ISSUER RATING

A-

Long-Term

Outlook	Stable
Initiation date	12/10/2023
Rating date	12/10/2023

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RATING ACTION AND RATIONALE

- EthiFinance Ratings assigns a long-term corporate rating of A- to Intertek Group plc, with a Stable outlook.
- This investment grade rating is founded on Intertek's strong positioning within the testing, inspection and certification industry (TIC), coupled with sustained revenue growth post-Covid. Intertek structures its business model around various B2B end-user sectors, mainly business assurance, electrical and industry services, softlines & hardlines, and crude oil and refined petroleum. The group regularly acquires small niche players for its different divisions, which further supports its organic growth and its diversification. Additionally, its credit metrics are aligned with an investment grade rating: the net adjusted leverage ratio for FY22 was 1.7x and the interest coverage ratio was 20.4x. Furthermore, we forecast net adjusted leverage to gradually improve to 1.0x by 2025, thanks essentially to a strong cash generation along with growing EBITDA.
- Our rating is, however, slightly constrained by the industry environment (rating of BBB+), which is strongly tied to global trade and industrials' capex/opex (capital expenses/operating expenses). The equity-to-debt ratio as well as the scale of the company are also two factors limiting our rating.
- In line with our updated methodology, the services industry has medium ESG risks (heatmap score of between 2 and 3.5), which is neutral for our industry assessment. Our assessment of the company's ESG policy is neutral (company ESG score of between 1 and 4), resulting in no adjustments based on ESG considerations.

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 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 FY22, the group reported £3.2bn in sales and £520m in operating profit. The EthiFinance Ratings-adjusted net leverage ratio was 1.7x at end-2022. Intertek has a total workforce of more than 45,000 spread over 100 countries, and operates with a network of more than 1,000 laboratories and offices. It is listed on the London Stock Exchange with a current market capitalization of £7.66 bn as of October, 4th 2023.

FUNDAMENTALS

BUSINESS RISK PROFILE

INDUSTRY RISK ASSESSMENT

- **Long-term growth supported by ongoing green transitioning and rising demand in emerging markets**

The testing, inspection and certification (TIC) sector plays a pivotal role in the global trade ecosystem, helping to safeguard the quality and quantity of products and facilities. In an interconnected world where goods and services are readily accessible from diverse locations and at various times, transparency and standardized norms have become increasingly necessary. Additionally, TIC services help reduce product recalls and uphold adherence to regulatory bodies and standards governing diverse sectors. While Western countries have a longstanding history of stringent regulatory frameworks, in emerging countries - such as the APAC region (including India, China, South Korea and Japan), which are large in terms of commercial trade and exports – there is growing demand for such expertise. As of 2023, the size of the TIC industry is estimated at $236.7bn, and it is poised to exhibit a CAGR of 6.8% from 2023 to 2028 according to Mordor Intelligence. This growth trajectory is particularly driven by global trade and emergence of sustainability practices, which is anticipated to stimulate demand for supply chain audits, ensuring compliance with constantly evolving standards.

- **Regulatory approvals, requirements on reputation, and connections constitute high barriers to entry**

The biggest TIC industry players are Intertek Group plc, SGS SA, Bureau Veritas SA, Eurofins Scientific SE, and DNV GL. Entering the TIC industry requires accreditation in many countries, which is usually a lengthy process and can only be achieved over the long term. In order to compete with the market leaders, a new entrant must have a solid reputation and brand identity capable of establishing trust among trade partners. On top of that, companies also have to forge enduring relationships with a wide range of companies within the supply chain to secure inspection mandates and service contracts. Consequently, we assess the TIC sector as one with high barriers to entry.

- **Moderate volatility as industry players are increasingly depending on clients' operating activities and much less on client's capex**

Demand for TIC services is driven by several key factors, including the introduction of new products in the market, the construction of new facilities, and the extension of operations into new geographic regions. These dynamics are linked to broader macroeconomic conditions and business cycles, as companies may curtail their production levels and defer capital expenditure and expansion plans during periods of economic downturn or uncertainty. For instance, the Covid-19 pandemic hindered companies from conducting essential testing, assessment, and certification tasks that necessitated traveling and on-site activities. Furthermore, companies discouraged in-person visits out of caution for their workers. These factors may collectively contribute to an overall contraction in the revenue generated within the sector. However, over the past decade, most TIC companies have gradually reduced their dependence on capex, to focus more on 'opex' services, which provide recurring business as they are related to the day-to-day operations of clients.

COMPANY'S COMPETITIVE POSITIONING

- **A leading player in the global TIC market**

Intertek is a prominent player within the TIC industry, a sector dominated by 4 major players followed by a good number of smaller players. With a global portfolio spanning more than a century of operational experience, the group offers a diverse range of multi-sector solutions across various business segments, including business assurance, electrical, industry services, and building & construction. Furthermore, the company specializes in the testing and inspection of petroleum, chemical, and biofuel cargoes, a division managed through its subsidiary, Caleb Brett, which operates across an extensive network of 400 sites worldwide.

