

# **Intertek Group plc**

## **The Total Quality Assurance Opportunity**

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**Chief Executive Officer**

**21 September 2016**

# Agenda

Intertek

**01 Corporate Evolution in Response to Global Trade**

**02 Intertek: A Pioneer in Quality Assurance**

**03 Attractive Growth Opportunities in Quality Assurance**

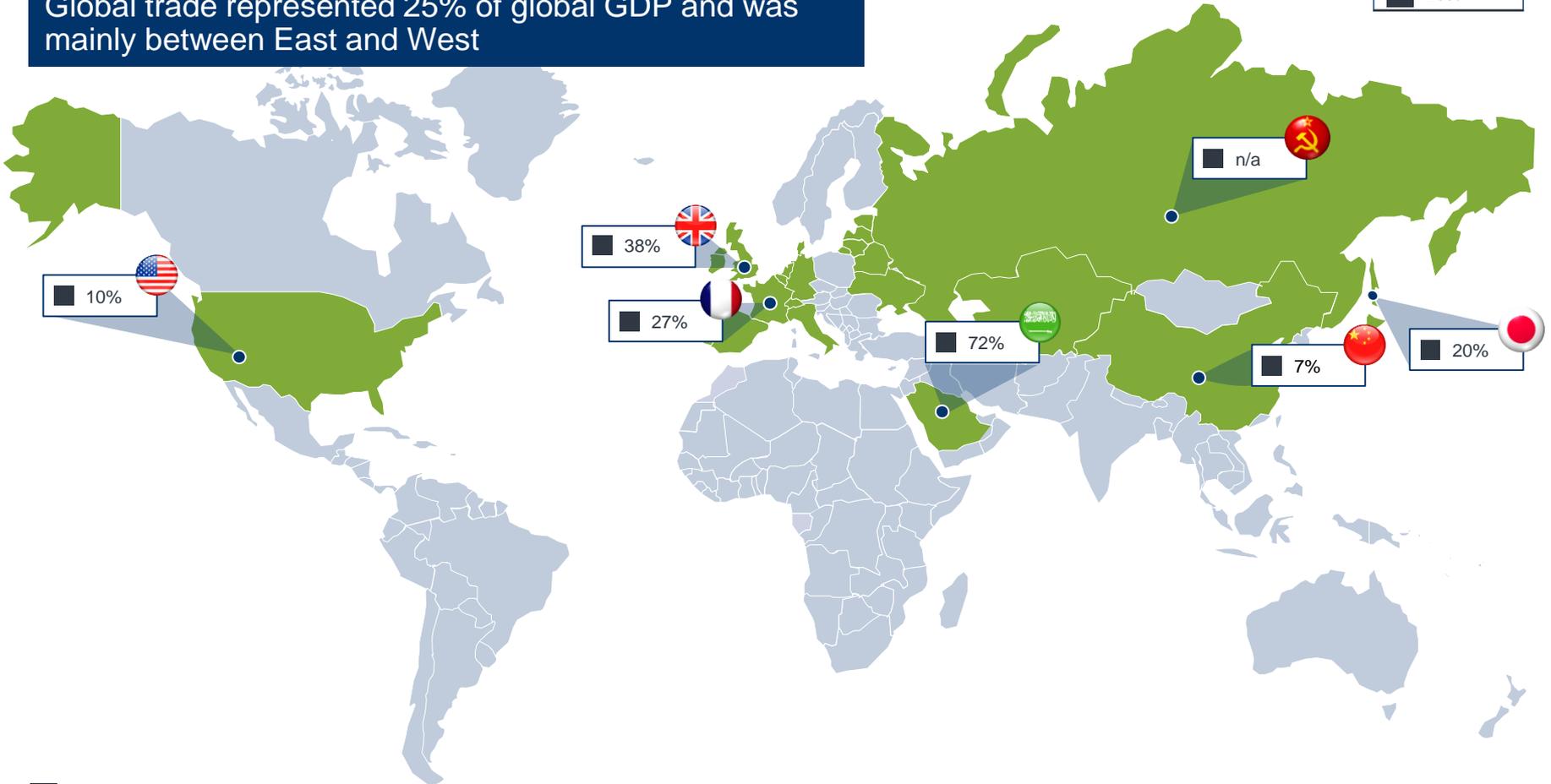
# The global trading landscape looked significantly different in the mid-20th century

Companies produced locally and were focussed on their domestic markets

Global trade represented 25% of global GDP and was mainly between East and West

1960s-1970s

World Total  
25%



Trade as % of GDP

Source: World Bank. Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product.

# Global trade opened, now representing 33% of GDP

Trade between East and West continued to grow, but was focussed on raw material supplies rather than manufacturing

Consumer choices were led by local manufacturing

1970s-1980s

World Total

33%



Trade as % of GDP

Source: World Bank. Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product.

# Global trade accelerated in the 1980s, driven by global demand

Manufacturing bases shifted to low cost locations, Asia started to rapidly grow as a manufacturing hub

Natural resource production became truly global

Consumer demand started to evolve

1980s - 2000s

World Total  
40%



■ Trade as % of GDP

Source: World Bank. Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product.



# As a result...corporations are now facing increasingly complex sourcing operations

 Companies are sourcing from an increasing variety of locations with decentralised manufacturing operations



