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AUDIOCAST 09.30AM UK – 26 November 2024
November Trading Update 2024 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 five key take-aways from our call today:

- In the July to October period, we have benefitted from a strong demand in Consumer Products, Corporate Assurance and Health and Safety where we delivered 9.5% LFL revenue growth on a combined basis.
- Trading was in-line with our guidance in Industry and Infrastructure as well as in the World of Energy.
- At the end of October, we have delivered a strong margin progression, and excellent free cash flow performance.
- We are on track to deliver a strong performance in 2024.
- And we are well positioned to deliver another strong performance in 2025.

Most frequently asked questions

I want to start our call today by answering the most frequently asked questions in our investor meetings.

Question 1: How strong was the ATIC Demand within Consumer Products in H2?

We have seen a sequential demand acceleration with LFL revenue growth of 9.4% in the last four months, compared to 6.0% in H1.

This acceleration was driven by a strong double-digit LFL performance in Softlines, benefitting from our clients investing in new product development and sustainability solutions.

Momentum in our Electrical business remained robust, with high-single digit LFL revenue growth while our Hardlines business grew mid-single digit.

GTS has benefitted from an improved momentum, reporting mid-single digit revenue growth.

As a result, we are upgrading the full year outlook in Consumer Products to high-single digit LFL revenue growth.

Question 2: How is your China business performing in H2 and how confident are you about the growth opportunities in China moving forward?

Following a 5.6% LFL revenue growth in H1, we saw an acceleration of our momentum in China which delivered a LFL revenue growth of 7.4% in the last four months.

This acceleration was driven by higher demand for our Softlines, Electrical, Hardlines and Assurance businesses, as our clients increased their investments in new products and in sustainability solutions.

The Chinese export economy was up 5.1% YTD and is up 43.5% compared to where it was in 2019.

China has a track record of manufacturing excellence and strong customer service with fast turn-around times and highly efficient logistics.

That's why China's share in the global export economy has increased consistently in the last 20 years, with 18% global share of export compared to 7% in 2000.

Importantly, China's consistent investment in new end markets has resulted in a strong diversification of their export revenue streams, with APAC being their largest export partner growing at a double-digit rate and now two times bigger than the USA which represents only 15% of total China exports.

This strong global export performance from China has continued recently, and since 2017 Chinese exports have increased at a CAGR of 8.4% per annum overall, 6% for North America, 9% for Europe, 11% for the APAC region, and 11% for the rest of world.

We are confident about the short, medium, and long-term growth opportunities in China, given the manufacturing excellence that China offers to western brands and the untapped opportunities in the domestic markets.

Question 3: Should we be concerned about potential Tariffs increase post Trump election? What happened last time?

Taking a step back, the tariffs imposed in 2018 did not have an impact.

Our China revenues have grown at a mid-single digit rate between 2015 and 2023, with mid-single digit LFL growth in the 17-19 period and in the 19-23 period.

What matters to our Consumer Products business is the number of SKUs we test and not the quantities of goods that are produced and exported.

Changing production location is high-risk decision for any business and we have seen only a handful of companies leaving China.

However, what we have seen is more companies pursuing a China+1 strategy which consists in building their supply chains for new businesses, in a new country, to operate a more diversified footprint.

The China +1 strategy of our clients is an exciting growth opportunity for Intertek as it makes our ATIC market bigger.

When a client expands its footprint in new countries, it increases the number of SKUs to test and certify, as well as the number of factories and Tier 1/2/3 suppliers to audit and inspect.

We have made investments in our network to support the China+1 strategy of our clients, including near-shoring and on-shoring.

We operate a capital-light business model, and we are continuing to expand our capabilities globally for our clients.

Our geographical diversification is strong with 35% of our revenues in APAC, of which 50% is outside of China.

The US has historically always been a strong market for us, accounting for 31% of Group revenues.

In the US, we are well-positioned to benefit from any onshoring opportunity, thanks to our strong presence there across multiple Business lines: Building & Construction, Electrical, Business Assurance, Sustainability, Softlines, Caleb Brett, Transportation Technologies, and Moody.

Net, net we are not concerned about increased protectionism.

China +1 will make the ATIC market bigger for Intertek.

China will not run out of growth.

An acceleration in the diversification of the supply chains of our clients is a growth opportunity for our ATIC solutions.

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.

Question 4: How sustainable is the LFL growth acceleration you have delivered since 2022 and are you confident to deliver mid-single digit LFL revenue growth in 2025?

We are very excited about the organic growth prospects for the Group.

Companies have increased their investments in Risk-based Quality Assurance in the last two decades given the growing challenges they face in their supply chains and given the higher consumer expectations in quality, safety and sustainability.

Our customer research shows that the well-known structural ATIC growth drivers are augmented by:

- The need to operate with safer and more resilient supply chains
- Continued investments by corporations in new products and services
- A step-change in how companies manage sustainability
- Increased investments in traditional Oli & Gas and renewables
- An increase in the number of new clients

Our clients will continue to invest more in Risk-based Quality Assurance moving forward.

We are well-positioned to deliver faster growth, capitalising on our strong market positions.

We have seen a sustainable mid-single digit LFL revenue performance of +4.9% in 22, +6.2% in 23 and +6.3% YTD in 24.

We expect to deliver mid-single digit LFL revenue growth in 25.

Question 5: How will your pricing policy evolve in the next few years given a lower inflationary environment?

In the last three years of higher than usual inflation, around a 1/3 of our LFL revenue growth was driven by pricing.

As discussed before, in 2022 and 2023 the increase in our prices have lagged the rise in wages, impacting our margin performance.

We plan therefore to continue to take price increases to close this gap in the next few years.

