Financial review
Introduction

Our disciplined approach to performance management has enabled the Group to make further progress in 2019.

Ross McCluskey
Chief Financial Officer

Continued focus on costs and capital allocation has resulted in margin progression at constant rates, strong cash and higher ROIC.

Actual rates	Constant rates	Measure	Actual rates	Constant rates	Measure
+6.6%	+4.8%	Revenue up to £2,987m	+6.8%		Dividend per share
+6.5%	+5.2%	Adjusted operating profit up to £513m	+11.4%	+10.2%	Statutory operating profit up to £486m
0bps	+10bps	Adjusted operating margin up to 17.2%	+70bps	+80bps	Statutory operating margin up to 16.3%
+6.8%	+5.2%	Adjusted diluted EPS	+10.2%	+8.9%	Statutory diluted EPS
£117m		Organic investment spend	22.8%	+150bps	Return On Invested Capital
£101m	(8.2)%	Working capital	3.4%	(50)bps	Working capital % revenue

● Actual rates ● Constant rates

Consolidated income statement commentary

Revenue for the year was £2,987.0m, up 6.6% (up 4.8% at constant rates), with organic revenue growth of 3.3% at constant rates.

The Group's organic revenue reflected 2.3% growth in the Products division, 4.1% growth in the Trade division and 5.7% in the Resources division at constant rates.

The Group's adjusted operating profit was £513.3m, up 6.5% on the prior year (up 5.2% at constant rates). The adjusted operating margin was 17.2%, an increase of 10bps from the prior year at constant rates, representing another year of margin improvement for the Group. On an IFRS 16 basis, the Group's adjusted operating profit was £524.2m; resulting in an operating profit margin of 17.5%.

In March 2016, the Group announced its 5x5 differentiated strategy for growth and our implementation continued at pace in 2019, and after four years we are now moving into the final year of our portfolio review. Consistent with the delivery of our 5x5 strategy for growth enablers, we also continued to refine our organisational structure to effectively support our business model. In line with this, a £13.3m restructuring cost has been recognised in Separately Disclosed Items ('SDIs') in the year, which impacted 13 business units in the year, taking the total programme to 89.

On an IFRS 16 basis, the Group's statutory operating profit was £485.8m. The Group's statutory profit for the year after tax was £333.6m (2018: £305.2m) reflecting lower SDIs in the year, a decreased tax rate and a £1.4m benefit resulting from the implementation of IFRS 16.

Net financing costs

The adjusted net financing costs increased to £30.3m (2018: £25.3m) in the year. Adjusted net financing costs pre-foreign exchange movements increased by £0.8m in the year to £27.6m (2018: £26.8m), with the full-year impact of the acquisition of Alchemy offset by continued strong underlying cash generation. Foreign exchange movements resulted in a loss of £2.7m in the year (2018: £1.5m gain). On an IFRS 16 basis, statutory net financing costs of £40.7m included £1.3m (2018: £6.4m) relating to SDIs.

Tax

The Group effective tax rate on adjusted profit before income tax was 24.5% (2018: 24.7%). The year-on-year change primarily reflects the one-off benefit from the recognition of the UK deferred tax asset in FY18 being offset by the release of Group provisions in 2019 following closure of certain tax audits. The adjusted tax charge was £118.4m (2018: £112.8m).

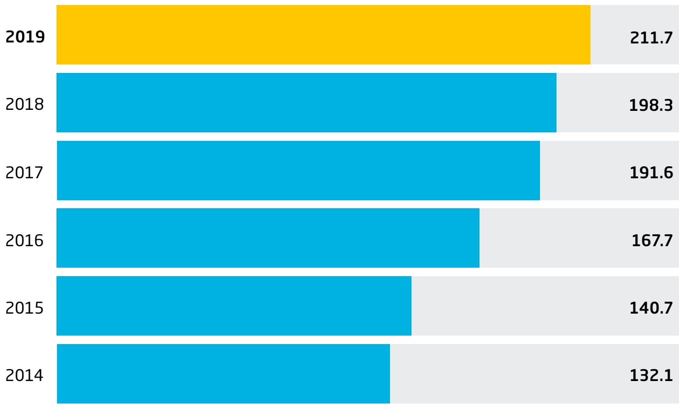
The statutory tax charge, including the impact of SDIs, of £111.5m (2018: £99.3m), equates to an effective rate of 25.1% (2018: 24.5%). The cash tax on adjusted results was 23.1% (2018: 20.4%).

