

Pest Control

Market conditions

Most countries within the Pest Control division experienced difficult market conditions in 2009. The global recession affected South Africa later than the other geographies, the impact of which was felt from Q2 2009 onwards. Our operations in the Caribbean did not appear to be significantly affected.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
At 2008 constant exchange rates:						
Revenue	96.4	94.2	2.3%	396.7	384.1	3.3%
APBITA*	18.2	15.3	19.0%	75.2	73.8	1.9%
At actual exchange rates:						
APBITA*	20.6	16.5	24.8%	84.9	73.8	15.0%

*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Pest Control grew revenue by 3.3% in challenging market conditions, primarily the result of strong performances in North America, growth in the higher inflation economies of South Africa and the Caribbean, and the Libyan contract which commenced in December 2008. Revenue growth was held back by the UK (including the products business), Ireland and Spain. Contract sales were down 10.9% year on year. However, overall revenue has been supported by an increased mix of job sales, up 1% on the prior year. Divisional retention improved by 1.3% to 81.7%, reflecting a continued focus on customer service. Portfolio grew by 0.5%.

Divisional profit increased by 1.9%, with declines in the UK and Europe (principally Spain) being offset by strong growth in North America, the Caribbean and the Libyan contract.

Across Europe revenue was flat. Poor revenue performances from Spain and Portugal were offset by growth in the Netherlands, Switzerland and Austria.

New management appointed in the UK has made excellent progress in turning the business around. State of Service was 99.9% at the year end, customer retention improved H2 on H1 and cost savings of £2.1 million were delivered in line with plan. Full year revenue decline of 5.8% (0.9% growth in Q4) was a solid improvement on H1's decline of 10.2%, reflecting better retention and rising job sales in Q3 and Q4. The portfolio contracted by 7.2% in the year but showed marginal growth in November and December 2009. Debt over 90 days is at a record low and DSO improved by 13 days on 2008.

North America had an excellent year, growing profit and revenue by 16.5% and 4.0% respectively. Although contract sales declined by 14%, job sales grew by 5% and retention improved to a record high of 83% (up 6.2% on 2008). DSO improved by 10 days to 34 days.

The business's three-year contract with the Libyan government is proving to be very successful at an operational level and we have leveraged our technical expertise to create a customer-focused and responsive service. However, we are still experiencing delays in receiving payment with some £4 million remaining outstanding at the end of the year. There is some risk that payment will not be forthcoming. Separately, we have established a joint venture in Libya to explore the opportunity to develop a conventional commercial business.

Despite the delayed payments from Libya outlined above operating cash flow increased by 11.1% to £82.1 million in 2009, the result of increased profit, reduced accounts receivable and a tight control on capital expenditure.

2010 preview

We expect conditions to remain challenging in 2010 with improvement in the US and UK likely to be offset by deterioration in Europe.

Asia Pacific

Market conditions

The Asian pest control and washroom hygiene market had a difficult first half in 2009 in tightening economic conditions with a slowdown in Malaysia, Singapore, Hong Kong and Indonesia partially offset by strong performances in China and India. Growth in the Australian and Pacific pest and washroom hygiene markets was slow in 2009, especially in the first half, due to nervous economic backdrop. Some recovery was seen in the second half.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
At 2008 constant exchange rates:						
Revenue	44.5	46.3	(3.9%)	183.4	196.5	(6.7%)
APBITA*	1.9	5.9	(67.8%)	19.8	23.6	(16.1%)
At actual exchange rates:						
APBITA*	2.1	5.8	(63.8%)	21.1	23.6	(10.6%)

*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Revenue declined 6.7% year on year and adjusted operating profit decreased by 16.1% (£3.8 million).

Asia

Revenue fell by 12.5%, the result of legacy issues including the cancellation of the Hong Kong government contract and weaker government business in China (including the non-repeat of the Olympics pest control contracts). Excluding these items revenue fell by 0.2%. There has also been a severe decline in the fumigation business in Singapore, the Philippines and Malaysia as a result of slower international trade in 2009. This decline was marginally offset by growth in Indonesia, India and Korea.

Profit declined by £4.7 million largely due to the impact of charges related to the clean up of prior year control and acquisition issues as well as lower revenue noted above.

Pacific

In the Pacific region revenue was 1.7% below the prior year due to weaker residential jobbing in the Pest business and loss of portfolio in the Ambius business. Profit grew by 4.3%, led by a strong turnaround in Australian Pest, a steady Washrooms performance and aggressive cost-savings programmes.

Service levels in the Australian Pest Control business reached a record 98.9% during 2009. Contract turnover rose by 2.8%. However, job revenue declined due to reduced demand for pre-construction termite barriers due to a downturn in building construction. DSO improved by 10 days to 42 days.

Washrooms service has continued to improve and is now at 97.1% but contract portfolio declined by 7.1%, revenue by 1.3%. Service staff retention increased year on year from 14.3% to 53.3%. This has led to improved service levels which in turn have led to an improved contract retention rate of 78.8%.

Cash performance has been strong and debtor days have decreased from 55 days to 42 days year on year.

During the year the Asia Pacific management team was significantly strengthened by the appointments of a new Managing Director, Finance Director and other senior country heads.

2010 preview

Market conditions in some of our Asian and Pacific markets are expected to improve in 2010. Against this backdrop we expect to achieve a modest overall improvement across the region through improved retention, focusing on high levels of service and implementing a continuing series of cost reduction measures.

Ambius

Market conditions

Growth declined in 2009 as demand for products and services softened in the major markets, especially in the US, UK, France and Belgium and principally the result of challenging economic conditions. All markets are highly fragmented with a large number of small operators, although the larger companies have a competitive advantage in terms of route density and product offering. Ambius currently has approximately 55,000 customers over 13 countries.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
At 2008 constant exchange rates:						
Revenue	30.5	35.2	(13.4%)	106.8	119.3	(10.5%)
APBITA*	4.3	4.9	(12.2%)	7.6	9.9	(23.2%)
At actual exchange rates:						
APBITA*	4.9	5.0	(2.0%)	8.8	9.9	(11.1%)

*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Ambius has experienced exceptionally difficult market conditions in 2009. Revenue fell 10.5% as a result of increasing contract terminations and a 22.3% decline in job sales. Although overall customer retention fell from 81.9% in 2008 to 77.3%, it improved in the second half to 79.8% (H1 2009: 75.2%).

Adjusted operating profit fell 23.2%. In addition to adjusting service head count in line with portfolio movement, the business has been pursuing a number of cost savings initiatives to mitigate revenue decline.

North America has been weak with a 12.3% decline in revenue. Portfolio has been impacted by the difficult economy and customer retention fell by five percentage points to 75.0% but improved as the year progressed. Job sales declined 21.0% year on year, but showed greater resilience in Q4 with Holiday sales only falling by 11.2% year on year.

Revenue in Europe declined 8.1% with most countries experiencing difficult economic conditions. Customer retention declined from 83.8% in 2008 to 79.9% but, as with the US, improved towards the end of the year. Profit was adversely impacted by increased redundancy costs, an increase in bad debts and a 24.6% reduction in job sales year on year.

Sales of brand extension services, including ambient scenting and fresh fruit delivery, have continued to rise during the period and now account for 11.8% of total contract sales compared to 7.2% in 2008.