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).