RESULTS FOR THE YEAR[1]

Key financials	2019 £m	2018 £m
Adjusted	**IAS 17**	IAS 17
Revenue	**2,987.0**	2,801.2
Operating profit	**513.3**	481.8
Diluted EPS	**211.7p**	198.3p
Profit after tax	**364.6**	343.7
Cash flow from operations	**651.8**	602.9
Statutory	**IFRS 16**	IAS 17
Revenue	**2,987.0**	2,801.2
Operating profit	**485.8**	436.2
Diluted EPS	**192.6p**	174.7p
Profit after tax	**333.6**	305.2
Cash flow from operations	**715.3**	580.9
Dividend per share	**105.8p**	99.1p
Dividends paid in the year	**163.2**	128.3

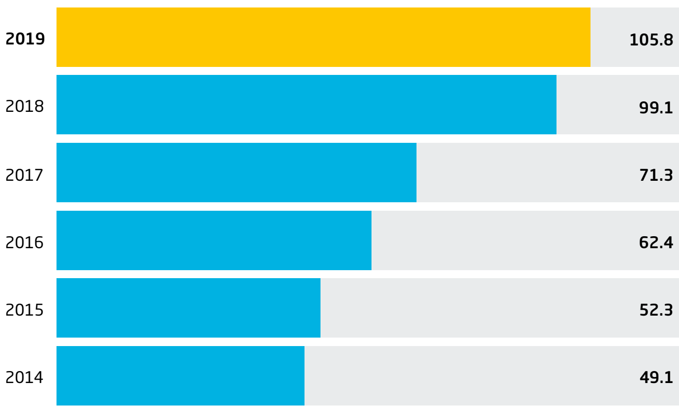
FIVE-YEAR PERFORMANCE – ADJUSTED DILUTED EPS[1] (PENCE)

+9.9% CAGR[3]



DIVIDEND PER SHARE[2] (PENCE)

+16.6% CAGR[3]



1. Presentation of results: To provide readers with a clear and consistent presentation of the underlying operating performance of the Group's business, some figures discussed in this review are presented as adjusted, before Separately Disclosed Items and the effects of adoption of IFRS 16 (see notes 3 and 24 to the financial statements). A reconciliation between adjusted and statutory performance measures is set out overleaf.
2. Dividend per share for 2019 is based on the interim dividend paid of 34.2p (2018: 31.9p) plus the proposed final dividend of 71.6p (2018: 67.2p).
3. CAGR represents the compound annual growth rate from 2014 to 2019.

The underlying performance of the business, by division, is shown in the table below:

		Revenue			Adjusted operating profit			
	Notes	2019 £m	Change at 2019 actual rates %	Change at constant rates %	2019 £m	Change at 2019 actual rates %	Change at constant rates %	2019 IFRS 16 £m
Products	2	**1,796.7**	6.9	4.6	**398.6**	7.4	5.7	405.4
Trade	2	**679.4**	5.8	4.5	**83.5**	0.1	(0.2)	86.6
Resources	2	**510.9**	6.7	5.7	**31.2**	13.9	16.0	32.2
Group total		**2,987.0**	**6.6**	**4.8**	**513.3**	**6.5**	**5.2**	**524.2**
Net financing costs	14, 24				**(30.3)**			(39.4)
Adjusted profit before income tax					**483.0**	**5.8**	**4.5**	**484.8**
Adjusted income tax expense	6, 24				**(118.4)**			(118.8)
Adjusted profit for the year					**364.6**	**6.1**	**4.7**	**366.0**
Adjusted diluted EPS	7, 24				**211.7**	**6.8**	**5.2**	**212.5**

Strategic report
Directors' report
Financial statements

Financial review continued

Earnings per share

The Group delivered adjusted diluted earnings per share ('EPS') of 211.7p (2018: 198.3p), up 6.8% year-on-year. Statutory diluted EPS after SDIs was 192.6p (2018: 174.7p), and basic EPS was 194.5p (2018: 176.8p).

Dividend

In line with our dividend policy that targets a payout of circa 50%, the Board recommends a full-year dividend of 105.8p per share, an increase of 6.8%. This recommendation reflects the Group's earnings progression, strong financial position and the Board's confidence in the Group's structural growth drivers into the future.

The full-year dividend of 105.8p represents a total cost of £170.8m, or 50% of adjusted profit attributable to shareholders of the Group, for 2019 (2018: £159.9m). The dividend is covered 2.0 times by earnings (2018: 2.0 times), based on adjusted diluted earnings per share divided by dividend per share.

