2023 CAPITAL MARKETS EVENT
SIGNIFICANT VALUE GROWTH OPPORTUNITY

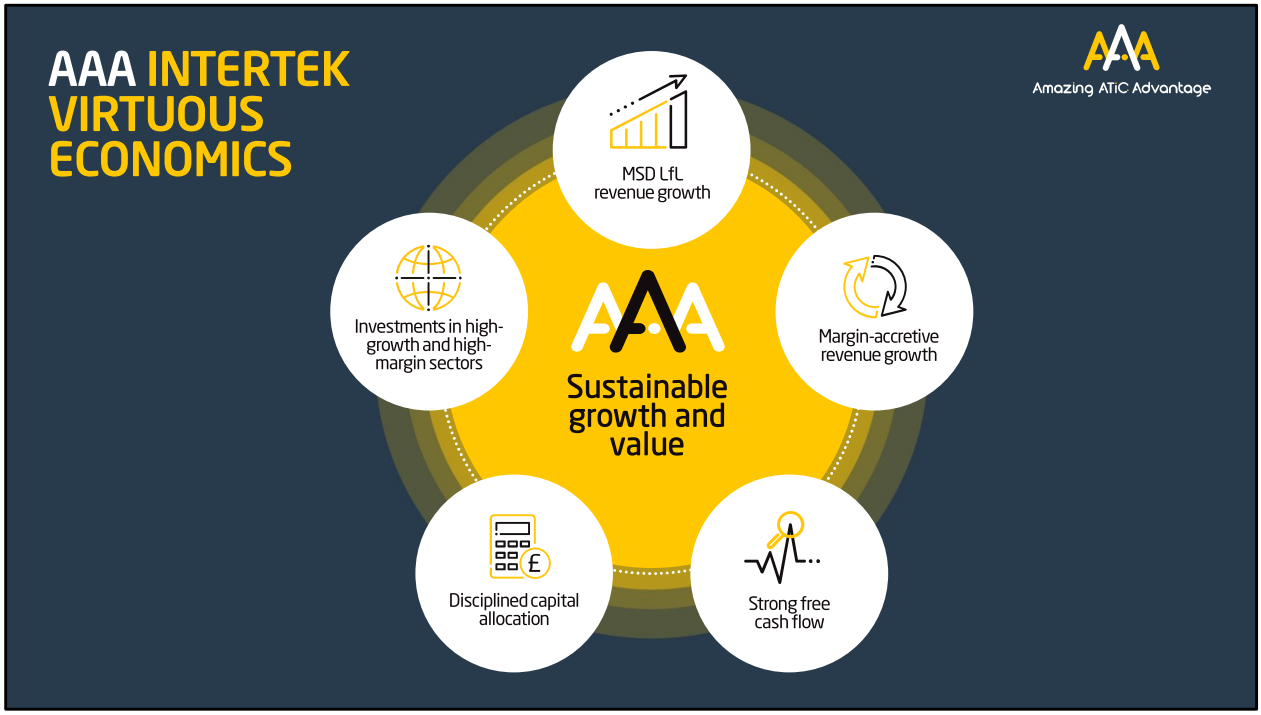
cash & capital allocation

Colm Deasy

Good afternoon everyone and welcome to our segment on Cash and Capital Allocation

I'm Colm Deasy, Chief Financial Officer I have been with Intertek for 7 years in a number of roles including Group Treasurer, Managing Director of our fast-growing APAC region

and President of some of our Global business lines B&C, TT and PA



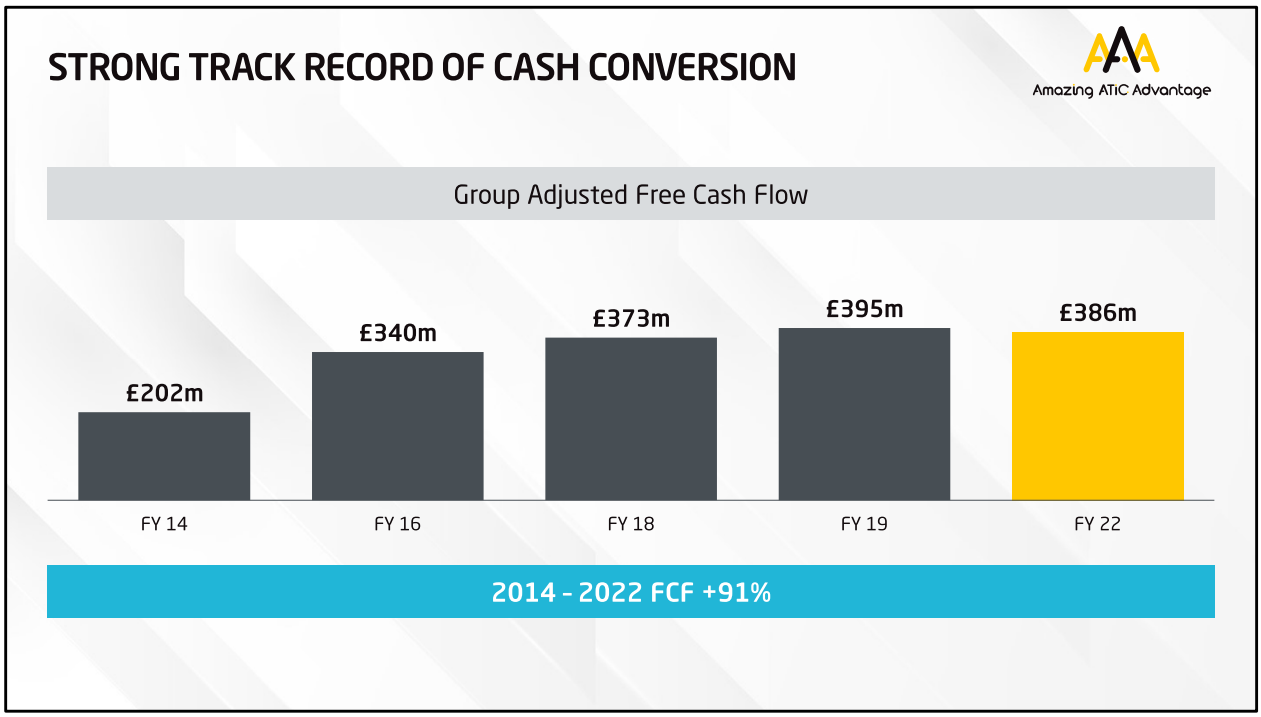
The Intertek virtuous economics model is central to the way Group has been delivering sustainable growth and value

How amazing has it been to hear from our leaders about the significant growth opportunities ahead !

