AUDIOCAST 09.30AM UK – 22 May 2024
May Trading Update 2025 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:

- We had a good start to the year, with a strong performance in our higher margin divisions and we have delivered LFL revenue growth of 4.5% at constant currency
- Profit conversion in the period was robust benefitting from divisional mix, good operating leverage and productivity improvements while we remained focused on our daily cash management and delivered a strong free cash flow.
- We are well positioned to deliver a robust performance in 2025 with mid-single digit LFL revenue growth at constant currency, margin progression and a strong cash conversion.

Most frequently asked questions

I want to start our call today by answering the top three questions we get during our meetings with shareholders.

Question 1: What is the expected impact of the current tariff discussions for Intertek in the short and medium term?

Given our mission critical role in the value chain of our clients, our highly diversified revenue streams and the fact that our testing volume in Consumer Products is linked to the number of product types we test for multiple export destinations and not the quantity of products manufactured, we continue to expect our Consumer Products division to deliver mid-single digit LFL revenue growth at constant currency.

Importantly, the outcome of the current discussions on tariffs will create additional ATIC growth opportunities.

Supply chains never stand still.

We operate a capital light business model, and we can react fast when our clients want to make new investments in their supply chains.

What really matters to us is first the number of SKUs in the global market that need to be tested and certified, and second the number of factories and tier 1/2/3 suppliers that we need to audit and inspect.

The new sourcing strategy of our clients will make the ATIC market larger for Intertek, with new trade routes to assure, an increase in the number of products to test and certify, as well as more factories to audit and inspect.

That's why we have just launched SupplyTek, a new suite of consulting, training and assurance solutions to help our clients navigate the changes they plan to make in their sourcing strategies and go to market fast with total peace of mind.

Question 2: What is the resilience of our earnings model in the event that we were to see an economic slowdown?

Our earnings model is extremely resilient for essentially three reasons:

1. We are mission-critical to keeping the supply chains of our clients safe every day around the world.
2. Our revenue streams are highly diversified as we offer a comprehensive suite of ATIC solutions, in 5 divisions covering 15 industries, working for more than 400,000 customers in more than 100 countries.
3. We have strong and long term relationships with these clients who continue to increase their investments on Risk-based Quality Assurance to operate with higher standards on quality, safety and sustainability. This mega-trend makes our Risk-based Quality Assurance growth drivers for each of our four ATIC solutions very resilient.

Let me explain why.

Assurance represents 21% of our Group revenue and is all about assessing risks in our clients' value chains through audits of operating procedures and operating systems. Risk mitigation is an area where companies cannot compromise and an area where corporates need to do much more given the increased expectations of their stakeholders.

Testing is Intertek's largest solution, representing 46% of our revenue. Our level of testing activity does not really depend on the volumes manufactured but instead on the number of SKUs being manufactured in a given country for multiple export destinations. Without proper testing, products cannot go to market. The important growth driver for consumer products is that consumers want more choices and higher quality choices. This means more SKU or product types to test and more tests per SKU.

Inspection is the second largest solution at Intertek, representing 25% of our revenue. We provide inspections for our clients in both their manufacturing and trading operations. Without independent inspections, our clients' operations will face significant safety, productivity and quality challenges.

Certification represents 8% of our revenue. We provide a rigorous assessment of the quality, safety and sustainability performance of products for our clients, based on regulatory standards. Regulatory compliance is a must, and the important trend here is that the regulation will continue to raise quality, safety and sustainability standards.

Question 3: Have you changed your capital allocation policy with a recurring share buyback?

Disciplined capital allocation is a key element of how we deliver sustainable growth and value for all.

We are not changing our capital allocation policy.

Our capital allocation has four priorities:

- First – investing in organic growth with a capex investment of circa 4-5% of revenue,
- Second – rewarding our shareholders with a circa 65% dividend pay-out ratio,
- Third – investing selectively in M&A, targeting high growth and high margin sectors,
- Fourth – maintaining an efficient balance sheet with the flexibility to invest in growth while operating with a leverage target of 1.3-1.8 Net Debt to Ebitda

When we announced our AAA differentiated strategy for growth in May 2023, we recognised that given our strong earnings model and the expected faster growth moving forward, we might return the excess capital to shareholders.

We have seen an acceleration of our performance with our AAA strategy, having delivered double digit EPS growth for two consecutive years, in 23 and 24.

Our high quality cash compounder earnings model is indeed getting stronger every year, giving us the opportunity to further reward our shareholders, whilst still investing organically and looking for value accretive M&A opportunities.

