Rentokil Initial

2013 Interim Results

14 August 2013

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Highlights

Alan Brown
Chief Executive Officer

Interim Highlights

At constant exchange rates

- Strong performance in core businesses outside continental Europe:
  - Integration of Western Exterminator proceeding to plan
  - UK core business capitalising on integrated country operating model to deliver strong profit growth
  - Asia profit +43.5% – notably strong performances from China, India and Vietnam
  - Six pest acquisitions in Brazil, French Guyana, Portugal, Canada and the US
- Conditions in Europe remain challenging:
  - France & Benelux experiencing pricing pressure. Belgian flat linen sale completed end Q1
- Initial Facilities transition out of low profitability single service contracts largely complete:
  - 2.9% decline in revenue reflecting catering contract losses and withdrawal from certain selected single service cleaning contracts in the UK & Spain. Margins to improve as sector mix evolves toward total facilities management
- Accelerated investment in restructuring driving increased cost savings

Good progress in Q2, momentum expected to continue in H2

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Operating & Financial Review

Jeremy Townsend
Chief Financial Officer

Headline Financials (Continuing Operations)

	Q2			H1		
	2013 £m	2012 £m	Δ	2013 £m	2012 £m	Δ
Revenue at CER	580.4	556.7	4.3%	1,140.8	1,099.9	3.7%
Adjusted PBITA[1] at CER	65.2	59.2	10.1%	108.9	103.5	5.2%
Adjusted PBTA[2] at CER	53.3	49.4	7.9%	85.0	83.5	1.8%
Adjusted PBTA[2] at AER	54.8	49.4	10.9%	87.6	85.0	3.1%
Operating Cash Flow at AER	22.3	39.1		(1.1)	35.8	
Basic adjusted EPS at AER				3.59p	3.53p	1.7%

CER = constant exchange rates
AER = actual exchange rates
[1]before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one off items
[2]before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one off items and net interest credit from pensions

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2012 Financial Highlights

- Adjusted operating profit +5.2%, revenue up 3.7%:
  - Strong acceleration of profit growth in Q2
  - Recent acquisitions performing well, contributing 6.0% (£65.6m) of revenue growth
  - Underlying organic revenue growth down 1.6% year on year, reflecting challenging economic conditions in the UK & Northern Europe and poor weather in North America
- City Link disposed in Q2:
  - £14.2m trading loss and £39.0m one-off loss on disposal; reported in discontinued operations
- Cost savings of £21.1m on track to exceed full year target of £40m:
  - £24.6m investment in reorganisation costs to achieve this
- Cash flow impacted by increased investment in capex and restructuring:
  - Reorganisation costs forecast at £50m, reflecting increased investment in Integrated Country Operating Model
  - Significant improvement in cash flow expected in H2, reflecting business seasonality & working capital phasing
- Interim dividend of 0.70p per share declared, an increase of 4.5% on prior year

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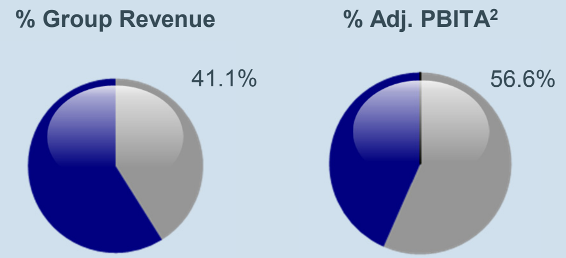
East Region

At constant exchange rates

- Revenue -1.8%, profit flat year on year
  - Continuation of difficult trading conditions in Europe
  - Benelux particularly impacted by pricing pressure in flat linen; Belgian flat linen business disposed in Q2
  - France revenue and margins also impacted by pricing pressure in flat linen; profit growth supported by move to integrated operating model
  - Resilient performance from Germany, aided by growth in Cleanrooms; profit growth also supported by move to integrated operating model
  - Poor weather impacting pest job sales in Pacific
  - Restructuring programmes progressing well supporting net operating margins in tough trading environment



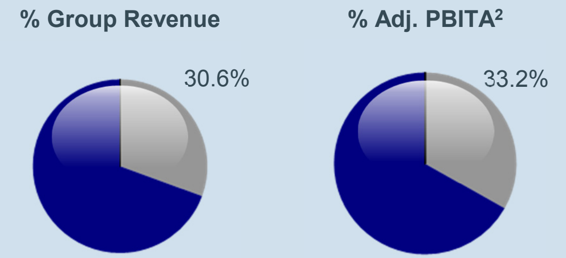
	Q2 2013	H1 2013	△ Q2	△ H1
Revenue	232.7	469.1	(2.8%)	(1.8)
Adj. PBITA[1]	44.1	84.4	2.1%	-

[1] before amortisation and impairment of intangible assets, reorganisation costs and one-off items
[2] % excludes central costs

West Region

At constant exchange rates

- Revenue +18.4%, profit +14.6%
  - Revenue and profit growth driven largely by North America through acquisition of Western Exterminator
  - UK & Ireland revenue adversely impacted by tough economic conditions and poor weather, however cost savings have enabled profit growth
  - Low single-digit revenue and profit growth from the Rest of World reflecting strong performance by East Africa, the Nordics and the Caribbean offset by weaker trading in South Africa
  - Further pest acquisitions in H1 in French Guyana, Portugal and the United States



