

Rentokil Pest Control

Market conditions

Market conditions during 2008 have been mixed. In the UK, despite a strong start to the year, the larger market participants have seen a significant downturn in sales enquiries from the end of Q2 through the second half. Economic conditions in the US have been difficult. The European market slowed somewhat in Q4. The pest control market in East Africa and the Caribbean appears to have been unaffected by global slowdown.

Key performance indicators

	£m	Change vs 2007
Revenue	335.8	+10.9%
Organic revenue growth		+6.4%
Operating profit	59.7	-7.9%
Adjusted operating profit	59.7	-8.9%
Net adjusted margin	17.8%	-3.8%
Contract portfolio gain	10.3	-67.8%
New business wins	38.3	+12.3%
Net additions/reductions	8.8	-3.3%
Acquisitions	5.9	-71.9%
Terminations	(42.7)	-31.8%
Retention rate	82.3%	-2.2%

2008 review

During 2008 the Pest Control division delivered a strong performance in mainland Europe and North America despite a backdrop of deteriorating economic conditions. The UK has, however, continued to prove challenging, in part due to legacy service issues arising from the 2007 business restructuring and partly due to a significant decline in job sales which became evident during the summer and which has continued through Q3 and Q4. Full year divisional revenue grew by 10.9%. However, adjusted operating profit declined by 8.9% year-on-year, held back principally by the poor performance of the UK business.

The retention rate in the year for the division as a whole fell by 2.2%, impacted by the exit from the Copesan trade association and the decline in the UK. State of Service rose to 96%, 1% above target.

Europe

Across continental Europe revenue grew by 12.3% during 2008, of which 6.4% was organic. Countries growing most strongly included the Netherlands, Italy, Denmark and Austria. Our newest operations in Estonia and Lithuania are also performing in line with expectations. Profit increased during the year in Germany, Austria, Italy, the Netherlands and Denmark. Overall growth was however held back by Spain, Switzerland and Ireland.

UK

The UK delivered a disappointing financial performance for 2008. State of Service has risen quarter on quarter and cash collection and days sales outstanding have shown steady improvements. However, revenue fell 2.0% in the year, 10.5% in Q4. This decline is largely attributable to a 25% decline in job sales in Q4. The business has experienced a significant downturn in sales enquiries from the end of Q2 through the second half. However, revenues were also impacted by legacy service issues and the focus on debt clearance has resulted in a backlog of terminations and service credits. Retention levels fell 5.2% year-on-year to 76.6% and were impacted most heavily in quarters two and three when the debt clearance programme was at its peak. The business's continuing focus on customer service and cash collection is resulting in steady reductions in credits, terminations and ageing debt. Profit fell by £7.2 million year-on-year, partly attributable to shared service centre recharges which were not levied in 2007.

Libya

During Q3 the UK business secured its first major contract in Libya with a three-year governmental contract worth some £25 million in total with the General Corporation of Housing and Utilities. UK Service teams were deployed in Q4 in Tripoli, Benghazi and Misratah.

North America

North America grew revenue by 18.1% (5.5% in Q4), driven principally by strong contributions from Presto-X acquired in August 2007 and Watch All acquired in March 2008. Growth was, however, impacted by the commercial business's forced exit from the Copesan trade association, announced at the end of Q1 and completed end Q2, which reduced revenue by £3 million. Organic revenue growth (adjusted to exclude acquisitions and Copesan) slowed to 2.7% for the year. Profit growth was strong reflecting ongoing progress in managing J C Ehrlich's cost base and specifically off-season productivity.

2009 preview

We anticipate a mixed performance in 2009 with very difficult trading conditions in the UK and US being broadly offset by continuing progress in continental Europe.