5x5 strategy implementation

In March 2016, the Group announced its 5x5 differentiated strategy for growth, with the aim to move the centre of gravity of the Group towards high-growth, high-margin areas in its industry, which included two strategic priorities relevant to the operational structure of the business:

- to operate a portfolio that delivers focused growth amongst the business lines, countries and services, including a strategic review of underperforming business units; and
- to deliver operational excellence in every operation to drive productivity, including re-engineering of unnecessary processes and layers and the refinement of our organisational structure.

During the year, the Group has continued to implement certain non-recurring action plans identified through the portfolio review in specific country and/or business line combinations, consistent with the 5x5 strategy, with a resulting charge of £13.3m in the year. These activities included the termination of certain business lines in some countries; the closure and consolidation of business line locations in certain countries; the reorganisation of various management structures either in-country or across multiple countries in a region; or the fundamental reorganisation of global business lines including direct staff, management and support function structures.

Restructuring charges are included in the SDI section below, in instances where they have been specifically identified as part of the portfolio review, are non-recurring and meet the IAS 37 criteria, in contrast to restructuring costs for ongoing standard cost-efficiency and cost-saving opportunities, which are incurred within adjusted results.

Pensions

The Group's net pension liabilities increased to £13.4m (2018: £12.5m) driven by periodic updates to our actuarial assumptions. Following the High Court ruling in 2018 regarding guaranteed minimum pension liabilities, the Group recorded a past service cost of £0.8m within SDIs.

In 2019, the Group recorded a £5.8m pension curtailment gain on the closure of the Hong Kong defined benefit scheme. In 2018, the Group recorded a £5.4m pension curtailment gain on the UK defined benefit scheme.

Separately Disclosed Items ('SDIs')

A number of items are separately disclosed in the financial statements as exclusion of these items provides readers with a clear and consistent presentation of the underlying operating performance of the Group's business. Reconciliations of the statutory to adjusted measures are given below.

When applicable, these SDIs include amortisation of acquisition intangibles; impairment of goodwill and other assets; the profit or loss on disposals of businesses or other significant fixed assets; costs related to acquisition activity; the cost of any fundamental restructuring of a business; material claims and settlements; significant recycling of amounts from equity to the income statement; unrealised market or fair value gains or losses on financial assets or liabilities, including contingent consideration; and significant legislative changes.

Adjusted operating profit excludes the amortisation of acquired intangible assets, primarily customer relationships, as we do not believe that the amortisation charge in the income statement provides useful information about the cash costs of running our business as these assets will be supported and maintained by the ongoing marketing and promotional expenditure, which is already reflected in operating costs. Amortisation of software, however, is included in adjusted operating profit as it is similar in nature to other capital expenditure. The costs of any restructuring as part of our 5x5 differentiated strategy for growth are excluded from adjusted operating profit where they represent fundamental changes in individual operations around the Group as a result of the portfolio activities discussed above and are not expected to recur in those operations. The impairment of goodwill and other assets that by their nature or size are not expected to recur, the profit and loss on disposals of businesses or other significant assets and the costs associated with successful, active or aborted acquisitions are excluded from adjusted operating profit in order to provide useful information regarding the underlying performance of the Group's operations.

The SDIs charge for 2019 comprises amortisation of acquisition intangibles of £29.1m (2018: £24.6m); acquisition costs relating to successful, active or aborted acquisitions of £1.6m (2018: £8.5m); restructuring costs (as described above) of £13.3m (2018: £13.6m); gain on disposal of subsidiaries and associates of £1.8m (2018: £1.1m); release of claims provisions of £4.6m (2018: £nil); and GMP equalisation adjustment of £0.8m (2018: £nil).

Further information on Separately Disclosed Items is given in note 3 to the financial statements.

2019 RECONCILIATION OF STATUTORY TO ADJUSTED PERFORMANCE MEASURES[1]

£m	Statutory	IAS 17[1]	SDIs	Adjusted
Revenue	2,987.0	2,987.0	–	2,987.0
Operating profit	485.8	474.9	38.4	513.3
Operating margin (%)	16.3%	15.9%	1.3%	17.2%
Net financing costs	(40.7)	(31.6)	1.3	(30.3)
Income tax expense	(111.5)	(111.1)	(7.3)	(118.4)
Profit for the year	333.6	332.2	32.4	364.6
Cash flow from operations	715.3	636.5	15.3	651.8
Basic EPS (pence)	194.5p	193.7p	20.1p	213.8p
Diluted EPS (pence)	192.6p	191.8p	19.9p	211.7p