	Q2 2013	H1 2013	△ Q2	△ H1
Revenue	184.9	349.1	19.6%	18.4%
Adj. PBITA[1]	31.9	49.5	14.7%	14.6%

[1] before amortisation and impairment of intangible assets, reorganisation costs and one-off items
[2] % excludes central costs

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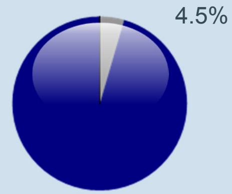
Asia Region

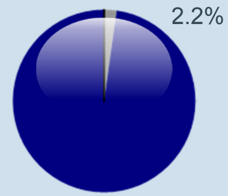
At constant exchange rates

- Revenue +6.6%, profit +43.5%
  - Good performances from pest and hygiene categories, reflecting ongoing market development
  - Combined revenue growth of +35% from emerging markets of India, China and Vietnam
  - Mid-single digit revenue growth from Malaysia building on strong 2012 performance
  - Profit growth reflects the leverage from the revenue growth combined with further productivity improvements

% Group Revenue



% Adj. PBITA[2]



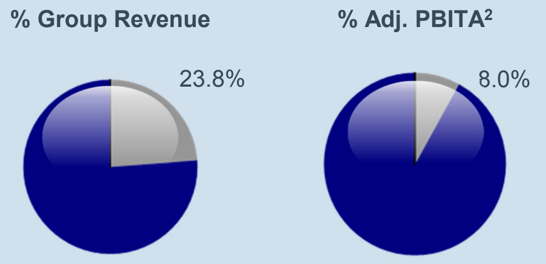
	Q2 2013	H1 2013	△ Q2	△ H1
Revenue	26.4	51.5	7.8%	6.6%
Adj. PBITA[1]	1.8	3.3	50.0%	43.5%

[1] before amortisation and impairment of intangible assets, reorganisation costs and one-off items
[2] % excludes central costs

Initial Facilities

At constant exchange rates

- Revenue -2.9%, profit -3.3%
  - Due to catering contract losses and continued planned withdrawal from a number of single service based contracts in order to de-risk portfolio and improve profitability
  - New contract pipeline of c.£30m supports revenue in H2
  - Profit decline reflects reduced revenue levels; decline mitigated by strong cost control



	Q2 2013	H1 2013	△ Q2	△ H1
Revenue	136.4	271.1	(1.2%)	(2.9%)
Adj. PBITA[1]	5.9	11.9	(3.3%)	(3.3%)

[1] before amortisation and impairment of intangible assets, reorganisation costs and one-off items
[2] % excludes central costs

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Operating Cash Flow

At actual exchange rates

	£ million	
	H1 2013	H1 2012
Adjusted PBITA	112.6	104.9
Reorganisation costs and one-off items	(26.9)	(13.4)
Depreciation	104.8	93.6
Non-cash items[1]	1.5	4.5
EBITDA	192.0	189.6
Working capital	(76.6)	(52.5)
Capex	(118.4)	(105.1)
Fixed asset disposal proceeds[2]	1.9	3.8
Operating cash flow – continuing operations	**(1.1)**	**35.8**
Operating cash flow – discontinued operations	**(23.0)**	**(14.8)**
Total	**(24.1)**	**21.0**
Net debt	(1,122.1)	(960.0)

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[1] Profit on sale of fixed assets, IFRS 2 etc.
[2] Property, plant, vehicles

Guidance for H2

- Cost savings to exceed £40m: supported by implementation of Integrated Country Operating Model
- Central costs in line with 2012 reflecting continuing investment in capability
- Interest cost reflects carry cost of pre-funding 2014 bond maturities: estimated total P&L charge £56m-£58m
- Exchange rate volatility: Sterling weakness a benefit to P&L
- One-off costs of £50m for 2013 expected to be in line with 2012 reflecting further restructuring and focus on back-office rationalisation
- Net capex £230m-£250m: investment in workwear & hygiene plant, EFR and IT
- Working capital outflow £20m-£30m
- Adjusted effective tax rate 26%: 2013 tax payments c.£40m

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Strategy Update

Alan Brown
Chief Executive Officer

Strategy for Growth

- **Clear choices** on core categories
  - **Pest Control** is our lead category seeking presence in any metropolitan, politically stable area with temperate to tropical climate
  - **Hygiene** to follow Pest into new territories
  - **Workwear** to focus on continental Europe
  - **Plants** to focus on 11 existing markets where we have leadership positions
  - **Initial Facilities** run as a stand alone business focusing primarily on the UK FM market
- Increasing exposure to **high growth** markets
- Organisation designed to **leverage global scale** and capitalise on local density
- Building **differentiating** capability in **operational excellence**, **technology & innovation** to drive growth
- Model lends itself to **acquisitions** – and we are good at executing them

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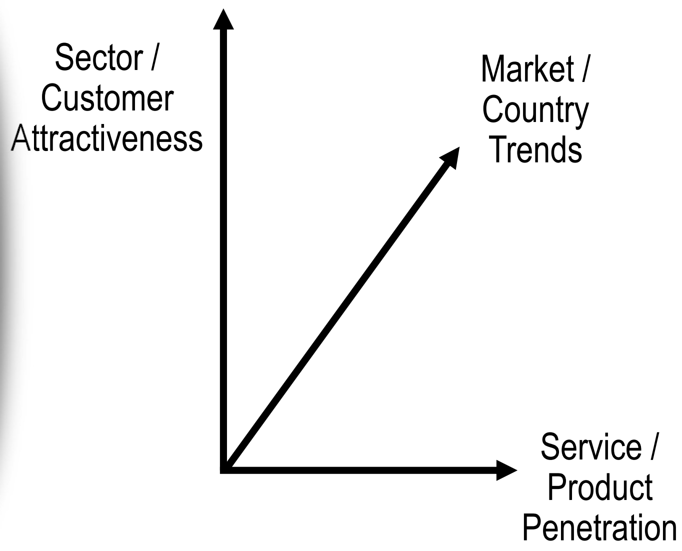
Strategic Framework For Growth