Today I will talk to you about the other 3 aspects of our model

- Strong Free Cash Flow
- Our Disciplined approach to accretive Capital Allocation

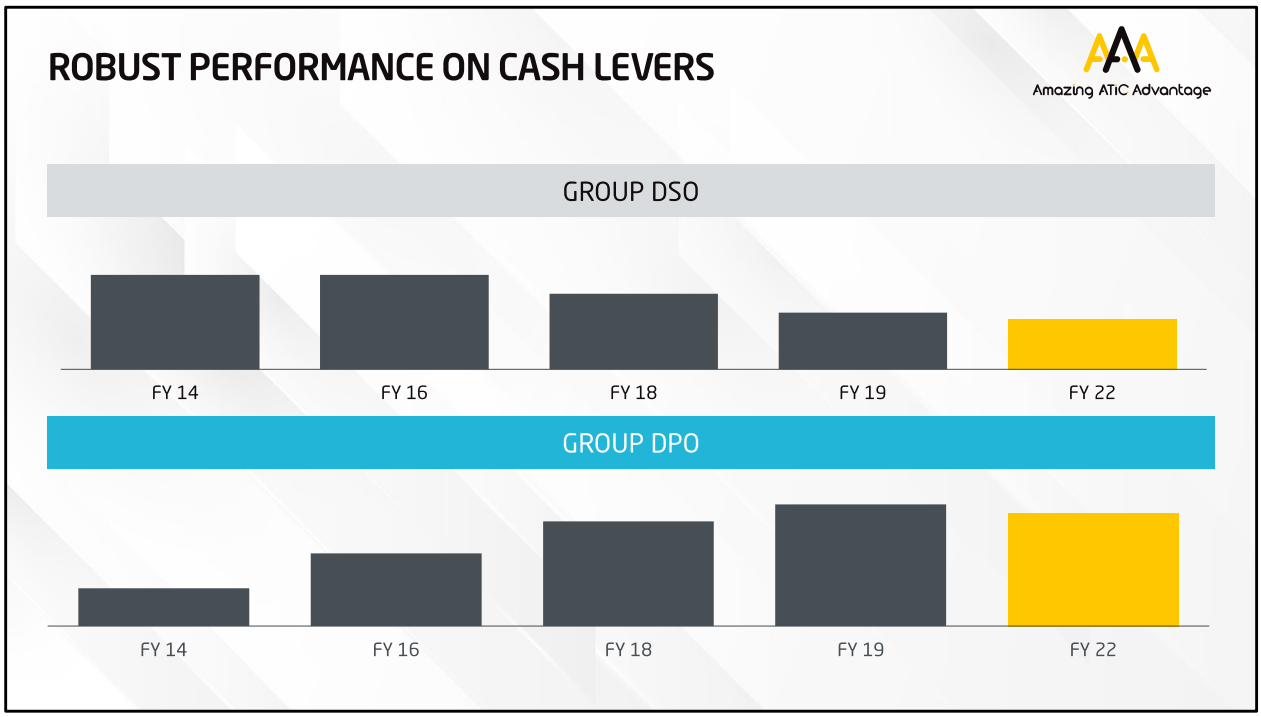
· and Investments in high-growth and high margin sectors



We have a strong track record of Cash Conversion

We have almost doubled Free Cash Flow since 2014 which demonstrates the strengths of our highly cash generative earnings model and the discipline that we have

Having said that, we believe there is much more fuel in the tank – and let me take some time to explain why



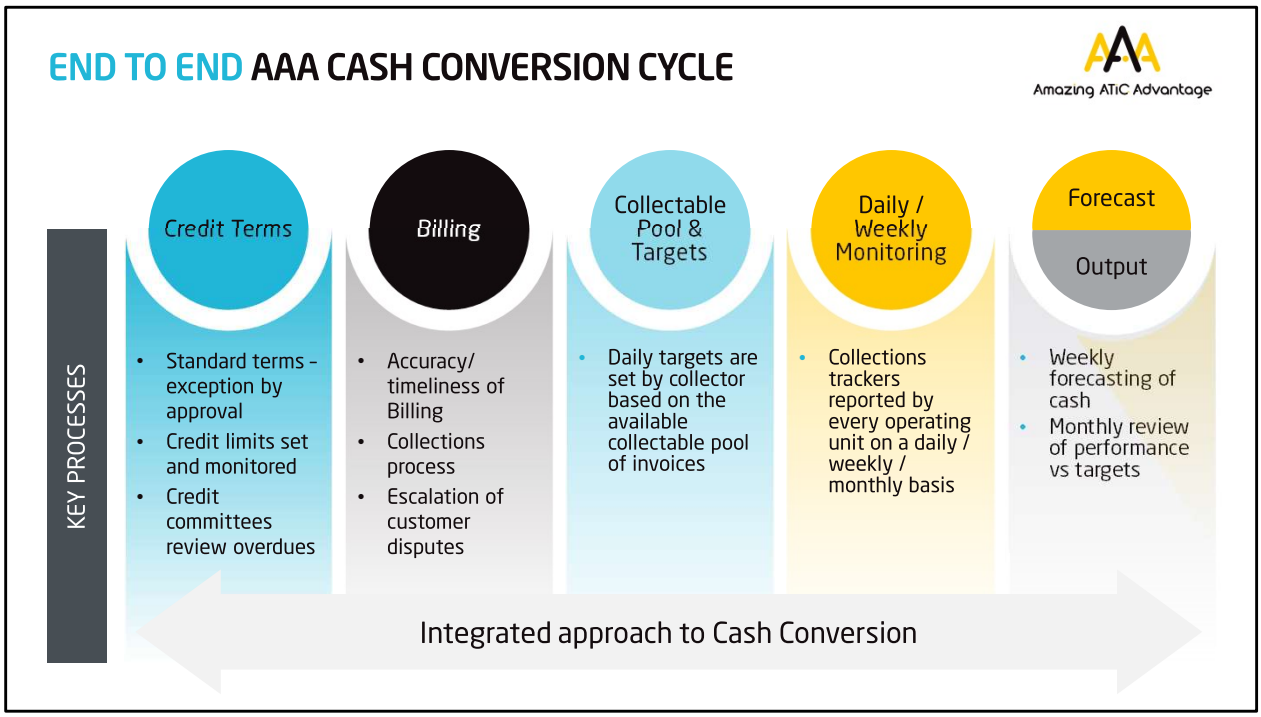
The first graph demonstrates our significant progress in the Group's Days Sales Outstanding – DSO, e.g. the number of days on average it takes to collect payment for a sale,

We have reduced the Group average every year for the past 8 years. Every 1 day improvement in our DSO generates over 7.5 million in free cash flow

The second graph demonstrates the Group's strong progress in our Days Payment Outstanding – DPO, a clear measure on how effectively we negotiate with our suppliers,

We have increased the Group average significantly from 2014. Extending our DPO by 1 day improves free cash flow by over 2 million

These improvements are reflective of..