Given the strength of our earnings model, our performance track record, our confidence in future growth opportunities, and the current level of leverage, we announced in March an initial £350 million share buyback to be completed during the current financial year.

In line with our disciplined capital allocation policy, we have decided to return the cash we do not need to run the company for growth.

Strong LFL revenue growth in our higher margin divisions

Let me turn briefly to trading in the last four months.

We have benefitted from a demand increase for our ATIC solutions across our divisions and geographies enabling us to deliver 4.5% LFL revenue growth at the Group level.

- Our Consumer Products division delivered LFL revenue growth of 7.8% driven by double-digit LFL performance in Softlines, high-single digit LfL growth in GTS, while Hardlines and Electrical delivered mid-single digit LFL growth.
- Our Corporate Assurance division delivered LFL revenue growth of 8.9%, driven by double digit LFL performance in Business Assurance and low- single digit LFL performance by Assuris.
- Our Health and Safety division delivered a LFL revenue growth of 3.5%, driven by double-digit LFL performance in Food, mid-single digit LFL performance in AgriWorld, while C&P delivered a negative low-single digit LFL performance due to a base-line effect.
- Our Industry and Infrastructure division delivered LFL revenue growth of 2.7%, driven by mid-single digit LFL performance in our Industry Services and Minerals businesses, and a stable LFL performance in Building & Construction.
- Our World of Energy division delivered a stable LFL revenue growth, with a low-single digit LFL performance in TT, a low-single digit negative LFL performances in Caleb Brett due to a demanding base last year and a slow-down of activities in North America, and a low single-digit negative LFL performance in CEA due a base line effect.

Good start of 2025

We have had a good start to 2025 and let's now discuss the performance at the Group level on a YTD basis.

Revenue for the four months to end of April grew 4.6% at constant currency and 1.2% at actual rates to £1,093.9m.

LFL revenue growth of 4.5% at constant currency was broad-based, benefitting from both volume and pricing.

The Base Met Labs acquisition we made in 2024 to scale up our portfolio in attractive growth and margin sectors is performing well.

Margin progression was robust, as we benefitted from divisional mix, operating leverage, and productivity improvements.

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

We continued to invest in organic and inorganic growth opportunities.

We recently announced the acquisition of Tesis in Brazil, expanding our building product testing activities in one of the fastest growing markets in the world.

And we continued to invest in growth with capacity expansion in existing laboratories, new laboratory openings, investments in technology and in technology-based innovations.

Our ROIC was strong with good progress year on year.

The share buyback program that started in March is progressing well and we have already bought 1.6m shares for a total of £75.3m.

Turning now to our financial guidance for the full year 2025.

Robust 2025 expected

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

constant currency.

In terms of our businesses, we expect to deliver high-single digit LFL revenue growth in Corporate Assurance, mid-single digit LFL revenue growth in Consumer Products, Health and Safety and Industry and Infrastructure, and low-single digit revenue growth in the World of Energy.

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 £470-520m pre-buyback and before any material movement due to M&A or Forex.

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 2024 would reduce our full year revenue and earnings, respectively by circa 250bps and 350bps.

Significant value growth opportunity ahead

The value growth opportunity ahead for all Intertek stakeholders moving forward is significant.

Our industry has always benefitted from attractive growth drivers, and now more than ever everyone wants to build an ever-better world which means that corporations will continue to invest more in quality, safety and sustainability, accelerating the demand for our industry-leading ATIC solutions.

We believe that the outcome of the current discussions on tariffs will create additional growth opportunities for Intertek, as these will create new global trade routes to assure, more products to test and certify and more factories to audit and inspect.

All of us at Intertek are focussed on executing our AAA growth strategy and delivering our corporate targets consistently every year of mid-single digit LFL revenue growth, margin progression targeting 18.5%+ over time, strong cash, and disciplined investments in organic and inorganic growth to deliver a superior ROIC.

Conclusion

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

Trading in the first four months was good with a 4.5% LFL revenue growth at constant currency and we benefitted from strong performance in our higher margin divisions.

Our positive divisional mix effect, good operating leverage and productivity improvements drove a robust margin progression, while our disciplined cash conversion delivered a strong free cash flow.

We are on track to deliver a robust performance in 2025 and the value growth opportunity ahead is significant, given the increased focus of our clients on Risk-based Quality Assurance and the expected expansion of the supply chains our clients.

Thank you for joining our call today.

We will now answer any questions you might have.