2018 RECONCILIATION OF STATUTORY TO ADJUSTED PERFORMANCE MEASURES[1]

£m	Statutory	SDIs	Adjusted
Revenue	2,801.2	–	2,801.2
Operating profit	436.2	45.6	481.8
Operating margin (%)	15.6%	1.6%	17.2%
Net financing costs	(31.7)	6.4	(25.3)
Income tax expense	(99.3)	(13.5)	(112.8)
Profit for the year	305.2	38.5	343.7
Cash flow from operations	580.9	22.0	602.9
Basic EPS (pence)	176.8p	23.9p	200.7p
Diluted EPS (pence)	174.7p	23.6p	198.3p

1. Following the adoption of IFRS 16 on 1 January 2019, the statutory results for 2019 are on an IFRS 16 basis and IAS 17 basis in 2018.

Acquisitions and investment

One of the key corporate goals of the Group's 5x5 strategy is delivering an accretive, disciplined capital-allocation policy.

As a result, the Group invests both organically, and by acquiring or investing in complementary businesses to strengthen our portfolio in the locations demanded by clients. This approach enables the Group to focus on those existing business lines or countries with good growth and margin prospects where we have market-leading positions or to enter new exciting growth areas offering the latest technologies and quality assurance services.

Acquisitions

The Group completed one (2018: four) acquisition in the year with 2019 cash consideration paid of £16.9m (2018: £387.9m), net of cash acquired of £0.9m (2018: £5.6m).

In December 2019, the Group acquired Check Safety First Limited ('CSF'), a market-leading global health, safety, quality and security risk management business focused on the travel, tourism and hospitality sectors.

This acquisition will provide valuable additional service lines and new geographic locations for the Group, and will help drive future profitable revenue growth and further accelerate the growth momentum of our high-margin and capital-light assurance business.

In 2019, the Group acquired the remaining shares in a non-controlling interest for cash consideration of £5.2m (2018: £nil). In 2019, £0.6m was paid in relation to consideration for prior-year acquisitions (2018: £0.1m received).

Organic investment

The Group also invested £116.8m (2018: £113.2m) organically in laboratory expansions, new technologies (including software) and equipment and other facilities. This investment represented 3.9% of revenue (2018: 4.0%).

Key performance indicators

The Group uses a variety of key performance indicators ('KPIs') to monitor the financial performance of the Group and its operating divisions. The specific metrics and associated definitions are disclosed on pages 22 to 23.

Organic revenue at constant currency is presented to show the Group's revenue excluding the effects of the change in the scope of the consolidation (acquisitions and disposals made since 1 January 2018) and removing the impact of currency translation from the Group's growth figures.

Organic revenue at constant currency	2019 £m	2018 £m	Change %
Reported revenue	**2,987.0**	2,801.2	6.6
less: Acquisitions/disposals revenue	**(61.4)**	(18.3)	
Organic revenue	**2,925.6**	2,782.9	5.1
Impact of foreign exchange movements	**-**	48.9	
Organic revenue at constant currency	**2,925.6**	2,831.8	3.3

To improve the understanding of the Group's organic growth performance, moving forward we will adopt a 'like-for-like revenue' definition for organic revenue. 'Like-for-like revenue' will include acquisitions following their 12-month anniversary of ownership, and remove the historical contribution of any business disposals/closures.

The rate of Return On Invested Capital ('ROIC'), defined as adjusted operating profit less adjusted taxes divided by invested capital, measures the efficiency of Group investments. This is a key measure to assess the efficiency of investment decisions and is also an important criterion in the decision-making process.

ROIC in 2019 of 22.8% compares to 21.3% in the prior year at constant exchange rates. On an IFRS 16 basis, which includes the net lease liability in invested capital, ROIC in 2019 was 23.7%.

Return On Invested Capital at constant currency (IAS 17)	2019 £m	2018 £m	Change %
Adjusted operating profit	**513.3**	487.8	5.2%
less: Adjusted tax[1]	**(125.7)**	(120.5)	4.4%
Adjusted profit after tax	**387.6**	367.3	5.5%
Invested capital[1]	**1,696.3**	1,721.5	(1.5)%
ROIC %	**22.8%**	21.3%	150bps

Return On Invested Capital (IFRS 16)	2019 £m
Adjusted operating profit	**524.2**
less: Adjusted tax[1]	**(128.4)**
Adjusted profit after tax	**395.8**
Invested capital[1]	**1,673.1**
ROIC %	**23.7%**