.. Our end-to-end cash conversion cycle which is systemic across the world of Intertek

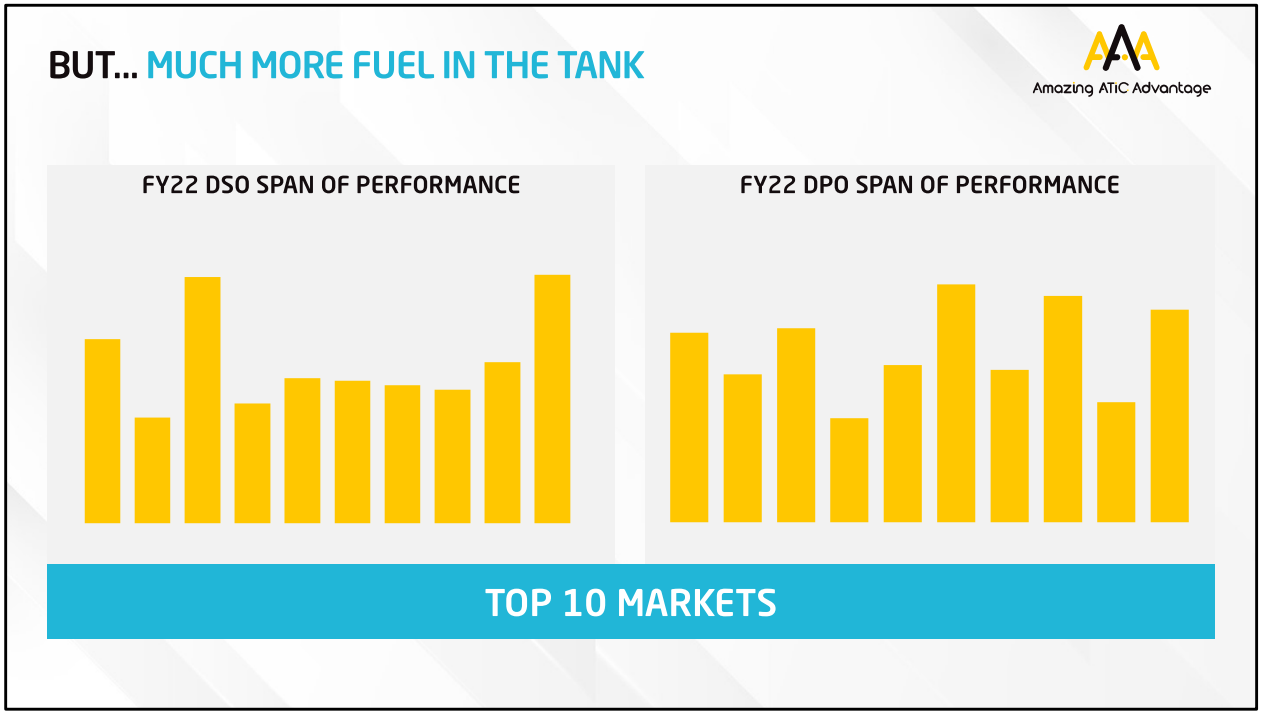
We have a robust program to improve all of the credit terms we give to customers and of course the reverse is true with our suppliers

We have undertaken a Kaizen process to improve the accuracy and timeliness of our billing,

We review the collectable pool and set stretching targets for every operation globally and

We have set-up daily reporting and weekly reviews with every operation globally to ensure we deliver our forecast

Now, I want to explain why we have more fuel in the tank



These charts show the relative DSO and DPO for some of our largest markets

You can clearly see the opportunity ahead in both the absolute size and the span of performance across markets

We have so much more to go for

Let me share some examples from my time running the APAC region

AUSTRALASIA - DELIVERING NEGATIVE WORKING CAPITAL YEAR ON YEAR IN A GROWTH ENVIRONMENT

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Australasia now has a **negative cash conversion cycle**

Key factors:

- Production process accuracy and planning is critical
- Favourable credit terms with our customers – we achieve low DSO
- Production converted into billing daily / reducing accrued income
- Negotiated long term credit purchases – we achieve high DPO

PROGRESS MADE THROUGH STRUCTURAL CHANGES		
KPI Matrix	Australasia	
	2021	2022
Cash generated from operations	£12M	£17M
DSO	42	41
DPO	60	61

In Australia we improved cash conversion by over 30% last year through a rigorous review of all our internal processes

We broke down all of our processes in very granular steps and improved our planning and scheduling to improve accuracy

Through this process we were able to covert production into daily billing in many cases – ie we issued invoices on the same day that the job was completed

We reached out to every single customer and supplier

and improved credit terms in all contracts that were up for renewal
– this process continues as many contracts are multi year in nature.

This may be a common process in many companies, but our differentiation is the vigor and energy our teams put into cash conversion – it has become systemic and I will explain why later

Let me give you another example from my time running APAC

JAPAN - DISCIPLINED OPERATIONAL EXCELLENCE

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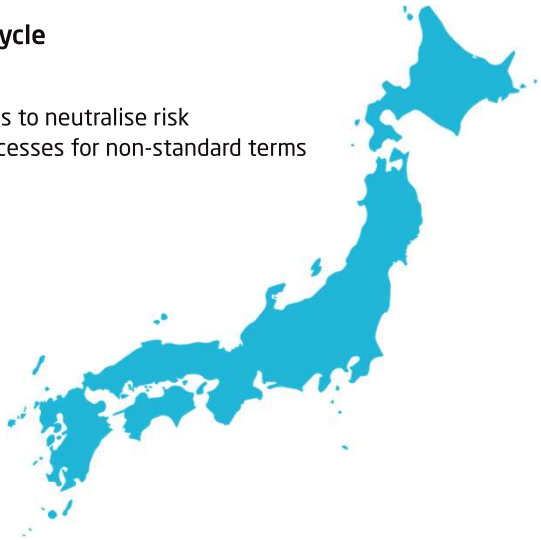
Japan also operates with a **negative cash conversion cycle**

Key factors:

- Robust credit risk assessment and use of prepayment terms to neutralise risk
- Control over customer payment terms & strict approval processes for non-standard terms
- Invoices are raised immediately once work is completed
- Continuous improvements on payment terms

PROGRESS MADE THROUGH STRUCTURAL CHANGES		
KPI Matrix	Japan	
	2021	2022
Cash generated from operations	£8M	£10M
DSO	27	26
DPO	48	50



Cash conversion in Japan improved by 20% last year.

For our smaller and new customers we moved to a position of not extending credit – we now work on a prepayment model for a significant % of customers

We tightened the authority matrix so that all variances to our new credit policy had to agreed at a regional level

For those customers that we do extend credit to, we implement the same kaizen approach as Australia which allowed us to invoice work on the same day that

work was completed

And of course like Australia, the passion from our teams is the differentiator – cash conversion is now systemic, and the improvements we have made to our processes are expected to reap benefits YoY

EVOLUTION OF GROUP CASH MANAGEMENT STRUCTURE

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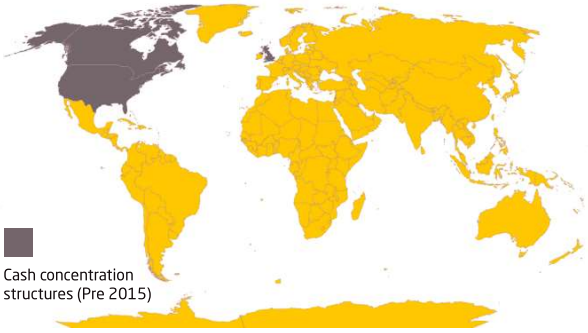
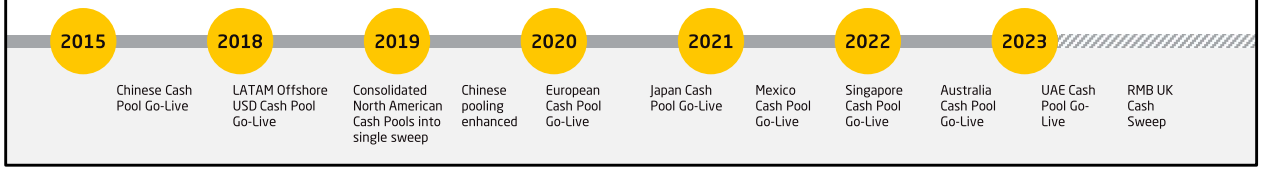
LEGACY CASH MANAGEMENT PROCESSES
2015 - UK and the U.S.
RCF ~40% drawn at Dec 2015
Manual cash transfers via intercompany loan and dividend disbursement





Of course collection the cash globally is important,

but we have to put it to work immediately so that we drive down borrowing costs with every pound collected !