Intertek distinguishes itself from its major industry peers by its pronounced focus on product testing and assurance. For instance, the group performs more monthly electrical goods tests than any of its peers. With a monthly average of 850 tests in 2023, it surpasses its closest competitors such as Bureau Veritas and Eurofins, which currently conduct monthly averages of c. 280 and 190 respectively for the same product category (*source: IECEE data*).

- **A strong business and geographical diversification with limited client risk exposure**

Intertek has a wide footprint across more than 100 countries, although the US and China accounted for nearly half of FY22 revenues, with only 5% generated in the UK. The group provides assurance, testing, inspection and certification (ATIC) services to retailers, manufacturers and distributors operating in an extensive range of industries. Key sub-divisions contributing to its FY22 revenues included: business assurance (14%), electrical (15%), softlines & hardlines (14%), crude oil and refined petroleum (15%), and industry services (12%). This strong diversification can be attributed to the expansion of global trade, a fundamental growth catalyst for players in the TIC industry. In addition to geographical and sectoral diversification, Intertek has strategically leveraged its growth by capitalizing on revenues and cost synergies stemming from bolt-on acquisitions for its various divisions. One of the recent acquisitions (in 2022) is of Clean Energy Associates (CEA), which is an ATIC pure player exclusively focused on the fast-growing solar energy and energy storage sector in the US. Intertek boasts a well-distributed customer base, mitigating the exposure to client risk, with no single customer responsible for more than 10% of its FY22 revenues.

GOVERNANCE

- **Shareholder profile: almost entirely free float (99.7%) with a large pool of institutional investors**

Intertek's equity is predominantly held by renowned international institutional investors, collectively representing 93.8% of total. Among these are BlackRock (9.2%), Fiera Capital (5.3%), and Vanguard (4.2%). The equity ownership figures here exclude shares held in treasury (6.2%), those allocated to employees and insiders, as well as state-owned shares.

- **Management quality: a prudent financial policy with a good track record**

Under the leadership of André Lacroix, as CEO, and Andrew Martin, as chairman of the board, Intertek's management is highly regarded for its stability and good track record. Lacroix assumed the role of CEO at Intertek in May 2015, and during his tenure has overseen a sales CAGR (2015-23) of 5% (including M&A

scope) while maintaining a reported net leverage ratio consistently below 2.0x. We consider the company's financial policy to be prudent, given the company's stable payout ratio and a reasonable gearing level maintained over time.

- **ESG Policy: an in-house sustainability approach, strategic positioning in sustainability assurance and certification**

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. As of FY22, the group has already achieved a reduction of c. 11% in its scope 1 & 2 emissions (location-based) vs FY19.

Financial risk profile

RESULTS AND PROFITABILITY

- **Decent organic growth in line with industry peers, enhanced by FX and M&A tailwinds**

In FY22, Intertek delivered total revenue of €3.2 bn with a growth of 14.6% in comparison to FY21 (of which 4.9% was organic, 6.4% FX scope, and 3.3% down to M&A). The organic growth is consistent with historic trends, with one-third pricing and two-thirds volume, and was mainly driven by products testing, which accounted for nearly two-thirds of overall revenues. The significant FX tailwind resulted from the weakening of the British pound (GBP) during 2H22. The operating margin slightly contracted, from 15.5% in FY21 to 14.2% in FY22, negatively impacted by a 12.5% personnel costs increase. Despite this, our adjusted EBITDA increased from £632m in FY21 to £711m in FY22. In 1H23, revenues were up by 8.7% compared to 1H22. For FY23 we project an organic growth rate of 4.6%, but a lower adjusted EBITDA margin of 21.4% (22.3% in 2022).

CASHFLOW AND LEVERAGE

- **Steady cash flow generation**

During FY22, the group generated £116m in adjusted FCF (post-dividends and M&A), deriving from the group's ability to consistently deliver stable operating cash flow of around £560m. This stable cash flow stream enables the group to invest in both organic (£117m in CapEx in 2022) and external growth (£63m in acquisitions in 2022). Looking ahead, we expect FCF to remain around £130m after M&A during our forecast period, assuming a reasonable payout ratio (as per management's guidance of 50%) and no significant M&A activity nor share buyback programme.

SOLVENCY AND LIQUIDITY PROFILE

- **Good solvency ratio slightly contrasted by an exposure to rising interest rates**

As of end-2022, Intertek reported gross debt of £1.4bn. This debt structure comprises c. £0.9 bn in senior term loans and notes at fixed rates, with £0.4bn maturing over a period exceeding five years. Additionally, £0.3 bn of this debt is accounted for by leases under IFRS 16. Our debt adjustments amounted to £0.13bn, including pensions benefits and earn-out clauses. Consequently, net adjusted debt stood at a stable level of £1.2bn, albeit with good cash flow generation. That is essentially attributed to FX adjustments of £120m added to the total debt, which is mainly denominated in USD (instead of GBP) since only 5% of total revenues are generated in the UK.