Prioritisation and resource allocation at group and local levels

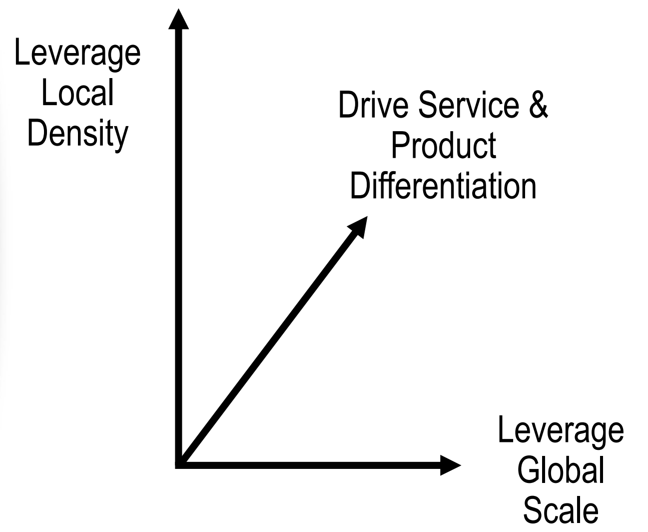
Where To Play

- Strategic Prioritisation



How To Win

- Scale Leverage
- Capability Building

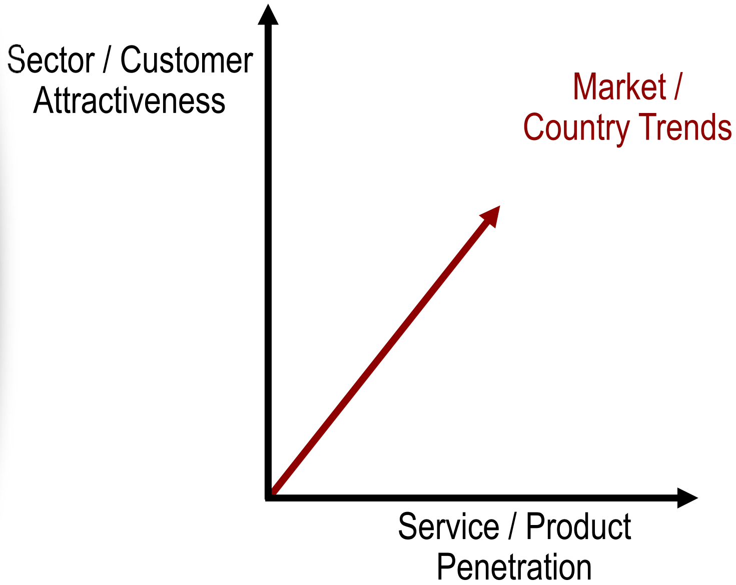


Where To Play: Market / Country Trends

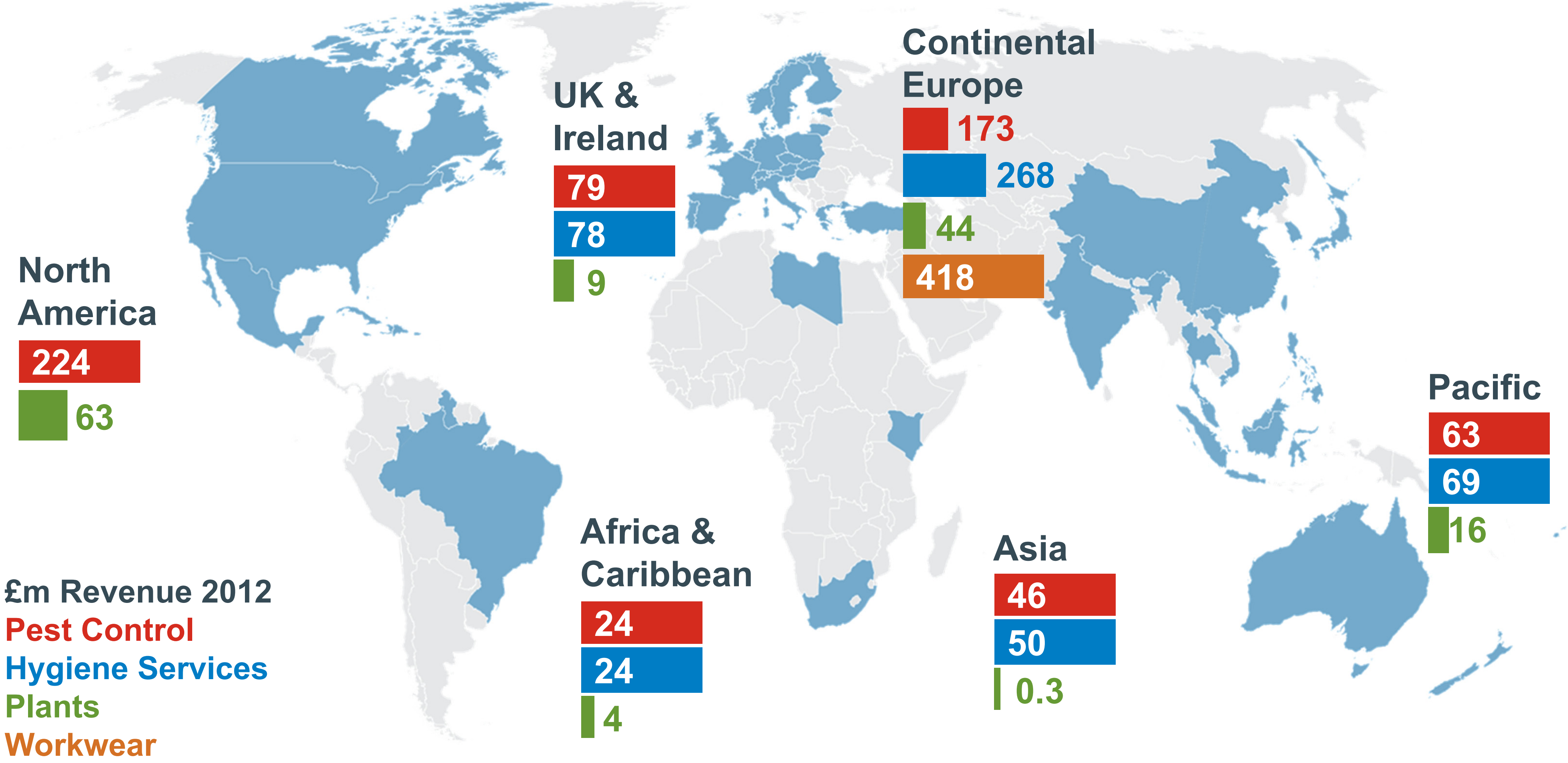
Prioritisation and resource allocation at group and local levels