In 2015 our cash concentration was limited to the US and UK

– so we were drawing on our Revolving credit facility to fund every day operations – incurring interest costs

IMPROVED CASH CONCENTRATION STRUCTURES REDUCE GROUP BORROWING

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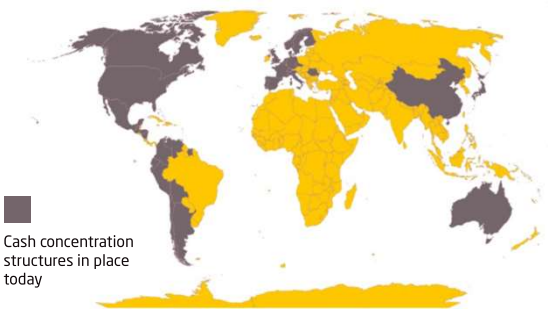
CASH MANAGEMENT INFRASTRUCTURE DEVELOPED IN THE FOLLOWING REGIONS

APAC
China
Europe
LATAM



The cash management infrastructure we have developed has helped us achieve

Centralisation of ~97% of Free Cash Flow last year

Allowing our $850m RCF to remain undrawn at FY22 year end

Today 75% of the business now being covered by automated cash sweeping

We were one of first multinational companies to establish cash concentration structures through the Shanghai Free Trade Zone

And in 2022 we achieved Centralisation of circa 97% of Free Cash Flow. This allowed our $850m RCF to remain undrawn at 2022 year end

We are confident we can improve further this year

Let me now move on to how we allocate our Capital

ACCRETIVE DISCIPLINED ALLOCATION OF CAPITAL

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

02 Sustainable shareholder returns through payment of progressive dividends based on a target payout ratio of c.50%

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

04 Leverage target of 1.3-1.8x Net debt/EBITDA (IFRS 16) with potential to return excess capital to shareholders, always subject to organic/inorganic capital requirements and prevailing macro environment

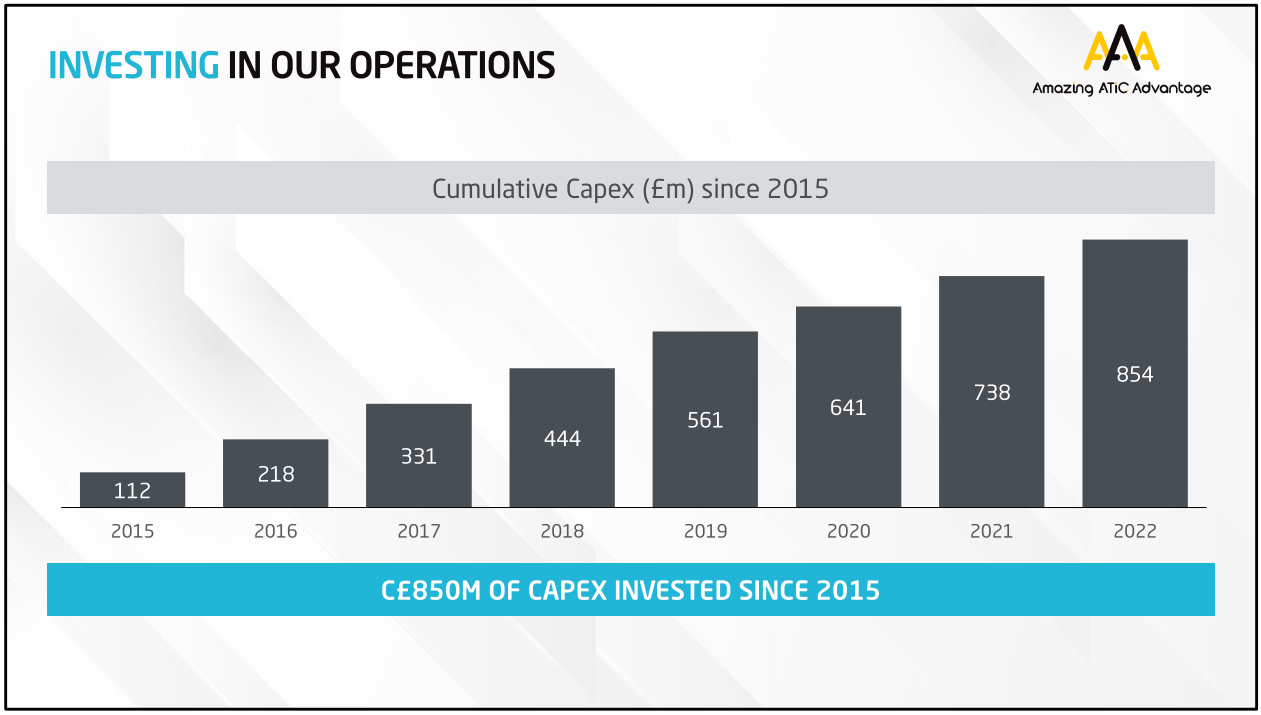
Our approach to accretive disciplined capital allocation is based on very clear priorities:

Number 1: We will invest capex to support organic growth and maintain our state of the art global network

Number 2: We target sustainable shareholder returns through the payment of progressive dividends, with a target payout ratio of c.50%

Number 3: We are a selectively acquisitive company, with a rigorous approach to our M&A