The group's solvency ratio improved from 77% in FY21 to c. 87% in FY22, primarily attributable to retained earnings which reinforced equity yoy. In 1H23, net adjusted debt remained stable, and it is anticipated to decrease to £1.1bn by end-2023 thanks to growing EBITDA along with higher FCF yoy. Accordingly, we project the net adjusted leverage ratio to improve to 1.5x by end-2023. Going forward, we project a steady improvement of the latter, to reach 1.0x by FY25.

The interest coverage ratio has decreased significantly, from 29.6x in FY21 to 20.4x in FY22, due to higher interest costs associated with bank borrowings (£35m in FY22 vs £21m in FY21). As such, the refinancing of the USD-denominated notes underlines an ongoing exposure to high interest rates during our forecast years. Consequently, we project this ratio to gradually decrease to reach c. 17.6x by FY25.

- **Excellent liquidity profile with strong refinancing capacities**

According to our methodology, Intertek's liquidity profile is 'Adequate' (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 good amount of cash in hand (£322m), further supported by significant undrawn, committed, credit lines totalling $850 m, which is equivalent to £707m.

MODIFIERS

- **Controversies**

We have not identified any controversies regarding Intertek Group plc or any of its subsidiaries during our analysis.

- **Country risk**

Intertek Group plc is rather well diversified geographically, and therefore does not have significant country risk exposure.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. Millions of £.

	2021	2022	2023E	2024E	2025E	*22vs21*
Turnover	2,786	3,193	3,339	3,451	3,594	*14.6%*
Adj.EBITDA (1)	632	711	714	755	793	*12.5%*
EBITDA Margin (1)	22.7%	22.3%	21.4%	21.9%	22.1%	*-0.4pp*
EBIT	433	453	481	513	542	*4.5%*
EBIT Margin	15.5%	14.2%	14.4%	14.9%	15.1%	*-1.4pp*
Total Assets	3,250	3,660	3,775	3,832	3,931	*12.6%*
Equity	1,114	1,318	1,442	1,581	1,728	*18.3%*
Total Financial Debt (2)	1,447	1,520	1,475	1,367	1,285	*5.0%*
Net Financial Debt (2)	1,181	1,198	1,078	945	830	*1.4%*
Equity/TFD (2)	77.0%	86.7%	97.8%	115.7%	134.4%	*9.7pp*
NFD/EBITDA (1) (2)	1.9x	1.7x	1.5x	1.3x	1.0x	*-0.2x*
Funds From Operations	505	538	551	583	614	*6.5%*
FFO/NFD (2)	42.8%	44.9%	51.1%	61.7%	73.9%	*2.1pp*
EBITDA/Interest (1)	-29.6x	-20.4x	-15.9x	-16.8x	-17.6x	*9.2x*

(1) Adj EBITDA is inclusive of restructuring costs

(2) Adj debt is inclusive of pension benefits and contingent consideration

RATING SNAPSHOT

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	***Neutral***
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 above 30.0x.

- **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 below 10.0x. In addition, a rating downgrade could result from an industry-wide downturn due to macroeconomic issues such as a slowdown in global trade. Also, a weakening of the GBP could hamper the group's overall growth as well as its credit metrics since the group's debt is almost entirely denominated in USD.

REGULATORY INFORMATION

LEI: 2138003GAT25WW1RN369

Initiation report: Yes

Rating initiation: 12 October 2023

Last rating action: NA

Rating nature: Unsolicited long-term rating (this report is paid for by investors, not the issuer)

With rated entity or related third party participation: No - The report was published without having been reviewed by the issuer.

With access to internal documents: No

With access to management: No

Ancillary services with the rated entity: 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.

Name of the rating committee chair: Guillermo Cruz Martinez, Chief Rating Officer

Material sources used to support the rating decision:

- Annual reports 2020, 2021,2022
- Half-year reports 2020, 2021, 2022, 2023
- Investor presentations and press releases 1H20, FY20, 1H21, 2021, 1H22, FY22, 1H23
- “Testing, inspection, and certification (TIC) market size & share analysis - growth trends & forecasts (2023 - 2028)” – Mordor Intelligence.
- IECEE data

Limitation of the Rating action:

- EthiFinance Ratings believes that the quality and quantity of information available on the rated entity is sufficient to provide a rating
- EthiFinance Ratings has no obligation to audit the data provided

Methodology used for these ratings:

https://files.ethifinance.com/documents/methodologies/CRA_190_V3.CorporateRatingMethodology_Long_Term.pdf

EthiFinance Ratings SL

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