We are focussed on delivering a superior Customer Service and will continue to strengthen our pricing position through:

- ATIC price increases;
- increases in the average number of tests per report through upselling; and
- by scaling-up our innovations.

Trading Performance in the period by Business Line

In the last four months, the Group has delivered a 6.6% LFL revenue growth at CCY which is in-line with our expectations, and 50bps higher than H1.

We have seen a sequential LFL revenue growth acceleration in Consumer Products and Corporate Assurance.

Health and Safety LFL revenue growth was in-line with H1.

Our LFL revenue performance was in-line with guidance in Industry and Infrastructure and the World of Energy despite severe weather conditions in the USA that impacted our Building and Construction, Caleb Brett, and Industry Services.

Our Consumer Products division delivered LFL revenue growth of 9.4% which was an acceleration of 340bps compared to our H1 performance driven by a strong acceleration in Softlines and GTS, while both Electrical and Hardlines delivered a LFL revenue performance in-line with H1.

Our Corporate Assurance division delivered LFL revenue growth of 9.9%, an acceleration of 160bps compared to H1 driven by an increased demand for our Sustainability solutions in Business Assurance and Assuris.

Our Health and Safety division delivered a LFL revenue growth of 9.1% at CCY, in-line with H1 with double-digit LFL revenue growth in Food and Agriworld, and mid-single growth in Chemicals & Pharma.

Industry and Infrastructure reported 1.1% LFL revenue growth in-line with our guidance, slightly lower than H1 due to a base line effect in Industry Services and Minerals, continuing weak demand in Building and Construction, and the impact of several weather events in the US on Building & Construction and Industry Services.

The World of Energy division delivered a 6.3% LFL revenue growth in-line with expectations and slightly lower than H1. Transport Technologies accelerated significantly to double digit LFL revenue growth. Caleb Brett reported mid-single digit LFL revenue growth despite a base line effect and severe weather events in the US. CEA LFL revenue growth was negative due to a base line effect.

Intertek Performance Highlights

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

Revenue for the ten months to end October was £2,815.2, with a growth of 6.6% at CCY and 1.8% at actual rates.

LFL revenue growth was broad-based at 6.3% at CCY benefitting from both volume and pricing.

Acquisitions contributed £13.4m revenue on a YTD basis.

The recent acquisitions of Controle Analítico, PlayerLync and Base Met Labs to scale up our portfolio in attractive growth and margin sectors are performing well.

Margin progression was strong as we benefitted from our divisional mix, pricing initiatives, good operating leverage, disciplined cost controls and productivity improvements.

We delivered an excellent free cash flow performance, enabling us to operate with a strong balance sheet.

We continue to invest in organic and inorganic growth opportunities.

Our ROIC performance was excellent.

Let's now discuss our financial guidance for the full year 2024.

24 Outlook

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

In terms of our businesses:

- We are raising our FY guidance for Consumer Products to high-single digit.
- We are keeping our FY guidance unchanged at high-single digit for Corporate Assurance, Health and Safety and the World of Energy, and at low-single digit for Industry and Infrastructure.

Given a strong H1 and excellent quality of earnings in the July-October period, we are targeting strong margin progression.

Our cash discipline will remain in place to deliver an excellent free cash flow.

We will invest in growth with Capex of circa £125-135m.

We expect our financial net debt to be in the range of £500-550m, before any M&A or forex movements.

A quick update on currencies for your model.

Currency has remained volatile, and we are updating our FY forex guidance. The average Sterling rate since the beginning of the year applied to our FY 2023 results, would reduce our FY revenue by 450bps and FY earnings by 600bps.

Net/net, we expect to deliver a strong performance in 2024 with mid-single digit revenue growth at CCY and a strong performance in margin, EPS, free cash flow and ROIC.

AAA strategy execution on track

All of us at Intertek are energised about the exciting growth opportunities ahead and I am pleased to report that the execution our AAA strategy is on track.

Our clients understand the mission-critical nature of Risk-based Quality Assurance to operate with higher quality, safety and sustainability standards and make their businesses stronger.

We are experiencing faster growth for our ATIC solutions.

Margin accretive revenue growth is central to the way we deliver value, and we are confident that we will return to our 17.5% peak margin performance and go beyond.

To deliver sustainable growth and value for our shareholders, we will stay focused on our virtuous economics, based on the compounding effect year after year of mid-single digit LFL revenue growth, margin accretion, strong free cash-flow, and disciplined investments in high-growth and high-margin sectors.

We believe in the value of accretive discipline capital allocation which, combined with consistent margin accretive revenue growth, is the only way to deliver superior ROIC.

We pursue the following priorities with our capital allocation policy.

- Our first priority is to support organic growth, strengthening capital expenditure and investment in working capital.
- Our second priority is to deliver sustainable returns for our shareholders through the payment of progressive dividends. We target a payout ratio of 65%.
- Our third priority is to pursue M&A activity that strengthens our portfolio in attractive growth and margin areas, provided we can deliver good returns.
- Our fourth priority is to maintain an efficient balance sheet with the flexibility to invest in growth. Our leverage target is 1.3-1.8 net debt to EBITDA with the potential to return excess capital to shareholders, subject to our future requirements and prevailing macros.

Our good to great journey continues to unlock the significant value growth opportunity ahead.

Conclusion

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

The demand for our ATIC solutions in the last four months was strong with 9.5% LFL revenue growth in three divisions combined that represent 74% of our earnings: Consumer Products, Corporate Assurance and Health and Safety.

The performance of our two other divisions; Industry and Infrastructure and World of Energy was in-line with our guidance.

We are converting our 6.6% revenue growth at CCY on a YTD basis into strong margin progression and excellent free cash flow.

We will deliver a strong performance in-line with our FY targets.

We are well positioned to deliver another strong performance in 2025.

Thank you for joining our call and we will now answer any questions you might have.