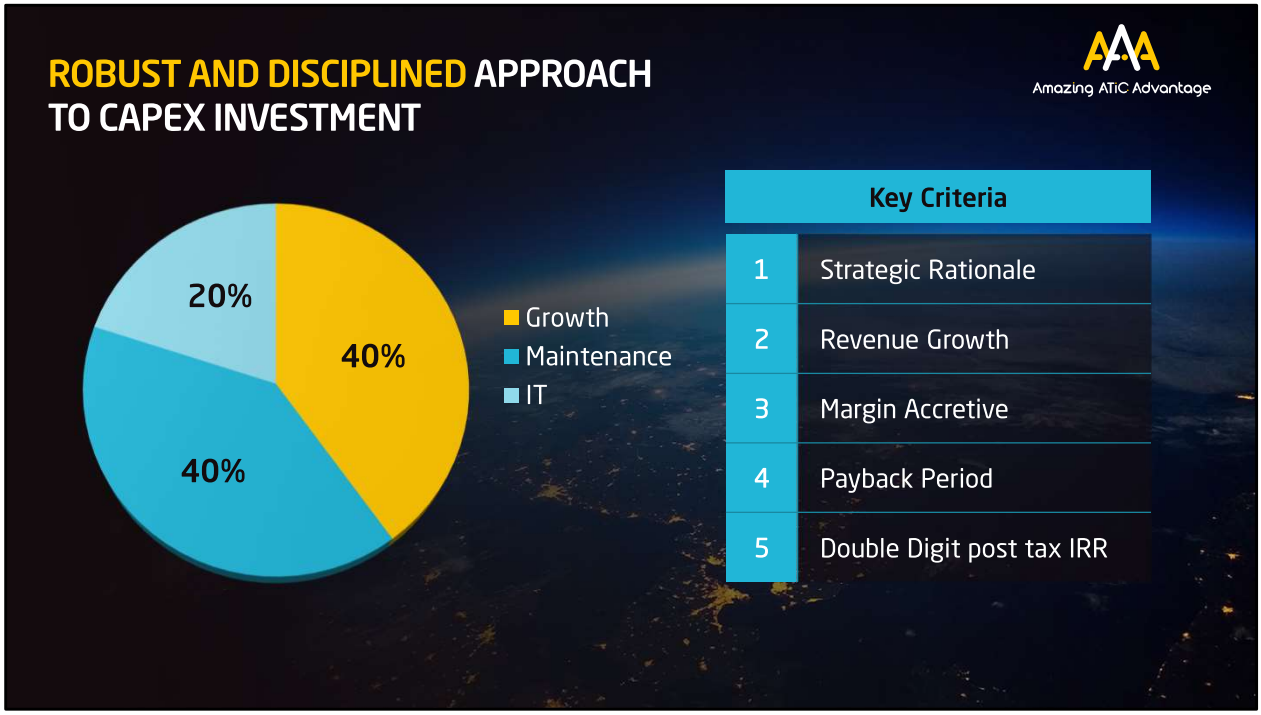
& Number 4: We will ensure balance sheet efficiency, with a leverage target of 1.3 to 1.8x net debt to EBITDA - retaining the firepower to invest in growth



Let me start with how we invest organically in our business.

We target around 5% of revenue in Capex as a proxy target and as you see we have invested circa £850m over the past 8 years

A critical point is that we are an intrinsically capital light, particularly in the fast growing Assurance space which now makes up 20% of revenues as well as our Inspection business which represents 25%



And as you see - in terms of split, we are broadly spending 40% of CAPEX on maintaining our state of the art network, You have seen videos that my colleagues have presented, these are not just the highlights,
but are representative our global network

40% of our spend is on new growth opportunities and I wanted to share our disciplined approach when investing for Growth.

One, is an investment in-line with our strategy

Two, is the current and prospective revenue growth attractive

Three, will the opportunity be margin accretive

Four, is the Payback period reasonable

And Five, will it deliver a double-digit return post tax

And if the answer to all five is yes, then we move ahead ……at pace

And 20% of our spend is in IT ensuring all of our systems are up to date, and evolving to meet every changing needs

Now, let me give you some examples

You heard from both Sunny's and Mike's presentations about the expectations for the electrification of society, particularly EV.

The expansion of our Transportation Technologies facility outside Detroit is a good example of investing for growth that I was personally involved in last year

We have almost tripled our footprint and added the full spectrum of EV testing protocols in the belief that there would be a surge in activity in the EV space.

We were also able to consolidate 2 other nearby PSI

facilities to reduce our carbon footprint overall and reduce our costs by circa $750k pa

This opportunity is bang on our strategy and hits all the criteria I mentioned a moment ago.

INDUSTRY LEADING SAAS PLATFORM

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intertek sourceclear™

Visible. Traceable. Sustainable.

Textile Exchange

GLOBAL ORGANIC TEXTILE STANDARD · GOTS ·

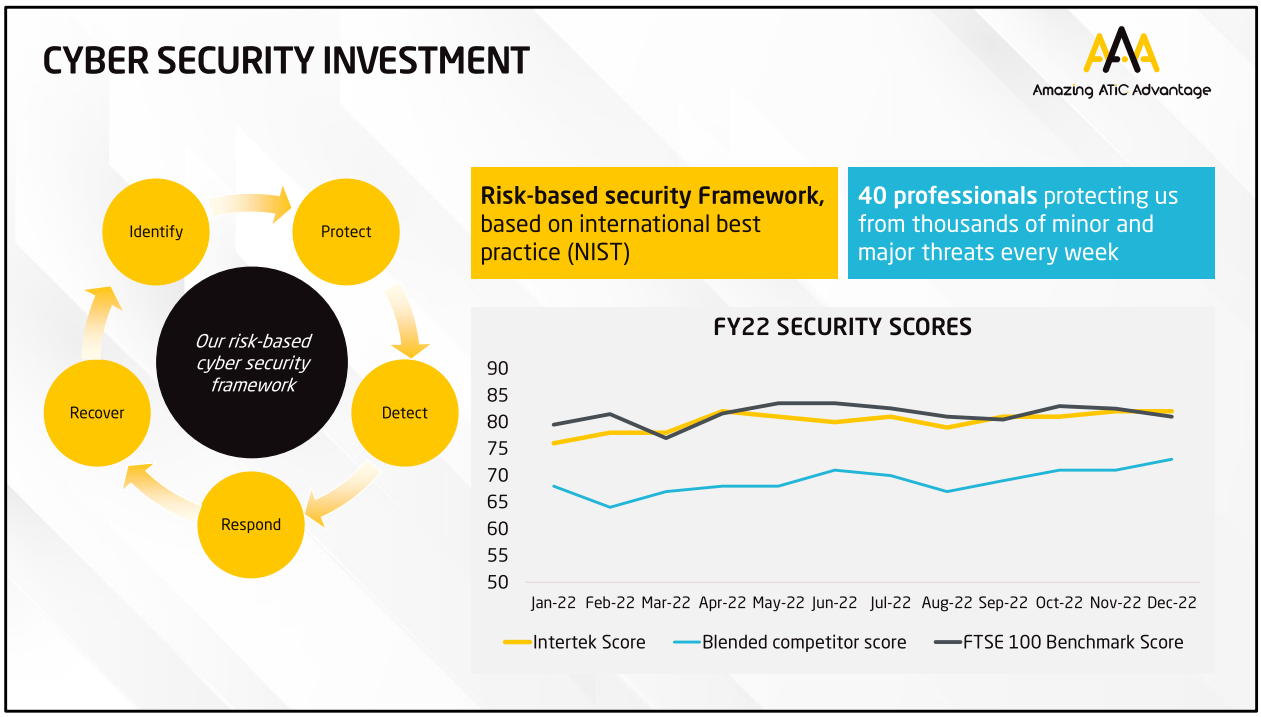
Empowering brands, suppliers and manufacturers to make public sustainability commitments with confidence

And you've heard from Sandeep's dive into Textile Exchange – our customers are looking for more sustainable fibers and materials

SourceClear was a technology investment to help organizations to track sustainability claims throughout all stages of the supply chain