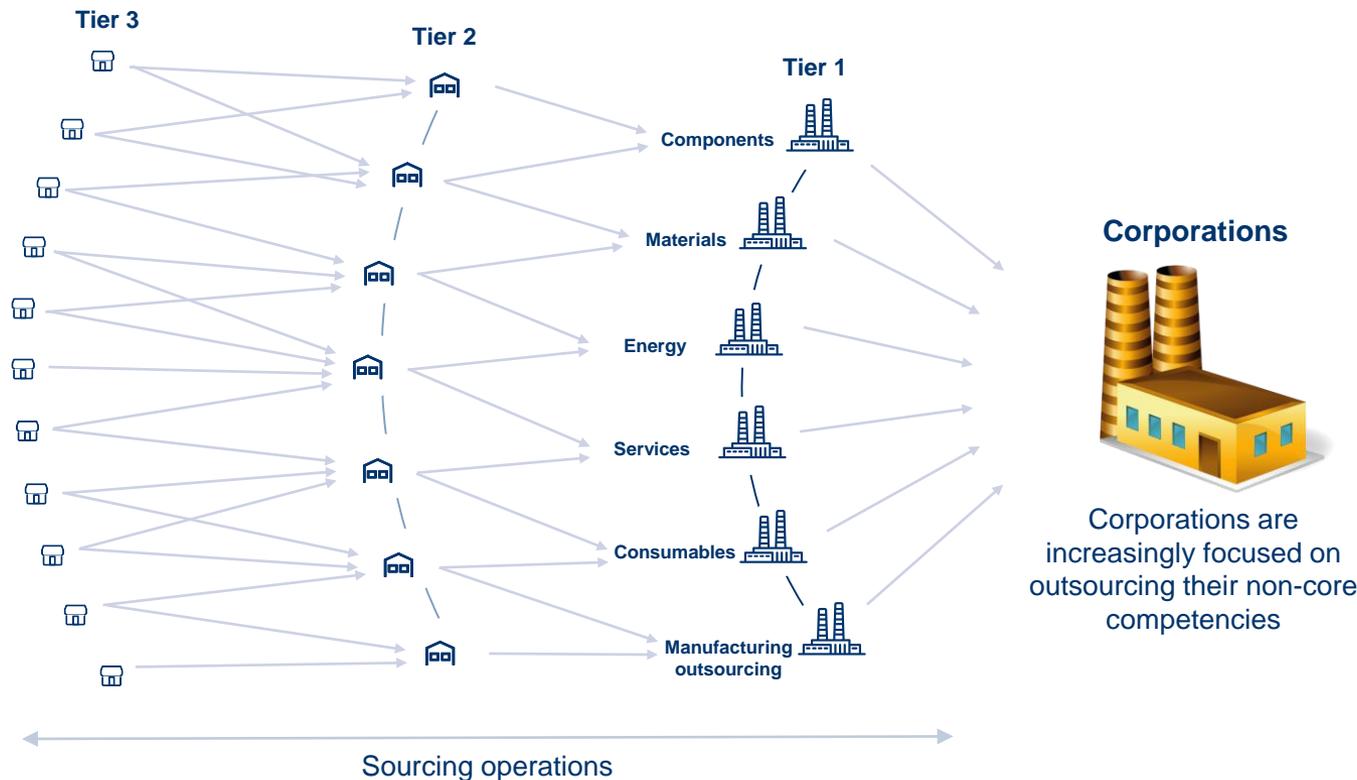
Driven by cheaper materials sourcing to meet customer expectations



Improved emerging market manufacturing capabilities



Faster communication and infrastructure make decentralisation easier than before



# ...and distribution activities are becoming more global and more complex

Consumers are demanding more variety in their products



Developing countries' share of global demand is rising



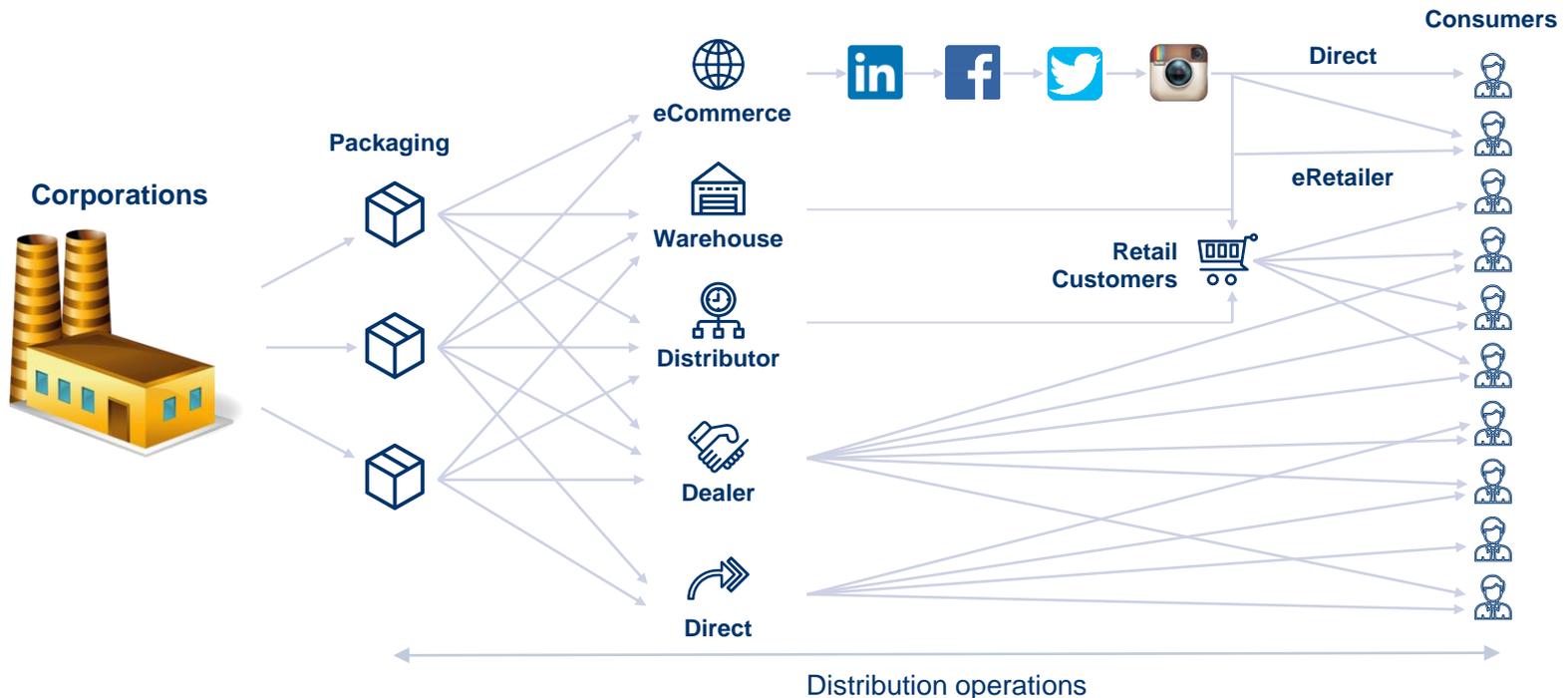
Developed and emerging countries access to technology is a major driver to accelerate innovation



