INTERTEK GROUP PLC

4267576 CORPORATE

A- ISSUER RATING
Long term

OUTLOOK
Stable

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RATING ACTION AND RATIONALE

- EthiFinance Ratings affirms Intertek plc's long-term corporate rating at A-, maintaining its Stable outlook.
- Our rating affirmation is founded on Intertek's continuous improvement in credit metrics (Net adjusted leverage and solvency ratio) as projected in our previous rating review in October 2023. The adjusted EBITDA margin has slightly decreased from 20.8% in FY22 to 20.1% in FY23, although this decrease was offset by robust cash generation, thereby improving the net adjusted leverage ratio from 1.8x in FY22 to 1.6x in FY23, with a projected gradual improvement to 0.9x by 2026. Despite FX headwinds impacting revenue growth by 3%, Intertek achieved a 4.3% revenue growth in 2023. The organic growth represented 6% and was consistent with historic trends, with one-third pricing and two-thirds volume. This was mainly driven by the world of energy (Caleb Brett, Transportation technologies and clean energy) accounting for 2.1% of overall growth, as well as Industry & Infrastructure (1.5%) and business assurance (0.9%), contrasting with the consumer products segment. The latter experienced a 3% sales decline due to low growth momentum from softlines and hardlines sub-segments along with the revenue decline in government trade services (GTS) due to the non-renewal of two main contracts in 2022. Intertek has a wide footprint across more than 100 countries, although the US and China accounted for nearly half of FY23 revenues, with only 7% generated in its domestic country, the UK. The company has leveraged its growth by capitalizing on revenues and cost synergies stemming from bolt-on acquisitions - not exceeding 11% of its annual operating cash flow - for its various divisions. One of its recent acquisitions is of Base Met labs (March 2024), which is a small testing, inspection and certification (TIC) pure player exclusively focused on metallurgical testing services for the minerals sector in North America.
- However, our current rating is slightly constrained by our industry risk assessment (score of BBB+), which is closely exposed to global supply chains across diverse sectors. Also, it is constrained by lower profitability in consumer products segment which witnessed a decline in FY23 industrywide (-3% for Intertek, -5% for SGS and -3.2% for Bureau Veritas). Meanwhile, that impact is exacerbated for Intertek given its relative high exposure to this division as it accounted for c. 28% of the group's sales and c.48% of the group's total operating profit in FY23 (vs 57% in FY22). This division has been growing below the group's overall rate in the recent years at a CAGR (2017-22) of 2% vs the group's 3% and might negatively impact our rating given its significant weight in the profitability generation. Also, our rating is constrained by rising financial expenses, as materialized by the deterioration of interest coverage ratio from 19.1x in FY22 to 14.1x in FY23. The company's net financing costs significantly increased from £35m to £48m, mainly due to the issuance of senior notes at a higher interest rate than previous years.
- The TIC industry has medium ESG risks under our methodology (heatmap score of between 3 and 3.5). This results in an unimpacted sector assessment by industry-related considerations. The sustainability assurance and certification represent a pivotal and rapidly growing sub-sector of the TIC industry. Like its main competitor, Bureau Veritas, Intertek has strategically positioned itself in this area, making substantial investments, particularly in its World of Energy division. The most recent investment was the acquisition of Clean Energy Associates (CEA) in the US. In line with its commitment to environmental responsibility, Intertek aims to reduce by 50% its absolute scope 1 & 2 emissions (business travel and employee commuting) by 2030, taking 2019 as a baseline year (validated by SBTi in 2023). As of FY23, the group has already achieved a reduction of c. 37% in its scope 1 & 2 emissions (location-based) vs FY19. Our assessment of the company's ESG policy is slightly positive (company ESG score of between 1.0 and 1.5) resulting in a positive impact on our financial risk profile. The company's favorable ESG score is stemming from an excellent governance assessment as well as a good environmental one. However, the social pillar remains limited due to the lack of reporting of social KPIs and partial certifications of its activities.