Investing in leading technology powered by SAAS platform

– again absolutely in-line with our strategy and hitting all of our investment criteria



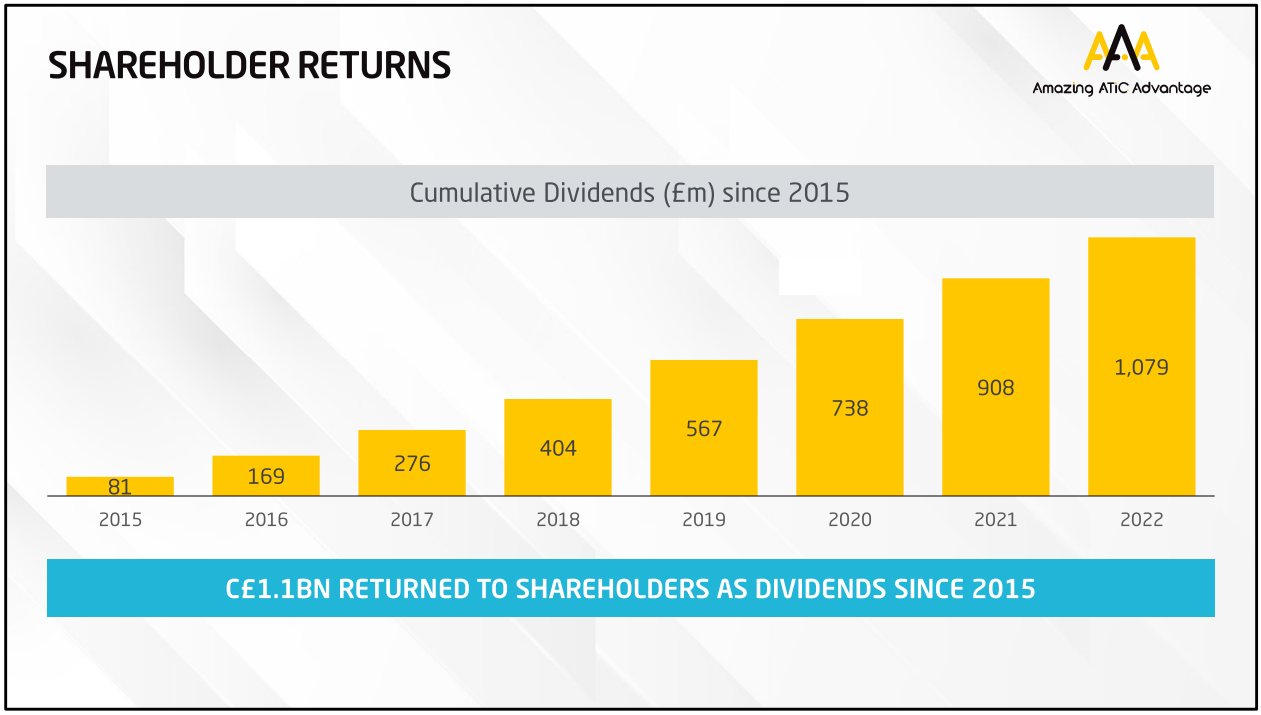
Before moving on from Capex, I wanted to mention our significant investment in Cyber Security

We all know that the cyber risk has increased dramatically in recent years and we've been investing consistently to keep our systems and data safe

We have adopted international best practice from the National Institute of Standards and Technology

And we are proud of our independent benchmarking, being in-line with the FTSE 100 and well ahead of our competitors

Disciplined capital allocation is our 1st priority , let me move on to our 2nd



Which is Shareholder returns

We have delivered significant returns to shareholders with cumulative dividends of circa 1.1 billion in the past 8 years

So our 2nd priority is to maintain a progressive dividend policy with a target payout ratio of 50%

RIGOROUS APPROACH TO M&A

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INVESTMENT CRITERIA			
1	New IP to strengthen our value proposition	6	Is the business plan delivering DD IRR?
2	Geographic expansion of existing IP	7	Cash payback period
3	Are the growth prospects attractive?	8	ROIC trajectory
4	Are the margin prospects attractive?	9	Downside case IRR > WACC
5	Is the pricing sustainable?	10	Management capability and bandwidth

Our 3rd priority is M&A – I don't want to repeat all that Julia shared, but I did want to share our disciplined decision making process

We have a rigorous investment criteria framework, with 10 elements:

One, does the transaction add new IP and strengthen our value proposition
Two, does the prospect provide geographic expansion of existing IP
Three, are the growth prospects attractive?
Four, are the margin prospects attractive?

And Five, is the pricing within the segment sustainable?

Six, is the business case delivering double-digit returns post tax
Seven, is the cash payback period satisfactory
Eight, what is the corresponding ROIC trajectory
Nine, does the downside case IRR exceed our WACC

And of course Ten, do we have the management capability and bandwidth to execute?

We must hit all of these to proceed, creating a strong discipline to our M&A activities

STRONG BALANCE SHEET

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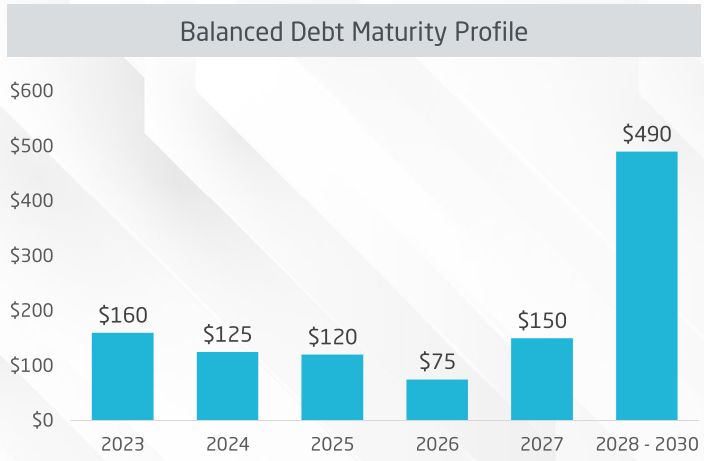


AS AT DEC-22 YEAR END:

$850m committed credit facility undrawn

$1,120m of Senior USPP

- Fixed coupon ~2.7%
- Average maturity of ~4 years

Our debt portfolio acts as a natural hedge with $1.2bn in USD linked assets

Net Debt / EBITDA ~1.1x

FY23 Net Finance Costs £40m - £45m range

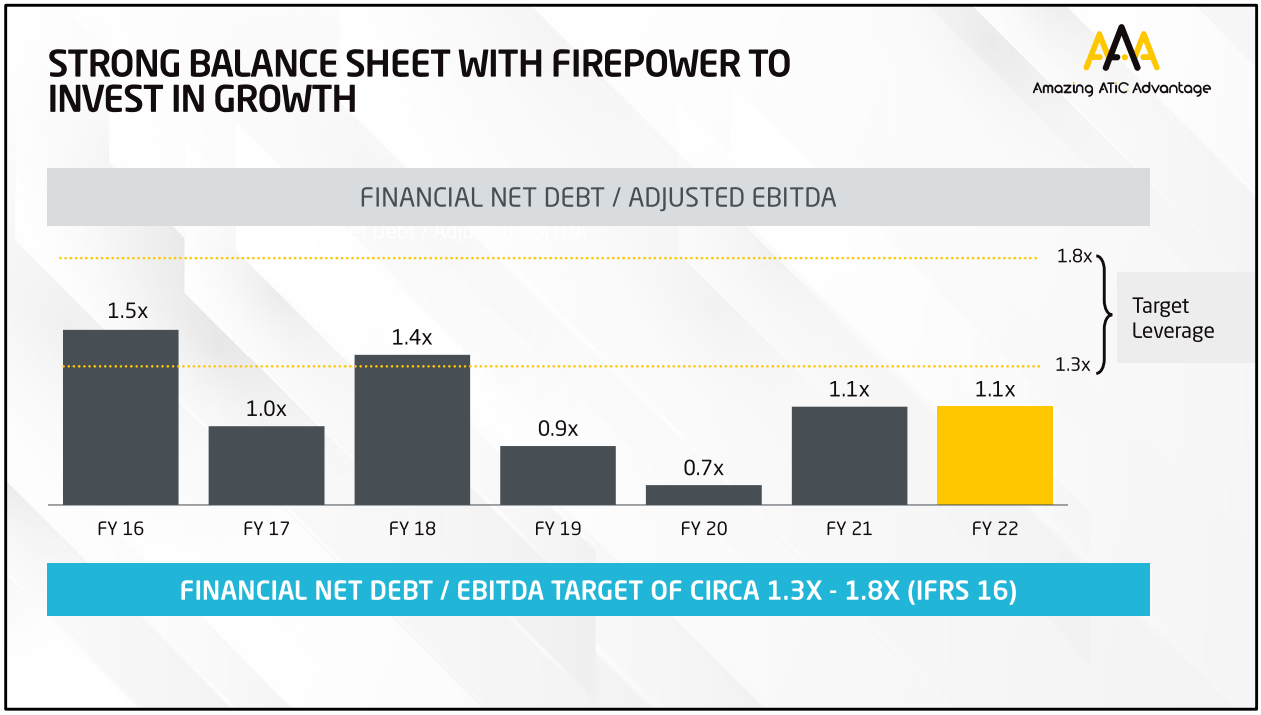
Next I will recap our debt facilities which comprise of 2 main segments and which show the strength our balance sheet

First - A revolving credit facility of $850m which was undrawn at year end and

Second - Our Private placement portfolio of appx $1.1bn

These are all fixed interest instruments at approx 2.7% with an average maturity of 4 years

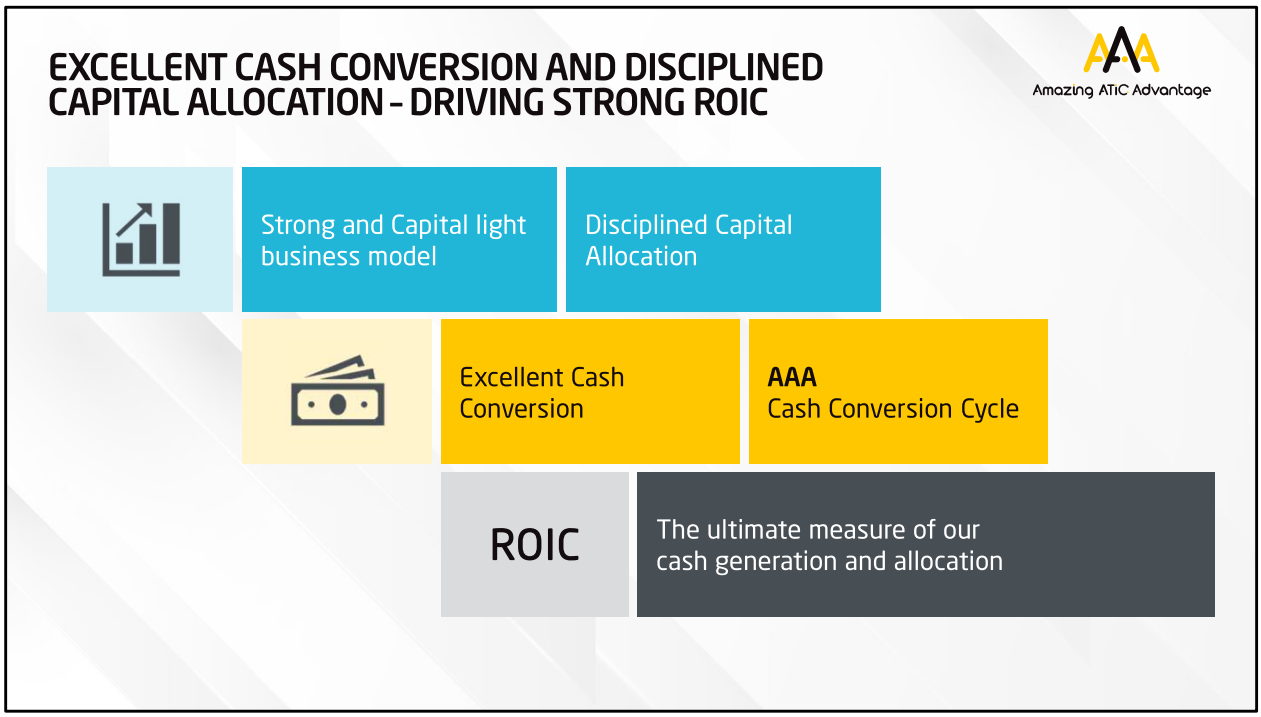
Almost to 90% of our interest rate exposure was fixed at Dec 22



And you see here clearly with our strong balance and target leverage range of 1.3 to 1.8 net debt/EBITDA,

Indeed we have a very supportive group of lenders who have all indicated that additional capital would be available to us should we require it

It is clear that we have significant firepower to invest in growth !



Our Virtuous Economic Model that continues to deliver growth in our capital light business model

We have the right processes to deliver excellent cash conversion with a Kaizen mindset to be Ever Better. And a strong belief that we have more fuel in the tank

We are highly disciplined in our accretive capital allocation, both organic and inorganic and have a strong record of delivering value to shareholders

But of course, the ultimate measure of our cash generation and disciplined capital allocation is our

Return on Invested Capital

I noted earlier that our cash conversion improvement is systemic within Intertek, and let me explain one of the reasons…..