1. Definitions of the above measures are given on page 22.

Financial review continued

Cash flow and net debt

Cash flow

The Group relies on a combination of debt and internal cash resources to fund its investment plans. One of the key metrics for measuring the ability of the business to generate cash is cash flow from operations. Due to the cash payments associated with the SDIs, and to provide a complete picture of the underlying performance of the Group, adjusted cash flow from operations is shown below to illustrate the cash generated by the Group:

Cash conversion	IAS 17 2019 £m	2018 £m	Change %	IFRS 16 2019 £m
Cash flow from operations	**636.5**	580.9	9.6	715.3
add back: Cash flow relating to SDIs	**15.3**	22.0	(30.5)	15.3
Adjusted cash flow from operations	**651.8**	602.9	8.1	730.6
add back: Special contributions to pension schemes	**2.0**	2.0	–	2.0
Repayment of lease liability	–	–	–	(69.7)
Cash flow for cash conversion	**653.8**	604.9	8.1	662.9
Cash conversion %	**127.4%**	125.6%	180bps	126.5%

Free cash flow reconciliation	IFRS 16 2019 £m	IAS 17 2019 £m	2018 £m
Cash generated from operations	**715.3**	**636.5**	580.9
less: Net capital expenditure	**(114.3)**	**(114.3)**	(109.7)
add back: Interest received	**1.2**	**1.2**	1.8
less: Interest paid	**(40.7)**	**(31.6)**	(29.3)
less: Income tax paid	**(111.8)**	**(111.8)**	(93.1)
less: Lease liabilities paid	**(69.7)**	**-**	–
Free cash flow	**380.0**	**380.0**	350.6
add back: SDI cash outflow	**15.3**	**15.3**	22.0
Adjusted free cash flow	**395.3**	**395.3**	372.6

IFRS 16 and IAS 17 measures are included in the above table to aid comparability.

Net debt

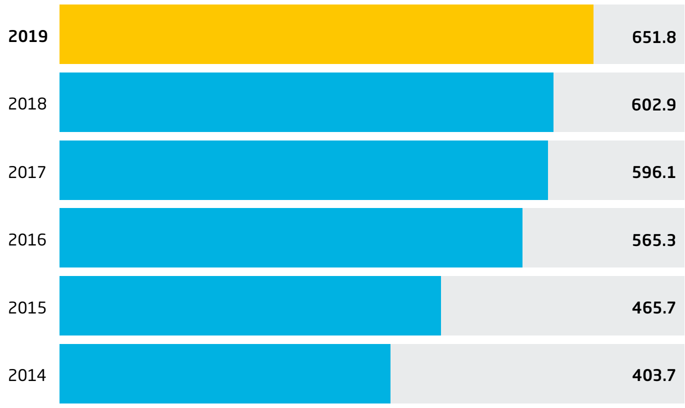
Net financial debt has decreased from £778.2m at 31 December 2018 to £629.4m at 31 December 2019, primarily reflecting the continued strong underlying cash generation of the Group in 2019. Including the new IFRS 16 lease liability, total net debt was £875.4m at 31 December 2019.

In the year, the Group drew on facilities it had in place at 31 December 2018. At 31 December 2019, total undrawn committed borrowing facilities were £326.2m (2018: £247.9m).

The Group has a well-balanced loan portfolio to enable the funding of future growth opportunities with a maturity profile as shown on page 49. In January 2020, the Group renewed its existing revolving credit facility, increasing to US$850m and maturing in 2025.

FIVE-YEAR TREND – ADJUSTED CASH FLOW FROM OPERATIONS (£M)

10.1% CAGR[1]



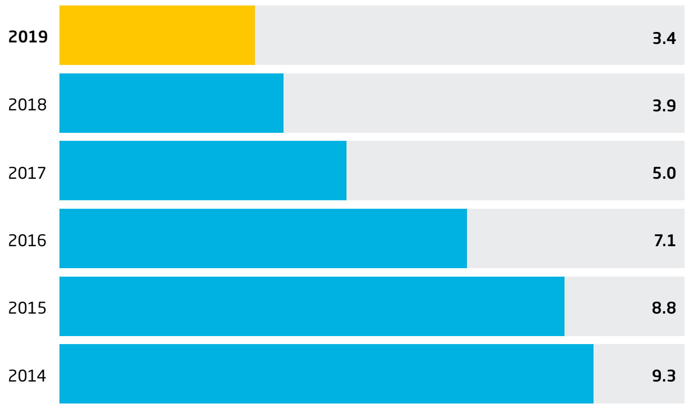
1. CAGR represents the compound annual growth rate from 2014 to 2019.