Where To Play

- Strategic Prioritisation



Where To Play: Global Footprint Based On Proforma* 2012 Revenue



*including full year effect of acquisitions made in 2012

Where To Play: Pest Category

Market / Country Trends

Top 3 markets

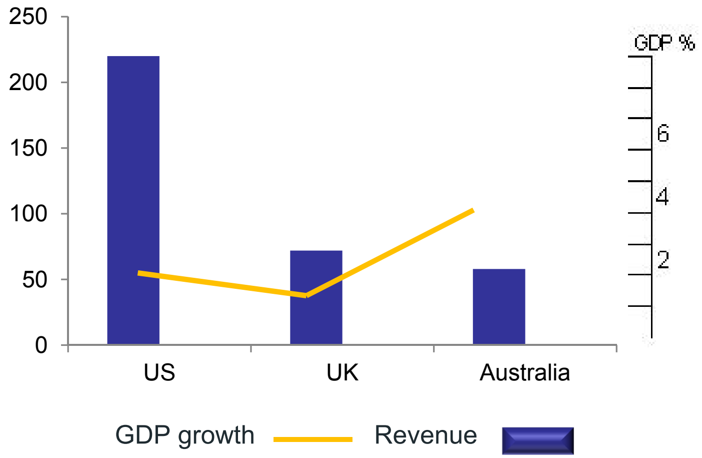
- US, UK and Australia account for 52% of Pest revenue
- Rentokil no.3 in the US, no.1 in UK & Australia
- All 3 businesses below group Pest average margins but performing strongly

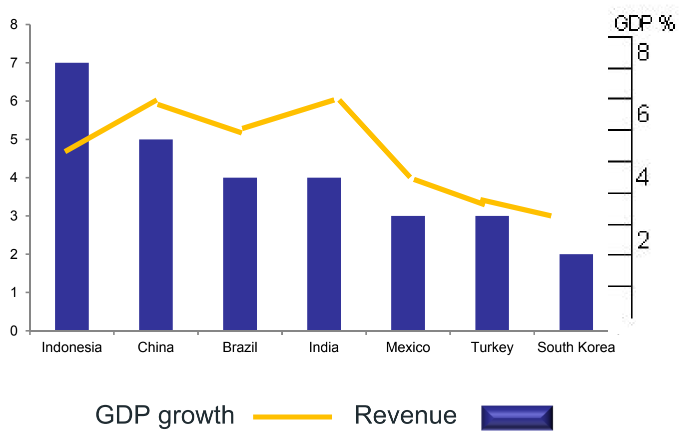
Growth markets

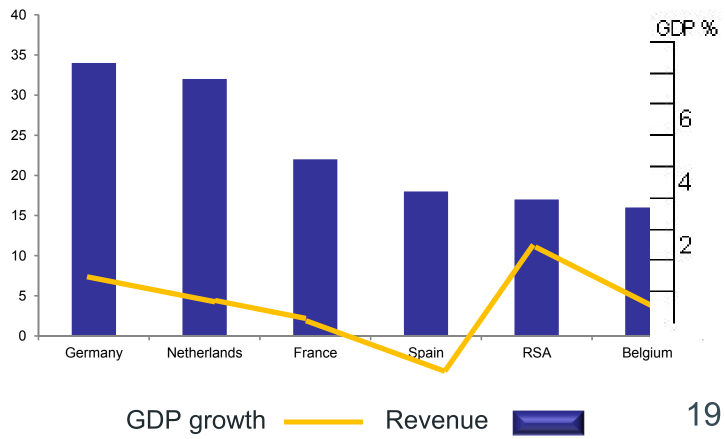
- Rentokil presence now established in all high potential countries
- Significant improvement in financial performance albeit from low base
- Pest will be the entry for RI with Hygiene following (except for NA)
- Key challenge is to build capability and acquire more….