ROIC - ALIGNED TO SHORT AND LONG TERM INCENTIVES

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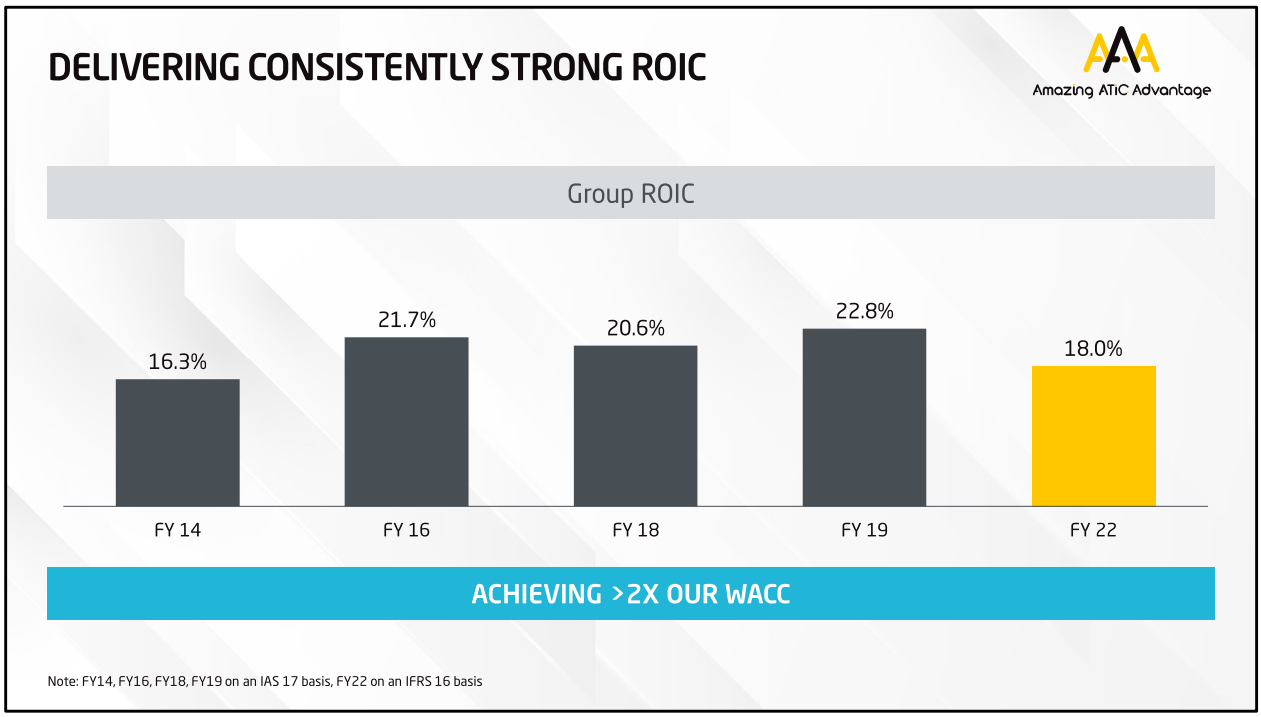
REMUNERATION SYSTEM		METRICS FOR TARGET SETTING
BASE PAY + BENEFITS + ANNUAL INCENTIVE [Aligned With Management Scheme]	LOCAL TEAMS AND OPERATIONS	• REVENUE • OPERATING PROFIT • ROIC • ESG
BASE PAY + BENEFITS + ANNUAL INCENTIVE [Based On Management Scheme + Deferred Share Award For ~600 Leaders]	IN COUNTRY BUSINESS LINE LEADERSHIP	• REVENUE • OPERATING PROFIT • ROIC • ESG
BASE PAY + BENEFITS + ANNUAL INCENTIVE [Based On Management Scheme + Long Term Incentive]	SENIOR TEAM ~ 100 PEOPLE	• REVENUE • OPERATING PROFIT • ROIC • ESG + EPS + Cumulative Cash Flow + ROIC

You will have seen this Slide in Tony's presentation, but I wanted to re-iterate that we are one of the few companies in the world where all employees eligible for a bonus are accountable for ROIC

And this makes all the difference – I noted earlier our that the differentiator in our approach to cash conversion was the passion and vigor of our teams to be Ever better

And this is seen ….

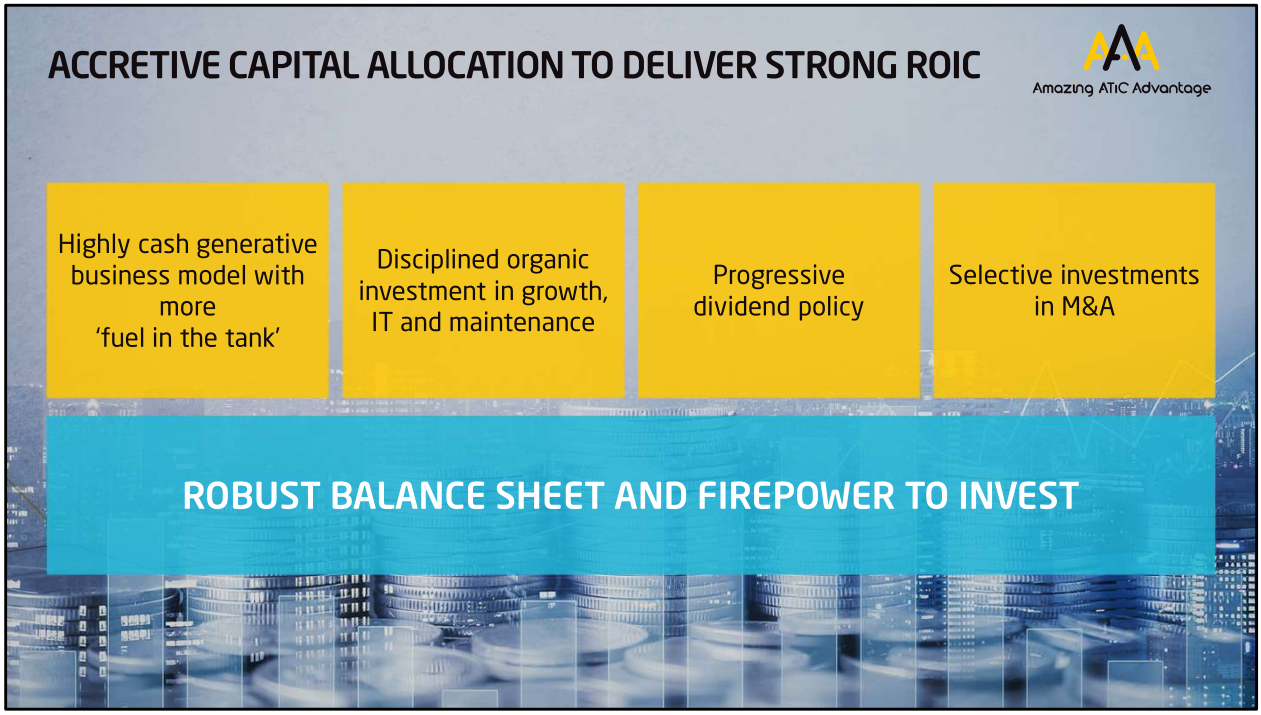


… In our track record of consistently delivering a strong ROIC

Indeed - our ROIC has been more than 2 times our weighted average cost of capital since 2014

So we are systemically 100% focused on cash generation and disciplined capital allocation

and so we continue to deliver a Strong ROIC for our Shareholders



In conclusion, the key takeaways from this segment are

Our accretive capital allocation will deliver strong ROIC

We operate a highly cash generative business and have more fuel in the tank

We are disciplined in our Capex investing for growth in the fastest growing segments

We have a progressive Dividend policy

Our approach to M&A activity is rigorous

And we have a robust balance sheet – with the firepower to invest in growth !

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