Increased number of trade channels

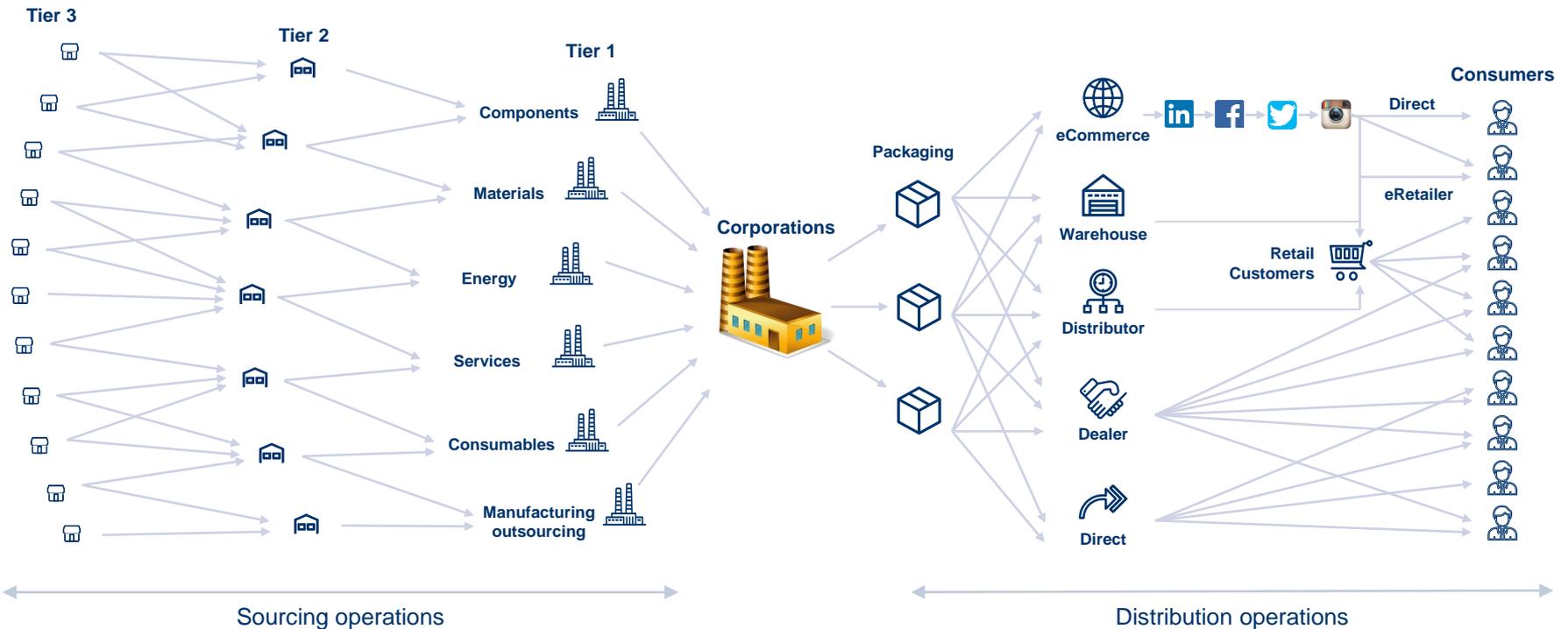


Social media driving consumer behaviours not only locally but globally increasing the need for a fast response



# ...which is leading corporations to increase focus on managing their systemic operational risk

! More complex operations are creating increased operational risk !



Corporations need to take a systemic end to end approach to Quality Assurance

# Agenda

Intertek

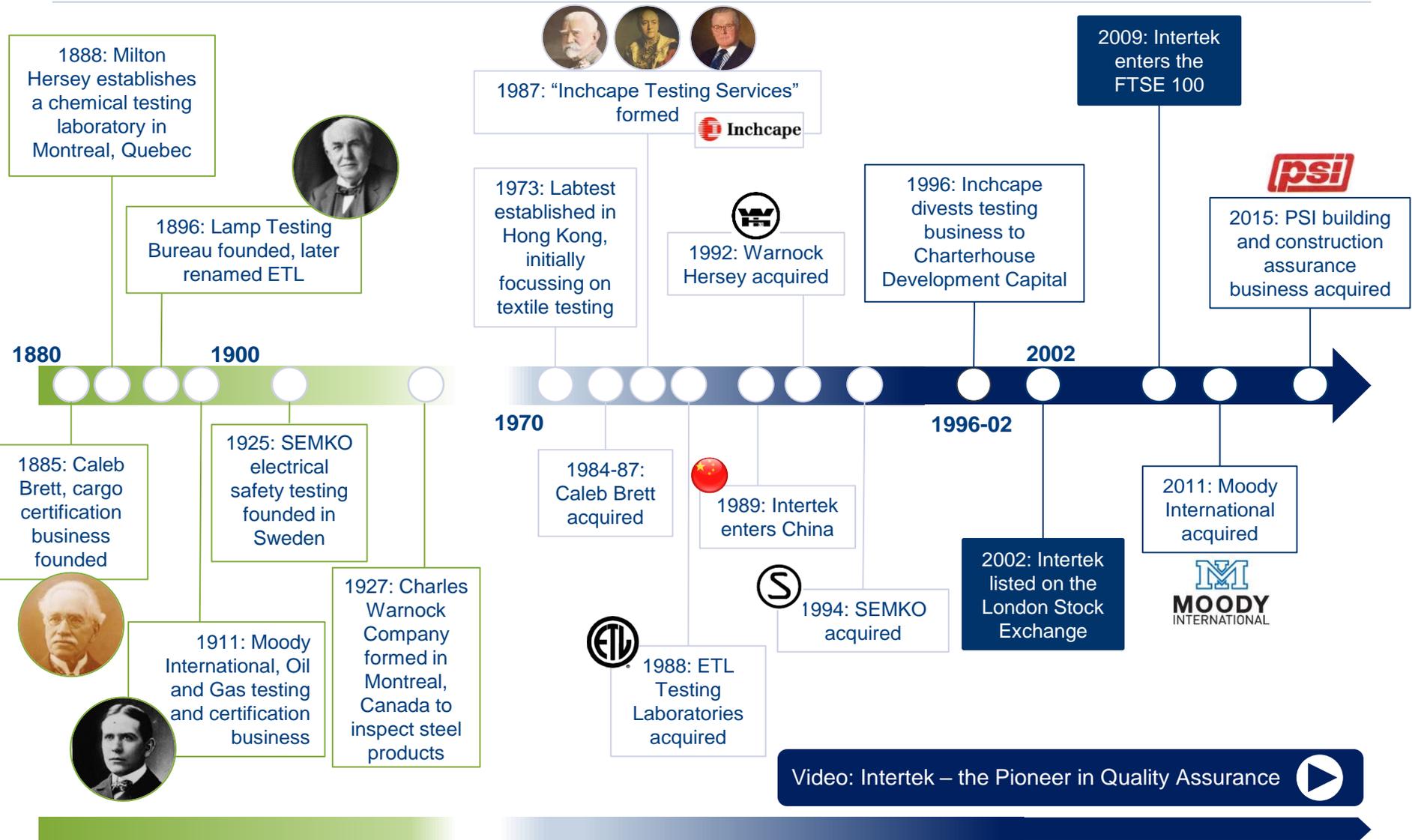


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# Intertek pioneered the Quality Assurance industry



Video: Intertek – the Pioneer in Quality Assurance

# The quality assurance industry is evolving further



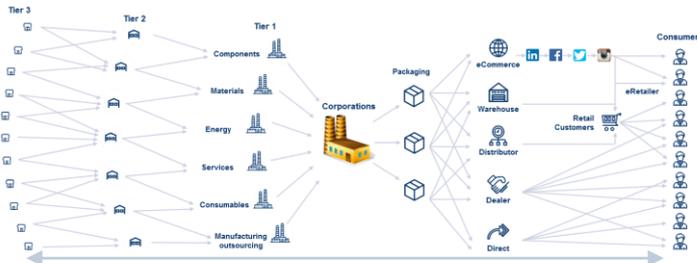
Customers expect more than TIC\* to manage the risk in their complex sourcing and distribution operations