Other large businesses

- Netherlands, Germany, Spain, France, Belgium all strong businesses though operating in tough markets
- Malaysia 10th largest and growing rapidly – important source of best practice for Asia and of talent for China and India







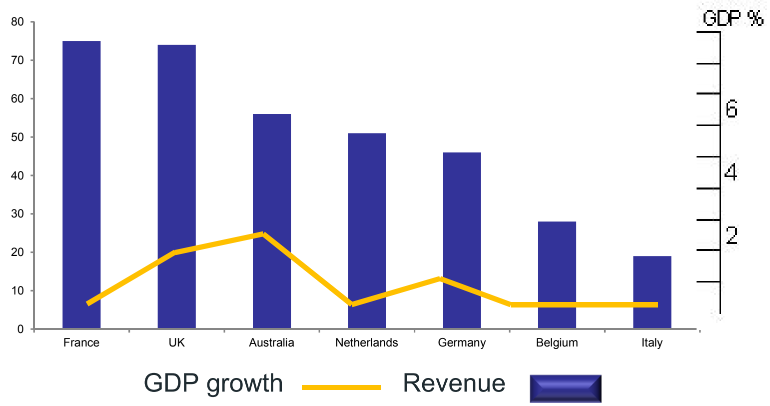
Where To Play: Hygiene Category

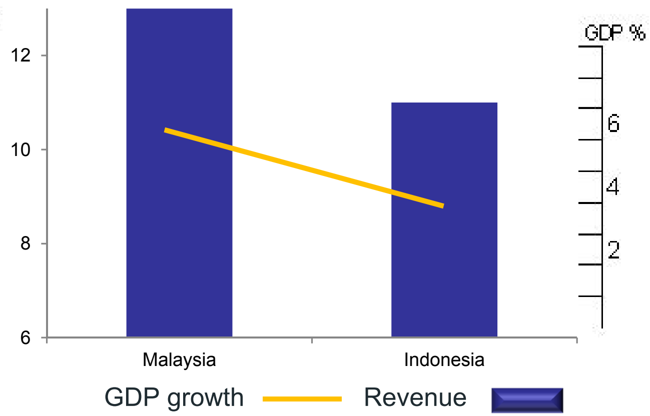
Top 7 markets

- Top 7 countries account for 75% of Hygiene revenue
- All except Australia are European countries with recessionary challenges
- Progress dependent on quality of innovation agenda

Growth markets

- Malaysia, Indonesia have market leading positions and expected to grow strongly
- Hygiene accounts for 50% of Asia sales
- Will follow Pest into China, India and Brazil in due course



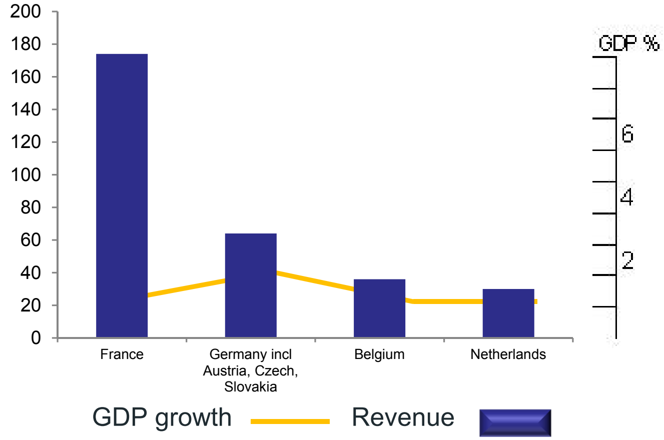


Where To Play – Workwear Category

Market / Country Trends

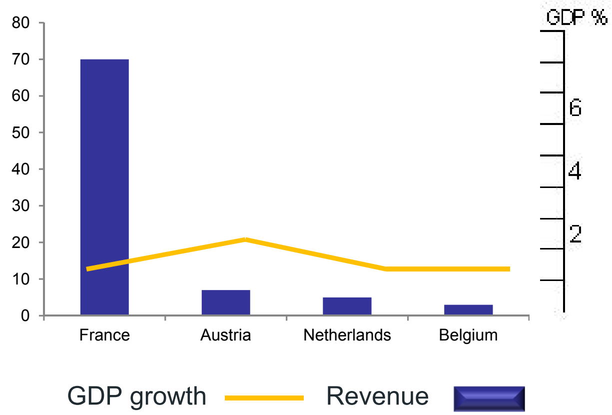
Workwear

- Predominately in 4 continental countries – France, Germany, Belgium & Netherlands
- France accounts for 55% of total revenue and holds a strong no.2 market position
- Germany no.5 but growing strongly
- Benelux no.1 in challenging market
- Growth dependent on innovation agenda, capability in design, efficiency in processing, procurement & logistics