Working capital

During 2019, we have continued our working capital intensity and through disciplined performance management working capital has reduced by £9.0m to £100.7m. Working capital has declined to 3.4% of revenue, reflecting 50bps improvement year-on-year, contributing to continued strong cash conversion.

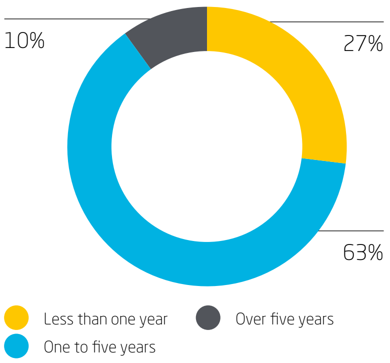
FIVE-YEAR TREND – WORKING CAPITAL AS % OF REVENUE

(590) BPS[1]



1. Reduction in working capital as a percentage of revenue from 2014 to 2019.
2. Working capital is defined under the statement of financial position within the financial statements.

BORROWINGS BY MATURITY PROFILE
(AT 31 DECEMBER 2019)



Under existing facilities the Group has available debt headroom of £326.2m at 31 December 2019. The components of net debt at 31 December 2019 are outlined below:

	1 January 2019 £m	Cash and non-cash movements £m	Exchange adjustments £m	31 December 2019 £m
Cash	203.2	31.1	(21.3)	**213.0**
Borrowings[1]	(981.4)	110.5	28.5	**(842.4)**
Financial net debt	(778.2)	141.6	7.2	**(629.4)**
Lease liabilities[1]	(269.9)	16.9	7.0	**(246.0)**
Net debt	(1,048.1)	158.5	14.2	**(875.4)**

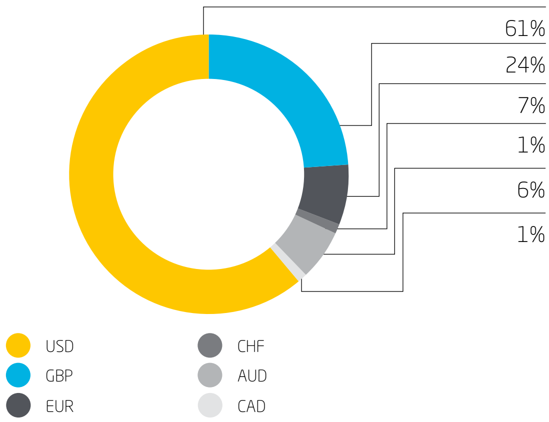
1. Borrowings include £0.8m of non-cash movements related to amortisation of facility fees (see note 14 of the financial statements). Lease liabilities include £52.8m of non-cash movements.

To ensure the Group is not exposed to income statement volatility in relation to foreign currency translation on its debt, the Group ensures that any foreign currency borrowings are matched to the value of its overseas assets in that currency (an 'effective' hedge).

The Group borrows primarily in US dollars and any currency translation exposures on the borrowings are offset by the currency translation on the US dollar and US dollar-related overseas assets of the Group.

The composition of the Group's gross borrowings in 2019, analysed by currency, is as follows:

BORROWINGS BY CURRENCY



Foreign currency movements

The Group transacts in over 80 currencies across more than 100 countries, and revenue and profit are impacted by the currency fluctuations. However, the diversification of the Group's revenue base provides a partial dilution to this exposure.

At constant rates, revenue grew 4.8% (actual rates 6.6%) and adjusted operating profit grew 5.2% (actual rates 6.5%).

The exchange rates used to translate the statement of financial position and the income statement into the Group's functional currency, sterling, for the five most material currencies used in the Group are shown below:

	Statement of financial position rates		Income statement rates	
Value of £1	**2019**	**2018**	**2019**	**2018**
US dollar	**1.31**	1.26	**1.28**	1.34
Euro	**1.17**	1.11	**1.14**	1.13
Chinese renminbi	**9.17**	8.69	**8.82**	8.84
Hong Kong dollar	**10.18**	9.90	**10.00**	10.47
Australian dollar	**1.87**	1.80	**1.84**	1.79

Significant accounting policies

The consolidated financial statements are prepared in accordance with IFRS as adopted by the EU. Details of the Group's significant accounting policies, including the impact of the new accounting standards applicable for the first time in 2019, being IFRS 16 and IFRIC 23, are shown in note 1 to the financial statements.

Ross McCluskey
Chief Financial Officer