T

I

C



Systemic approach to Quality and Safety with ATIC Solutions

A

Assurance ensures our customers identify and mitigate the intrinsic risk in their operations, supply chain and quality management systems

T

Testing is evaluating how products and services meet and exceed quality, safety, sustainability and performance standards

I

Inspection is validating the specifications, value and safety of raw materials, products and assets

C

Certification is certifying that products and services meet trusted standards



Customer expect total quality assurance: ATIC



\* TIC = Testing, Inspection & Certification

# We are evolving to meet the needs of our clients

Intertek



We have evolved rapidly to support our clients Global Quality Assurance needs and we offer a systemic approach to Quality Assurance with ATIC



Uniquely positioned to take advantage of the ATIC growth opportunities

# Depth and Breadth of ATIC Solutions

<b>Assurance</b> 	<b>Testing</b> 	<b>Inspection</b> 	<b>Certification</b> 
<ul style="list-style-type: none"><li>Management Systems</li><li>Benchmarking in Quality &amp; Performance</li><li>Sustainability &amp; Environment</li><li>Facility / Plant &amp; Equipment</li><li>Legal &amp; Regulatory</li><li>Product Development</li><li>Vendor Compliance</li><li>Corporate Social Responsibility</li><li>Failure Investigation</li><li>Laboratory Outsourcing</li><li>Risk Management</li><li>Supply Chain Assessment</li></ul>	<ul style="list-style-type: none"><li>Softlines</li><li>Hardlines</li><li>Automotive</li><li>Biofuels</li><li>Building Product</li><li>Chemical &amp; Pharmaceutical</li><li>Electrical</li><li>Food</li><li>Health &amp; Beauty</li><li>Mineral</li><li>Packaging</li><li>Pharmaceutical</li><li>Oil &amp; Gas</li></ul>	<ul style="list-style-type: none"><li>Agriculture</li><li>Asset Integrity</li><li>Building Product</li><li>Chemical &amp; Petrochemical</li><li>Electrical</li><li>Exporter &amp; Importer</li><li>Field Labelling</li><li>Industrial</li><li>Mineral</li><li>Oil &amp; Gas</li><li>Site Construction</li><li>Textile &amp; Apparel</li></ul>	<ul style="list-style-type: none"><li>Appliance &amp; Electronic</li><li>Aerospace &amp; Automotive</li><li>Building Products</li><li>Conformity by Country</li><li>Eco-Textile</li><li>Food &amp; Food Service</li><li>Hazardous Location</li><li>HVACR<sup>(1)</sup></li><li>Industrial Equipment</li><li>IT &amp; Telecom</li><li>Life Safety &amp; Security</li><li>Lighting</li><li>Medical Device</li></ul>

(1) Heating Ventilation Air Conditioning and Refrigeration

# Intertek Total Quality Assurance Value Proposition

Systemic Approach to Quality and Safety with ATIC Solutions



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# Exciting Growth Opportunities in the \$250bn Global ATIC Market