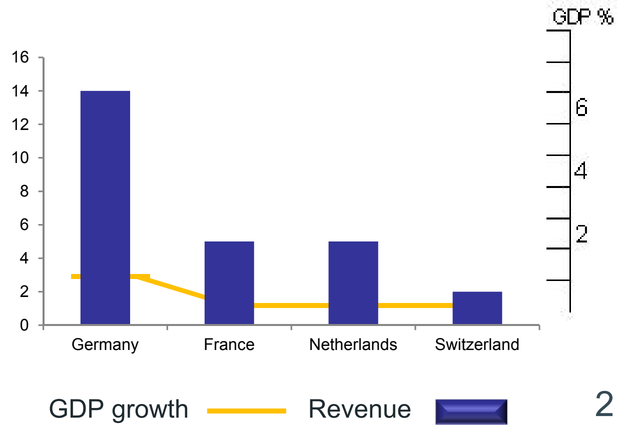
Flat Linen

- 21% of category revenue
- France 82% of our flat linen business
- Challenging segment – we will withdraw from flat linen outside France



Cleanrooms

- Growing and profitable niche category providing specialist workwear mostly to pharma and micro-electronic sectors
- Initial building a European footprint through organic growth and acquisition, based on strong position in Germany



Where To Play – Plants Category

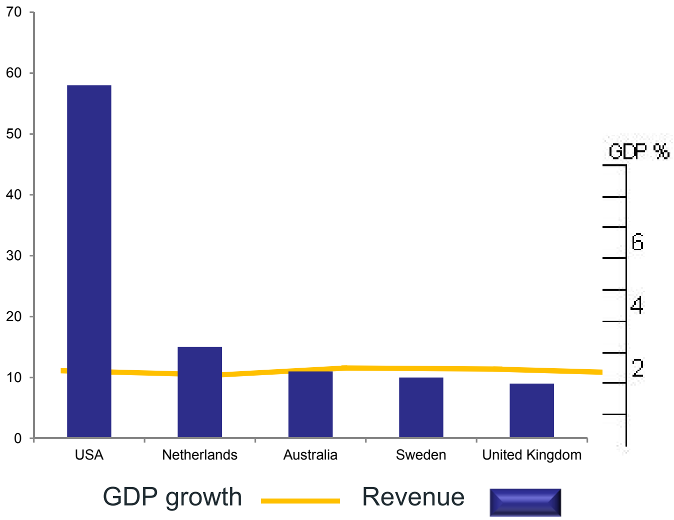
Market / Country Trends

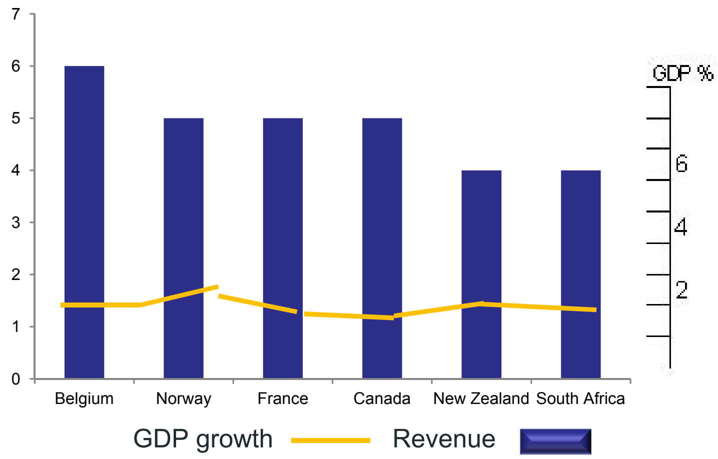
Top 5 markets

- USA 42% of category revenue
- Next 4 countries a further 33% of revenue
- All have market leading positions
- All operationally integrated with RI operations in these countries

Markets with critical mass

- Six further markets have reasonable scale
- All integrated with RI operations in these countries

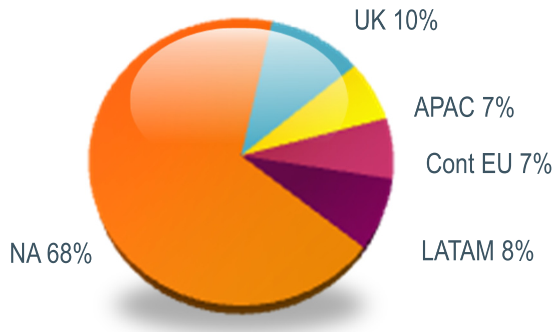




Where To Play – Acquisitions: Acquiring Well, Integrating Well

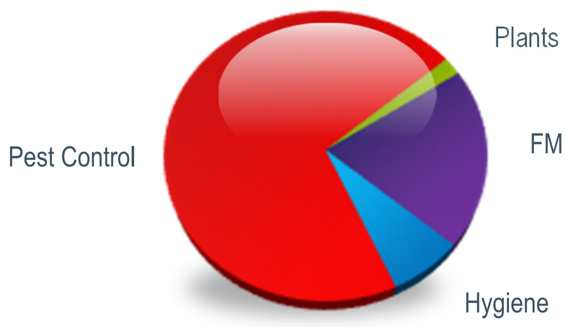
- 33 deals over 24 months for £116m
- All expected to meet investment hurdle rates
- Between £0.1m - £10m in consideration - Western Exterminator the exception
- Pest accounting for 70% by number and 85% by value
- Entry into new growth markets – Brazil, UAE, Turkey
- Achieving national coverage and no.3 player in US Pest market through Western acquisition

