.

Let me explain what I mean.

We provide a superior customer service with our ATIC solutions and Science-based Customer Excellence is our competitive advantage. We measure our customer service with circa 6,000 interviews a month and work continuously at becoming ever better with both process improvements and industry leading innovations. That's why we operate with a very high customer retention.

From an ATIC demand standpoint, stakeholders' expectations in a post Covid-19 world in terms of quality, safety and sustainability are higher, making the case for our Risk-based Quality Assurance solutions stronger. That's why we expect the higher demand for our ATIC solutions to drive a higher organic growth post Covid-19.

Margin accretive revenue growth is central to the way we deliver value. It starts with our accretive portfolio approach that targets organic and inorganic investments in attractive growth and margin sectors. We have established over the years a continuous improvement performance approach at every layer of the organisation to control costs and drive productivity improvement. That's why we expect margin progress moving forward.

Our strong focus on cash management has stepped up our free cash flow performance over the years enabling us to invest 4-5% of our revenue in Capex, reward our shareholders with a progressive dividend policy targeting 50% payout and operate with a strong balance sheet giving us the firepower to invest in M&A. This is what we mean by disciplined capital allocation.

At Intertek, we are purpose-led and we are all passionate about making the world a better place, bringing quality, safety and sustainability to life. We are a growth-oriented company attracting, developing and retaining the best talents in the industry. We operate a high energy, people-centric and innovative culture focused on delivering sustainable value for all stakeholders, doing business the right way.

Conclusion

In Summary

- In the last four months, we have delivered a robust trading performance at constant currency with a broad-based good LFL revenue growth in Products and a LFL revenue growth acceleration in Trade and Resources.
- For the full year, we are confident that the Group will deliver robust LFL revenue growth with good earnings growth at constant currency, and at actual rates, strong earnings growth and a strong free cash flow.
- Looking beyond 2022, we will deliver sustainable growth and value for all stakeholders, leveraging our excellent fundamentals and seizing the ATIC growth opportunities ahead.

Thank you for your attention and now we will take any questions you have.