AUDIOCAST 07.45AM UK – 24 May 2023
May 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 three take-aways from our call today:

- Our strong portfolio is delivering faster LFL revenue growth benefitting from an increased demand for our ATIC solutions.
- Our China business rebounded strongly after Chinese New Year following the relaxation of Covid restrictions in January.
- We are making good progress on revenue, margin and cash. We are confirming our 2023 guidance of mid-single-digit LFL revenue growth at CCY, with margin accretion and strong cash.

Four-Month Performance by Business Lines

Let's discuss the performance by business line.

Our Products business benefitted from a continuing increase in customer demand reporting revenue of £658.1m which was up 9.2% at actual rates and up 5.5% at constant currency.

We delivered a LFL revenue growth of 5.5% at constant currency with:

- Double-digit LFL revenue growth in Business Assurance
- Mid-single digit LFL revenue growth in Food and Building & Construction
- Low-single digit LFL revenue growth in Softlines, Hardlines, Electrical & Connected World, Transportation Technologies and Chemicals & Pharma

Our Trade division benefitted from increased demand for Energy and Agri products enabling us to report a revenue of £ 212.5m up 8.9% at actual rates and up 5.2% at constant currency.

We delivered a LFL revenue growth of 5.2% at constant currency with:

- High-single digit LFL revenue growth in Caleb Brett
- Low-single digit LFL revenue growth in Agriworld
- Double-digit LFL negative revenue in GTS

Our Resources division is benefitting from increased capex investments as our energy clients are building additional production capacity. Moreover, the demand for testing in Minerals is strong. We delivered revenue of £189m, up 23.3% at actual rates and up 18.9% at constant currency.

LFL revenue growth was 12.5% at constant currency with double-digit LFL revenue growth in Capex, Opex and Minerals.

Four-Month Performance in China

I would now like to discuss our performance in China.

The re-opening of the economy in January was welcomed by all of our clients both in the export and domestic markets and post Chinese New Year we saw a rebound in manufacturing and trading activities that provided a real benefit to our local operations.

This is reflected in the performance of our China business: in January/February, revenue was broadly flat accelerating in the March/April period to double-digit LFL revenue growth, which was broad-based with all business lines benefitting from the re-opening of the economy.

Overall, in the first four months our China business delivered LFL revenue growth of 7.5% at constant currency.

This is a good start to the year for our China business which will be a significant contributor to the Group's performance in 2023 given the base-line effect caused by the Covid disruptions in Q2 and Q4 last year.

Intertek Performance Highlights

Turning now to the performance at the Group level for the first four months of the year.

We delivered revenue growth of 7.6% at constant currency and 11.4% at actual rates.

LFL growth was broad-based at 6.5% at constant currency which was the highest LFL revenue growth since we started reporting our performance in Products, Trade and Resources in 2016.

We benefitted from both increased volume and pricing.

As previously discussed, we took pricing in the second half of 2022 in the regions where inflation was higher than expected and we have taken further global price increases in Q1.

The SAI, JLA and CEA acquisitions that we made to scale up our portfolio in attractive growth and margin sectors are performing well, in line with our expectations.

As you will have noted, we announced last month the acquisition of Controle Analítico, a leading provider of environmental analysis, with a focus on water testing, based in Brazil.

We continue to make progress on productivity, targeting operational improvement in our variable costs and maintaining strong control on fixed costs which combined with the benefits of operating leverage has delivered a good margin performance in the first four months of the year.

The cost restructuring program we announced in March is on track.

As a reminder, it targets productivity opportunities based on operational streamlining and technology upgrade initiatives to deliver £6-7m cost reduction in 2023 with an annual savings of £15m when the programme is complete.

Our day-to-day cash performance discipline has delivered 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 2023.

2023 Outlook

We continue to expect the Group will deliver mid-single digit LFL revenue growth at constant currency driven by mid-single digit LFL revenue growth in Products and Trade while we expect high-single digit LFL revenue growth in our Resources business.

We are targeting margin progression, in both H1 an H2.

Our cash performance will be strong.

We will invest in growth with capex of circa £115-125m.

We expect our financial net debt to be in the range of £630-680m.

A quick update on currencies for your models.

Sterling has strengthened in the last few months, and we are updating our FY forex guidance.

The last four months' average sterling rate at the end of April applied to the full year results would reduce our revenue by 50bps and our earnings by 150bps.

We are improving our segmental disclosures to better reflect the growth drivers in our businesses and starting from the Group's 2023 half year results we will report revenue, operating profit and margin in five divisions:

- Consumer Products
- Corporate Assurance
- Health and Safety
- Industry and Infrastructure
- World of Energy

Significant Value Growth Opportunity

A few weeks ago, we hosted our Capital Markets Event which gave our leadership team the opportunity to present our 2030 AAA growth strategy to unlock the significant value growth opportunity ahead.

Our clients are increasing their focus on Risk-based Quality Assurance to operate with higher standards on quality, safety and sustainability in each part of their value chain which is triggering a higher demand for our ATIC solutions.

We have made a lot of progress in our portfolio which is poised for faster growth, both at the global and at the local levels.

We are laser focused on margin accretive revenue growth and we have the plans in place to take our Margin back to our peak of 17.5% and beyond.

We have made great progress on cash generation, and we expect higher cash generation to support our investments in growth and deliver strong returns.

We now have a more agile operating structure which, combined with our high-performance capability, will unlock significant value.

Conclusion

In summary,

We had a good start to the year benefitting from faster LFL revenue growth as well as continuing progress on costs and cash.

We are on track to deliver our FY targets for 2023.

Our Intertek 30 AAA growth strategy is in place to deliver the significant value growth opportunity ahead.

We will now take any questions you might have.