Spend per region



Over 10% of spend on new or emerging markets

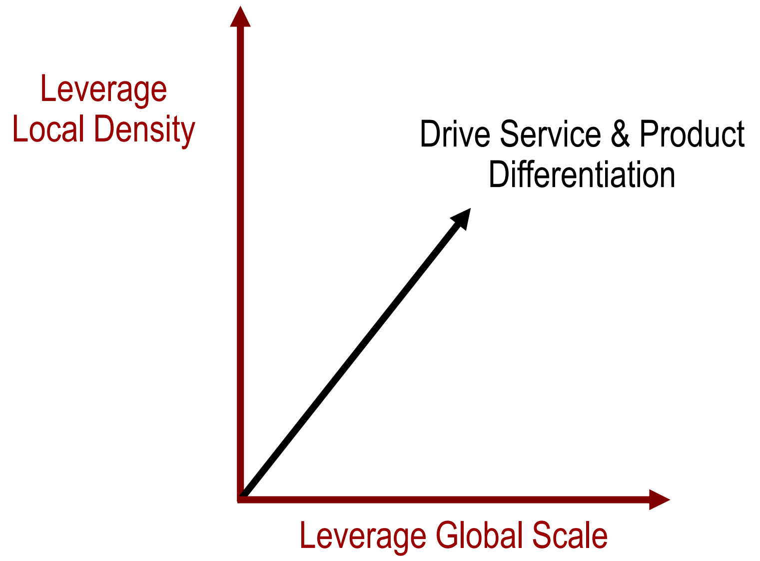
Total annualised revs. per category



Annualised revenues acquired of £184m

How To Win

- Scale Leverage
- Capability Building



How To Win: Leveraging Local Density, Global Scale

Revenue 6 months to 30 June 2013

Global Marketing, Innovation & Category Teams

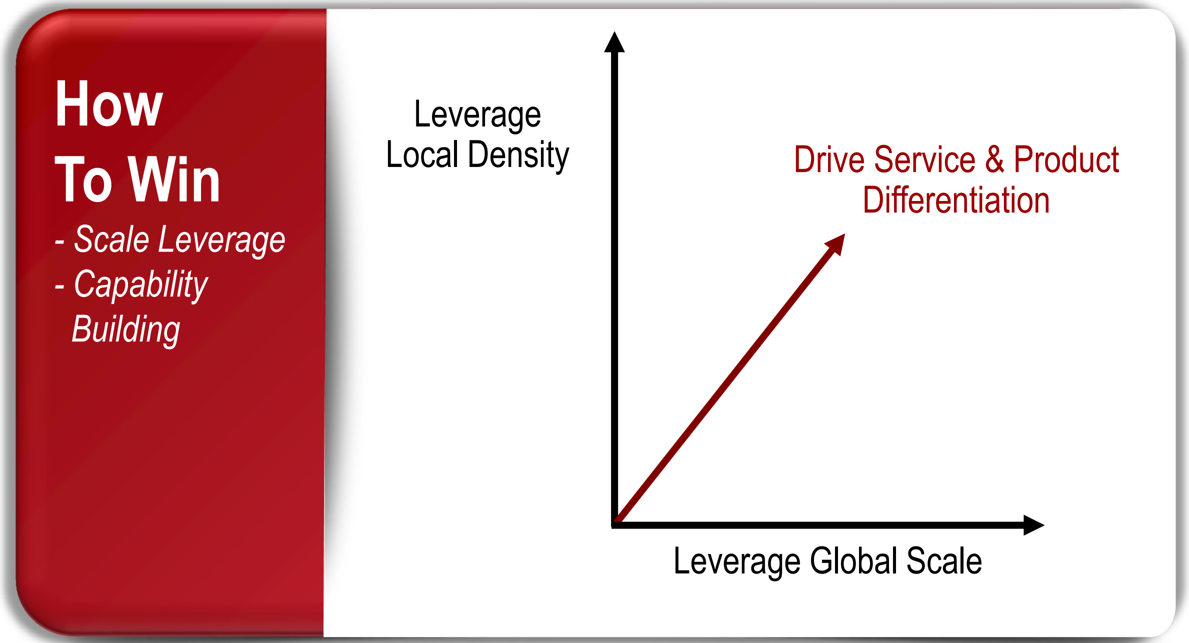
Integrated Country Operating Model

	Pest Control	Hygiene	Workwear	Plants	Other	Total
France	11	38	122	2	10	183
Benelux	24	40	47	10	6	127
Germany	23	30	43	1	4	101
Pacific	33	35	-	8	1	77
North America	114	-	-	28	26	168
UK & Ireland	39	39	-	5	9	92
Rest of World	43	42	-	10	-	95
Asia	25	26	-	-	1	52
Total	**312**	**250**	**212**	**64**	**57**	**895**