## Existing customers:

Increase account penetration

ATIC cross selling

## New customers:

New contracts

## Existing & New customers:

Outsourcing



**\$50BN**  
Currently  
outsourced

**\$200BN**  
Currently  
in-house

# Products Sector Structural Growth Drivers

## Consumer demands evolve...

More variety and choice

Faster innovation cycle

Improved quality

Increased focus on sustainable products

Increased protection from regulators



## Corporations are aiming to...

Constantly innovate

Maintain quality whilst expanding supply chains

Increase their focus on risk management

Protect reputation

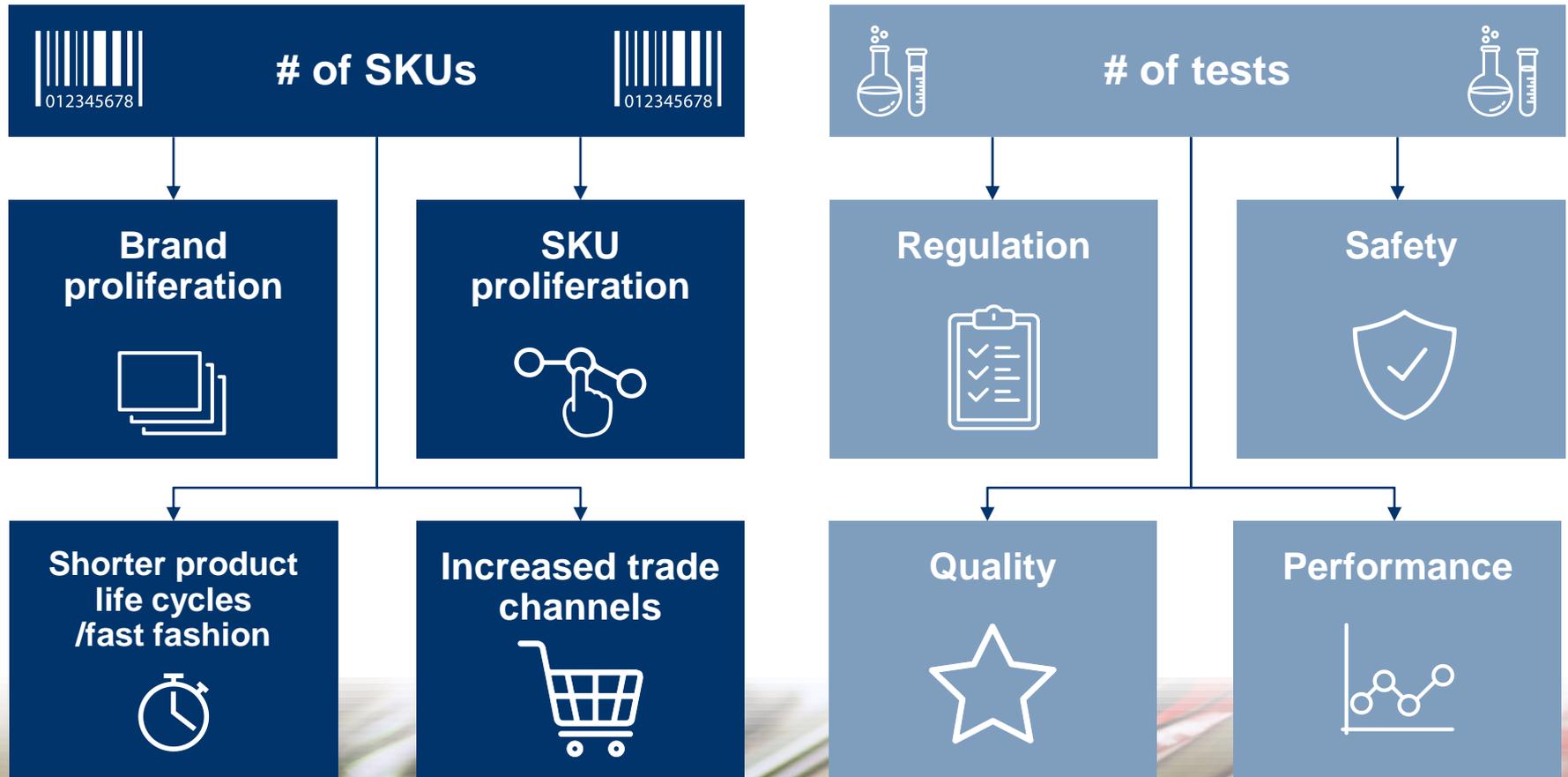
Meet regulatory standards

Raise sustainability standards



# Products – 72% of Intertek Group Profit

## How does this impact the earnings model?



Products Sector ATIC growth rate



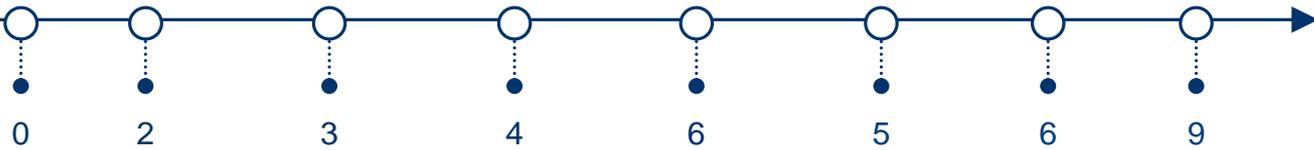
GDP agnostic



GDP+ growth in real terms

# Continued product development

# of global brands selling over 40m phones



1983



1992



1998



1999



2000



2003



2004



2007



2010



2016

Technology is playing a major part in product development

Companies are investing more in innovation to be ahead of competition

Consumers face a wider variety of choice

Products have increased in their complexity and variety over time



## What are the structural growth drivers?



Population growth



Global trading routes have changed with new producers and emerging market demand



GDP growth



Increased transport infrastructure



Development of Global Trade



Development of Regional Trade in Asia, the Indian Ocean, the Med. and the Americas



Increased ports infrastructure

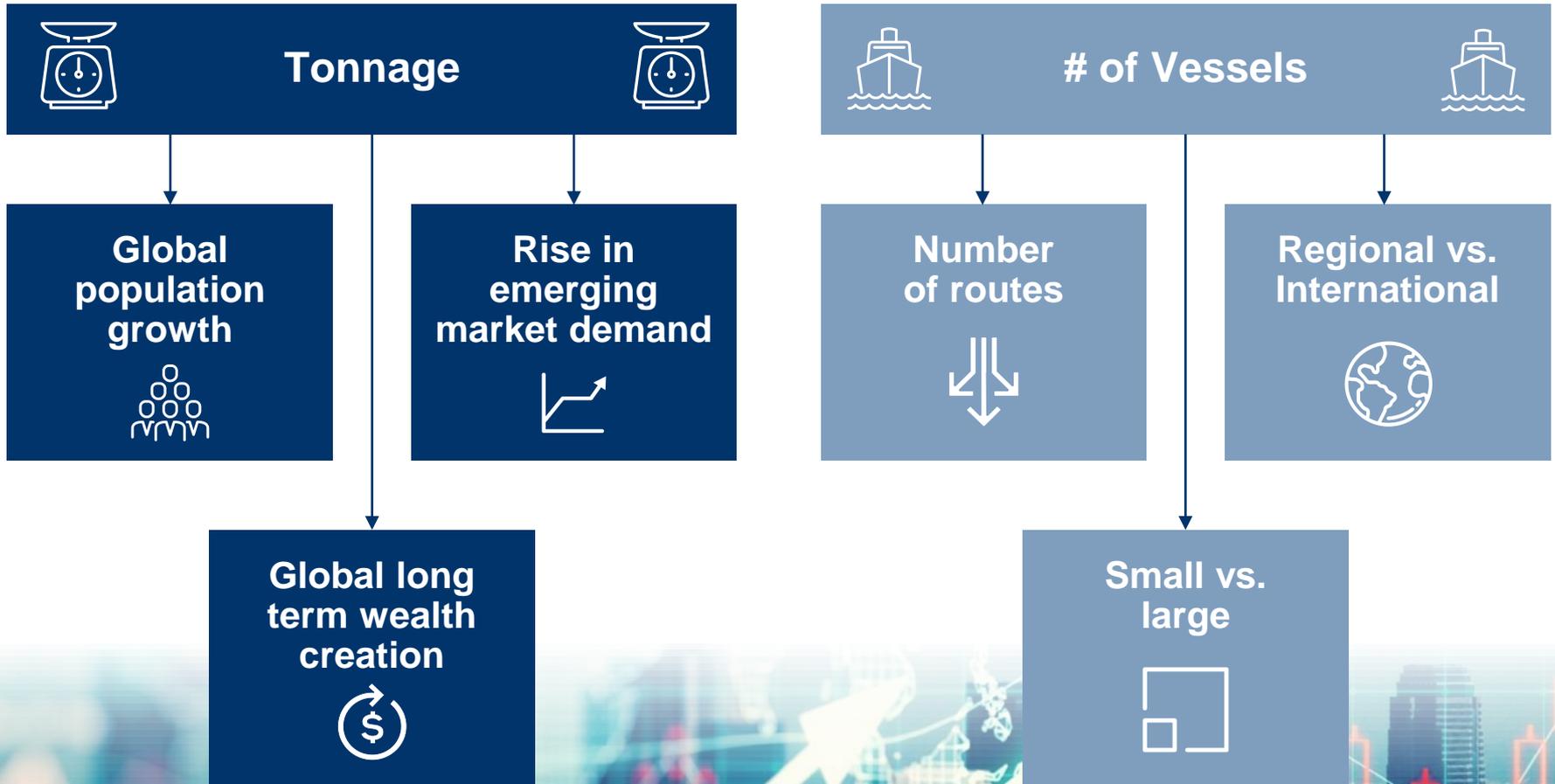


Concerns on traceability and sustainability of sourcing driven by multiple routes



# Trade – 20% of Intertek Group Profit

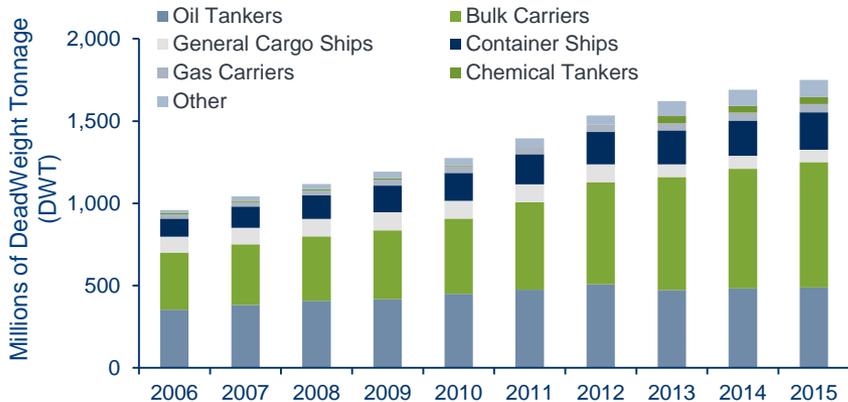
## How does this impact the earnings model?