ISSUER DESCRIPTION

Intertek Group plc is a UK-based company and a world leading provider of quality assurance, testing, inspection, and certification (TIC) solutions to a wide range of B2B players (more than 200,000) in diverse industries internationally. They include industry services, minerals, agrifoods and chemicals. In May 2023, Intertek switched its business structure from its traditional 3 divisions (Products, Trade, and Resources) to 5, which is more granular and provides a more detailed understanding of business performance. They are:

- **Consumer Products:** Softlines & hardlines, electrical, government trade services
- **Corporate Assurance:** Business assurance
- **Health & Safety:** Agrifood, chemicals and pharma
- **Industry & Infrastructure:** Industry and minerals services, building products
- **World of Energy:** Caleb Brett, transportation technologies

For FY23, the group reported £3.3bn in sales and £670m in adjusted EBITDA. The EthiFinance Ratings-adjusted net leverage ratio was 1.6x at end-2023. Intertek had a total workforce of more than 44,000 spread over 100 countries and operated with a network of more than 1,000 laboratories and offices. It is listed on the London Stock Exchange with a market capitalization of £8.0bn as of May 3rd 2024.

LIQUIDITY

- **A "Good" liquidity profile with strong refinancing capacities**

According to our methodology, Intertek's liquidity profile is 'Good' (the highest on our long-term scale) based on its capacity to redeem all its upcoming debt maturities without refinancing for more than two years. The company maintains a decent amount of cash in hand (£299m), further supported by significant undrawn, committed, credit lines totaling c.£524m and a revolving credit line of c.£740m.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. m£.	2022	2023	2024E	2025E	2026E	23vs22%
Turnover	3 193	3 329	3 450	3 614	3 808	4.2%
Adj.EBITDA (1)	666	670	708	751	792	0.7%
EBITDA Margin (1)	20.8%	20.1%	20.5%	20.8%	20.8%	-0.7pp
EBIT	453	486	517	548	578	7.4%
EBIT Margin	14.2%	14.6%	15.0%	15.2%	15.2%	0.4pp
Interest expenses	(35)	(48)	(45)	(61)	(60)	37.1%
Total Assets	3 660	3 538	3 709	3 878	4 002	-3.3%
Equity	1 318	1 360	1 505	1 632	1 775	3.2%
Total Financial Debt (2)	1 520	1 380	1 346	1 352	1 289	-9.2%
Net Financial Debt (2)	1 198	1 080	966	859	730	-9.9%
Equity/TFD (2)	86.7%	98.6%	111.8%	120.7%	137.7%	11.9pp
NFD/EBITDA (1) (2)	1.8x	1.6x	1.4x	1.1x	0.9x	-0.2x
Funds From Operations	538	510	575	603	639	-5.2%
FFO/NFD (2)	44.9%	47.2%	59.5%	70.2%	87.5%	2.3pp
EBITDA/Interest (1)	19.1x	14.1x	15.8x	12.3x	13.3x	-5.1x

(1) Adj EBITDA includes restructuring costs

(2) Adj debt includes pension benefits and contingent consideration

CREDIT RATING

Credit Rating	
Business Risk Profile	***BBB+***
Industry Risk Assessment	*BBB+*
Sector ESG Adjustment	***Neutral***
Competitive Positioning	*BBB+*
Governance	*A-*
Financial Risk Profile	***A-***
Cash flow and leverage	*A-*
Solvency	*BBB+*
Company's ESG Adjustment	***Positive***
Anchor Rating	***A-***
Modifiers	-
Rating	***A-***

RATING SENSITIVITY

Detailed below are the factors that individually or collectively could impact the company's rating:

- **Long-term rating positive factors (↑)**

A rating upgrade is unlikely to occur in the near future as the current rating is at the lower-end of its category range. However, we could consider an upgrade should Intertek's credit metrics improve above our projections. A trigger for such an upgrade could be a net adjusted leverage ratio below 0.5x and an EBITDA/interest ratio equal or above 25.0x on a sustainable basis.

- **Long-term rating negative factors (↓)**

We could downgrade our long-term rating should Intertek's credit metrics deteriorate. Notably, an EthiFinance-adjusted net leverage ratio above 2.0x or an interest coverage ratio equal or below 10.0x, on a sustainable basis. In addition, a rating downgrade could result from a continuous sales decline within consumer products division, which generates almost half of the group's operating profit.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
    - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3 Corporate%20Methodology 2023-10-06.pdf
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.