Local density

Leverage

Global scale

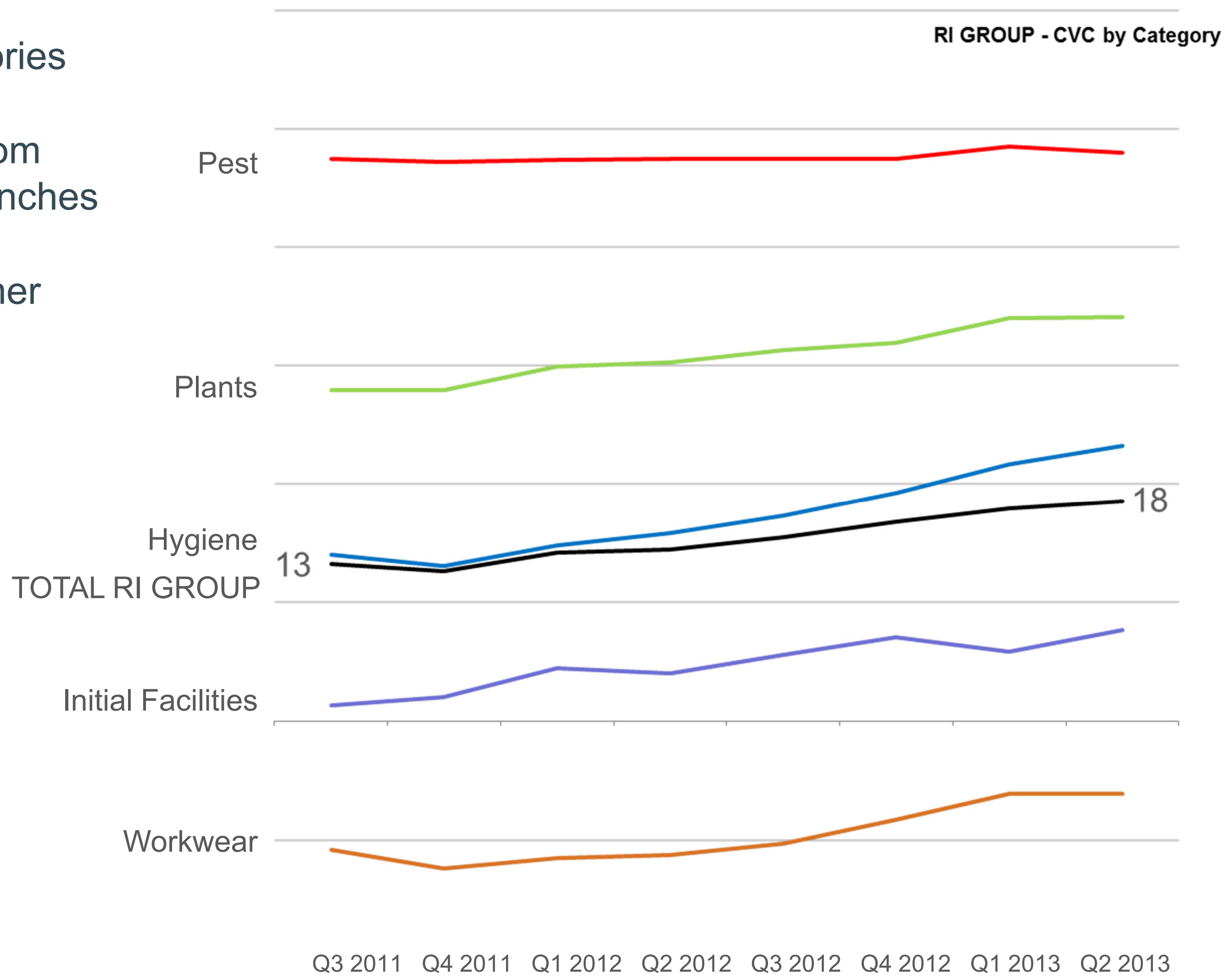

How
To Win
- Scale Leverage
- Capability
Building
Leverage
Local Density
Drive Service & Product
Differentiation
Leverage Global Scale

Drive Service & Product Innovation – Signature Hygiene Range

- Proprietary range of 32 products to Initial design
- Sourced from manufacturers in Asia and Europe
- Significant aesthetic advance on current product range; good functionality and proven resilience
- Enhanced sales capability through customer-focused sales approach, incorporating new sales tools, training methods and sector targets

Customer Voice Counts Quarterly Moving Average Trends

- CVC trends improving in all categories
- Particularly strong improvement from Hygiene following new product launches
- Further roll out of proactive customer account management processes



Outlook for H2

- Conditions expected to remain tough in many of our markets: continental Europe in particular
- Introduction of Integrated Country Operating Model delivering cost and implementation benefits
- Integration of Western Exterminator proceeding in line with expectations
- Further roll out of major innovations in Hygiene and Workwear in Q3 and Q4

Despite ongoing market challenges, we expect momentum achieved in Q2 to be maintained in the second half

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2013 Interim Results

14 August 2013

Free Cash Flow and Movement in Net Debt

At actual exchange rates

	£ million	
	H1 2013	H1 2012
Operating cash flow	(24.1)	21.0
Cash interest	(26.5)	(37.6)
Financing - other	-	2.0
Cash tax	(17.6)	(17.3)
Free cash flow	(68.2)	(31.9)
Acquisitions & Disposals	(3.8)	(3.7)
Dividends	(25.9)	(24.1)
Special pension contribution	(12.5)	(12.5)
FX and other	(22.2)	31.2
(Increase) / decrease in net debt	(132.6)	(41.0)
Opening net debt	(989.5)	(919.0)
Closing net debt	(1,122.1)	(960.0)

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Net Debt

Debt	Maturity	Net debt at 30/06/13[1,2] £m
£270m RCF	2016	(0)
£240m RCF	2014	(0)
£50m FRN	2013	(50)
£500m Bond	2014	(419)
€300m Bond	2016	(315)
£500m Bond	2019	(436)
Cash & Other		98[2]
		(1,122)

[1] Headroom £510m; EBITDA / interest covenant is 4x minimum, actual 8.9x, Net debt/EBITDA covenant is 3.5x maximum, actual is 2.3x'
[2] Cash less finance leases and other debt

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