Trade Sector ATIC growth rate ➡ GDP linked ➡ GDP growth through the cycle

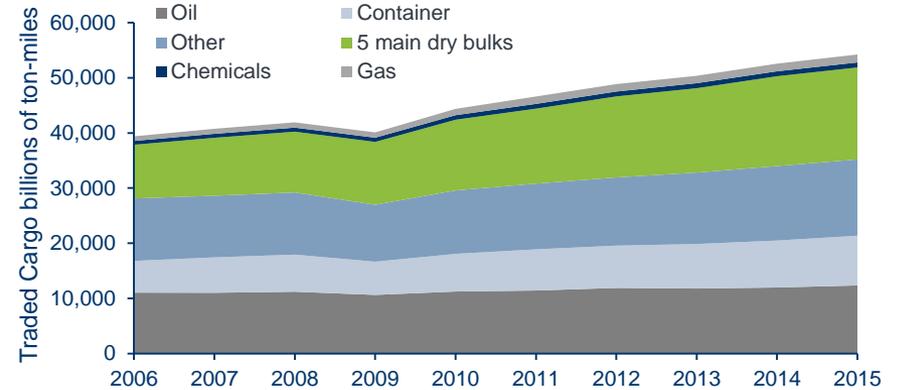
# Vessel capacity and the volume of seaborne trade is increasing to meet global demand

Total seaborne cargo capacity is increasing across a range of vessel types



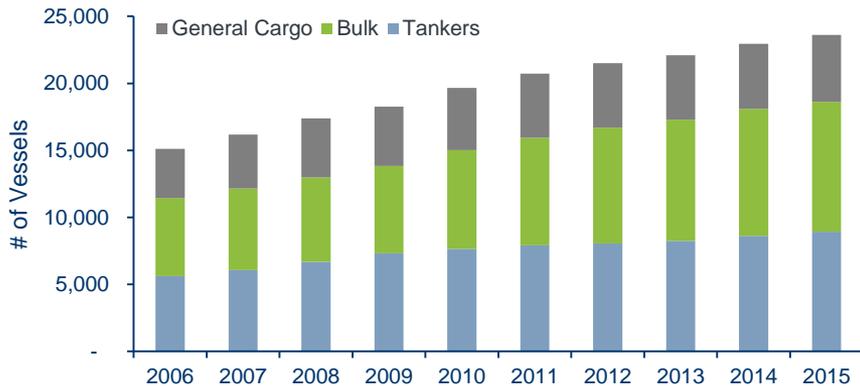
Source: UNCTAD

Greater volumes of cargo in all categories



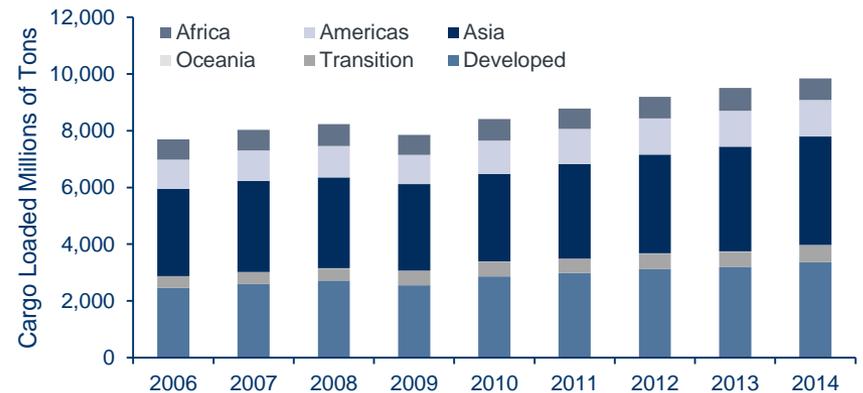
Source: UNCTAD

New vessels continue to join the global fleet, facilitating global trade



Source: Bloomberg

Cargo movements are increasing both regionally and intercontinentally



Source: UNCTAD

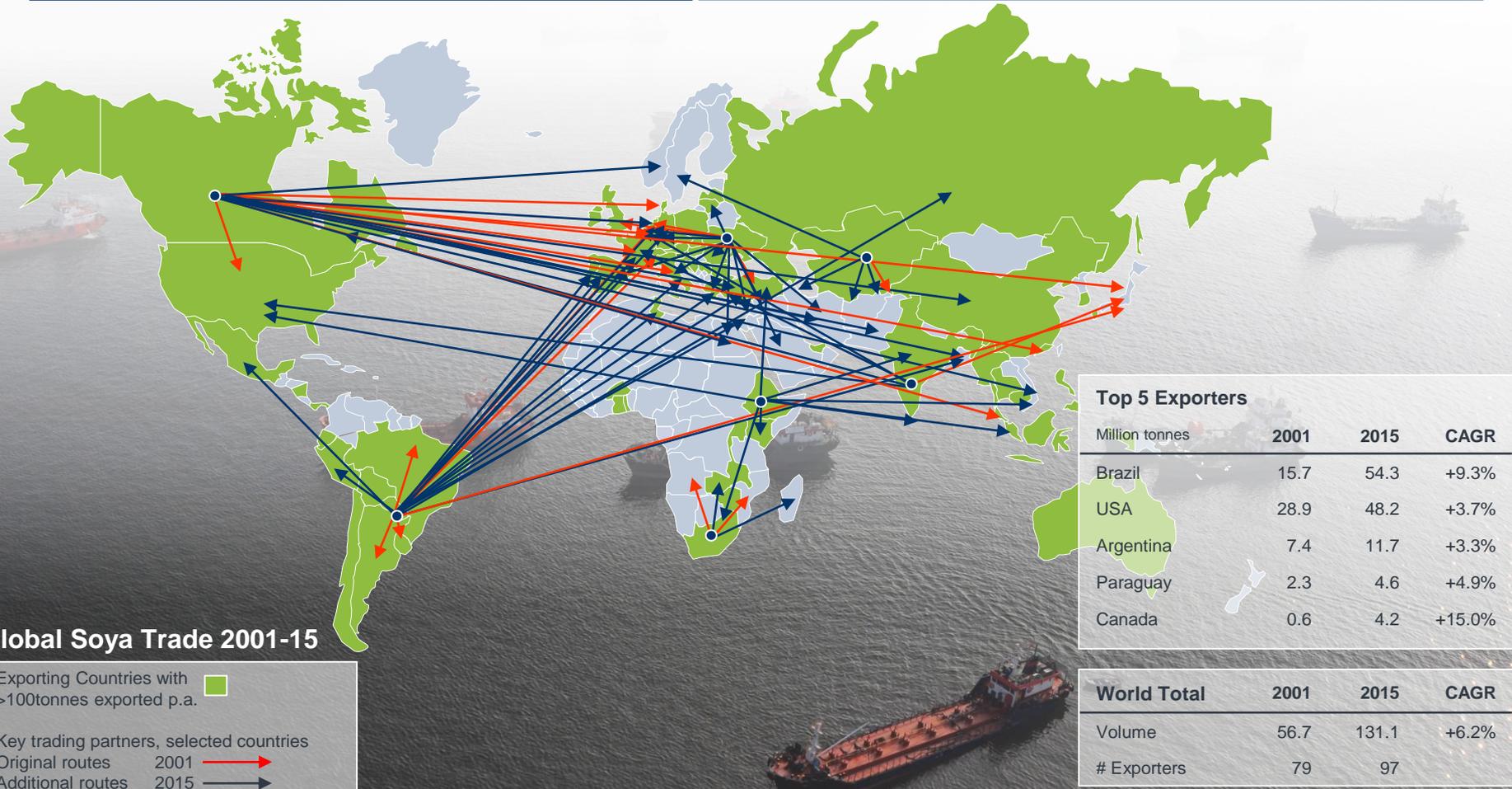
# Trade flows will continue to develop



The global demand for agricultural products and resources continues to develop



Cargo vessels will continue to support both international and intra-regional trade



Global Soya Trade 2001-15

Exporting Countries with >100tonnes exported p.a. ■

Key trading partners, selected countries

Original routes 2001 →

Additional routes 2015 →

Top 5 Exporters			
Million tonnes	2001	2015	CAGR
Brazil	15.7	54.3	+9.3%
USA	28.9	48.2	+3.7%
Argentina	7.4	11.7	+3.3%
Paraguay	2.3	4.6	+4.9%
Canada	0.6	4.2	+15.0%

World Total			
	2001	2015	CAGR
Volume	56.7	131.1	+6.2%
# Exporters	79	97	

Source: International Trade Centre

# Resources Sector Structural Growth Drivers



Increased demand for energy to support GDP and population growth



Continued long term demand for energy as emerging markets continue to grow



Focus on sustainability, carbon reduction and cleanliness of energy supply



Growth in renewables as a source of energy supply

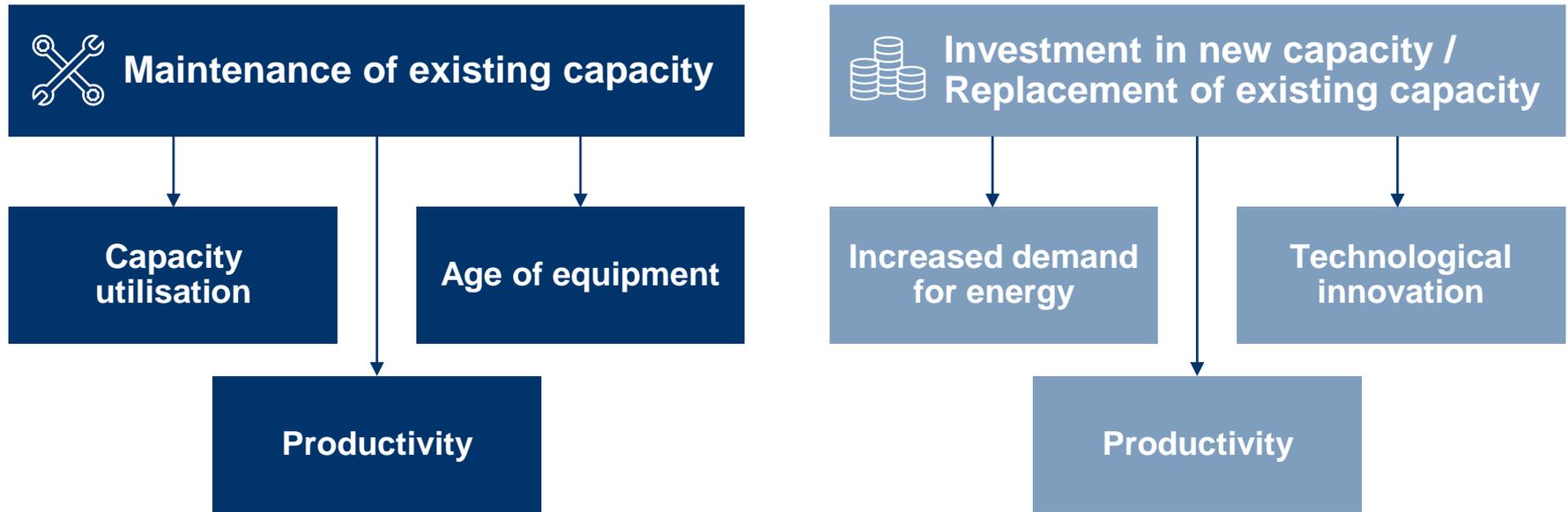


Supply chain risk management



# Resources – 8% of Intertek Group Profit

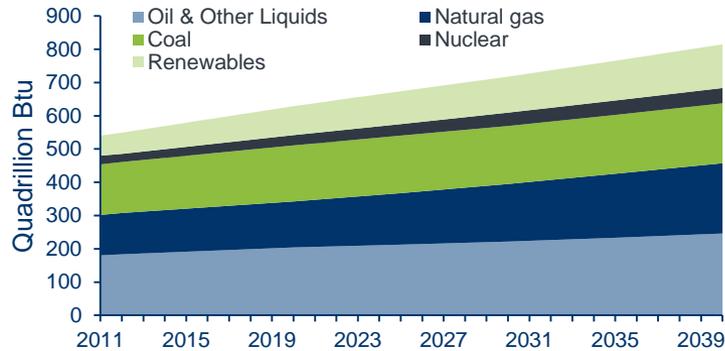
## How does this impact the earnings model?



Resources Sector ATIC growth rate → Linked to long term energy consumption → Long term growth

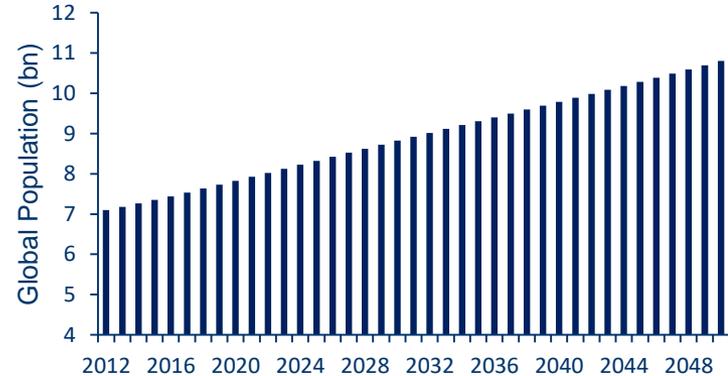
# The long term growth in demand for Resources will be sustained

Despite supply currently outstripping demand, the long term trend continues to show growth in global demand for petroleum products



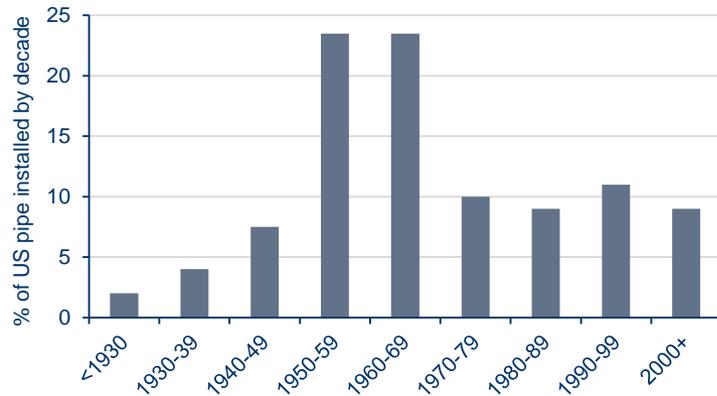
Source: IEA

Oil exploration will continue in the long run to support the demands from a growing global population



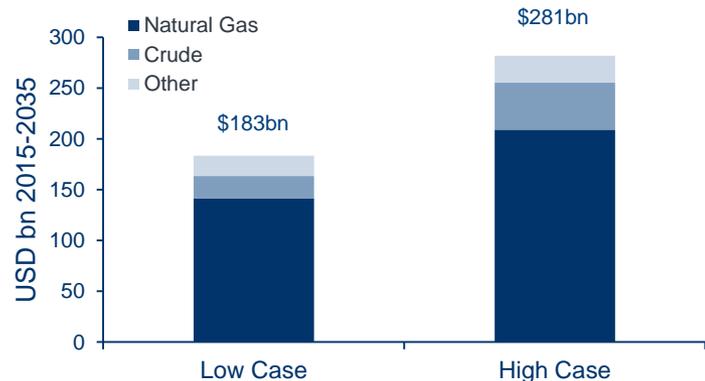
Source: United Nations

Aging Resources infrastructure, together with increasing regulatory scrutiny, drives ongoing demand for maintenance inspection



Source: INGAA

Evolving dynamics in the supply and demand of resources leads to capital investment in distribution and transportation networks



Source: US & Canada Pipelines and Infrastructure , INGAA Foundation

# Intertek High Quality Earnings Model



Our Services



# Intertek High Quality Earnings Model

Our Services

Assurance



Testing



Inspection



Certification



Our Sectors

Products



GDP+

Trade



GDP growth

Resources



Long term growth

# Intertek High Quality Earnings Model

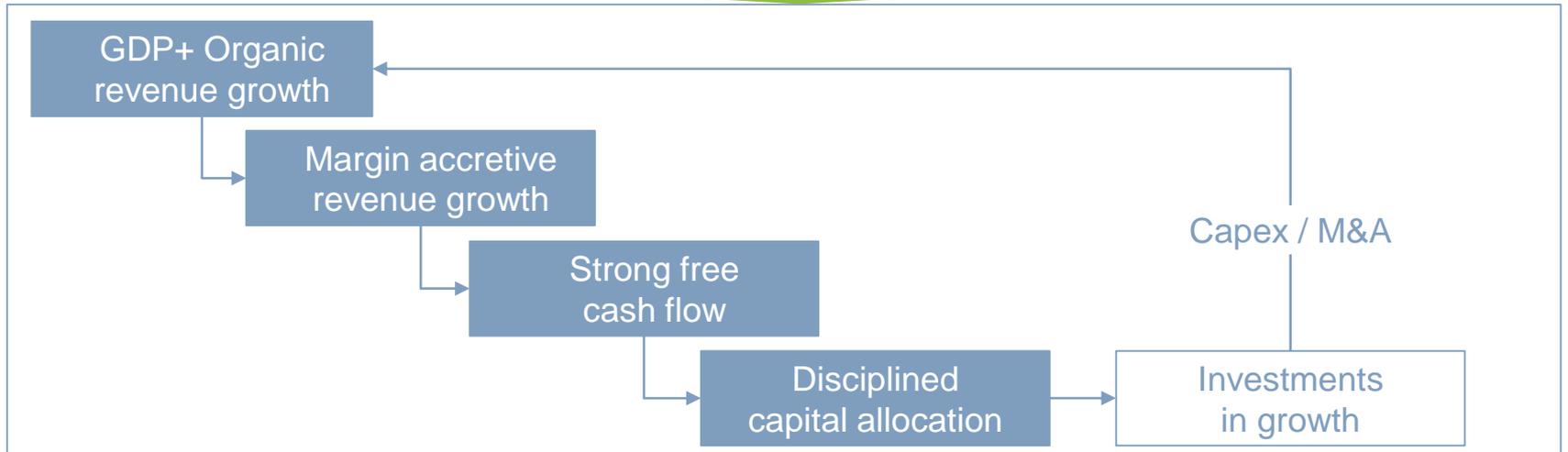
Our Services



Our Sectors



Our Mid-Long Term Value Creation



# Accretive Disciplined Allocation of Capital

01

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

Sustainable shareholder returns through payment of progressive dividends

02

03

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

Efficient balance sheet with flexibility to invest in growth with Net Debt / EBITDA target of 1.5x - 2.0x

04

# The Intertek Entrepreneurial Culture

True to its pioneering track record, Intertek is evolving to meet the needs of its customers



As the world of Quality Assurance becomes more complex, Intertek is well positioned to seize the attractive growth opportunities



Intertek will build on its strong ATIC capabilities to provide relevant solutions to its clients, and drive long term shareholders value



Pioneering Entrepreneurs



Wealth of Corporate Heritage



Innovating to Stay Ahead

# Our 5x5 strategy

Will move the centre of gravity of the company to the high growth, high margin opportunities

## Purpose



Bringing Quality and Safety to Life

## Vision



The world's most trusted partner for Quality Assurance

## Customer Promise



Our Innovative Assurance, Testing, Inspection and Certification solutions delivered 24/7 with precision, pace and passion enabling you to power ahead safely

## 5 x 5

### 5 Strategic Priorities



Strong Brand Proposition



Superior Customer Service



Effective Sales Strategy



Growth and Margin Accretive Portfolio



Operational Excellence

### 5 Enablers



Living Our Customer Centric Culture



Disciplined Performance Management



Superior Technology



Energising Our People



Delivering Sustainable Results

# Summary



Attractive growth prospects in the Quality Assurance market



Track record of sustainable growth and shareholder value creation



High margin and strongly cash generative earnings model



Strategic portfolio focus on attractive growth and margin opportunities



Disciplined approach to performance management and capital allocation

