Rentokil Initial

RENTOKIL INITIAL PLC (RTO)
Q1 INTERIM MANAGEMENT STATEMENT

29 April 2013

Results (£m)	Q1 2013 AER	Growth v Q1 2012 AER	Growth v Q1 2012 CER
Revenue	644.8	3.3%	2.7%
Adjusted operating profit[1]	37.0	12.5%	12.3%
Adjusted profit before tax[2]	25.1	10.1%	11.1%
Profit before tax	10.6	(13.1%)	(11.7%)
Operating cash flow[3]	(33.8)		

Q1 Highlights (at CER)

- **Adjusted operating profit +12.3%**
  - West Region +14%, Asia +36%, City Link loss reduced by £4.6m
  - However, East region -2% reflecting challenging markets
  - Acquisitions performing well, contributing 5.1% of revenue growth
  - Underlying organic revenue down 2.1%* due to portfolio change within IF and poor weather US v Q1 2012
- **Strong performance in core businesses outside Continental Europe**
  - US acquisitions performing in line with expectations
  - UK core business capitalising on integrated country operating model to deliver strong profit improvement
  - Nordics delivering strong revenue and profit contribution
  - Asia performing strongly – notably Malaysia, China, India, Vietnam
- **Continental Europe experiencing pricing pressure**
  - France & Benelux experiencing pressure particularly in flat linen. Belgian flat linen sale completed end Q1
- **IF portfolio moving from small single serve contracts to total facilities management**
  - Strong facilities management pipeline with £30m of new business coming on stream during Q2
  - Withdrawal from single service cleaning contracts to small customers adversely affecting organic revenue growth but profit margins will improve as sector mix evolves toward total facilities management
- **City Link disposal announced on 29 April 2013**
  - Business sold to Better Capital for £1, who will invest £40m to support the business
  - City Link now well on road to recovery
  - Asset write offs of c. £30m plus cash costs of c. £10m will be charged to one-off items with Q2 results
- **Cost savings of £40m (excluding City Link) on track for delivery in 2013**
- **Cash flow impacted by phasing and seasonality factors. Expected to strengthen during the year**

** excluding 0.3% decline in Initial Facilities Spain, where the business is being scaled down to reduce financial exposure*

Alan Brown, Chief Executive Officer of Rentokil Initial plc, said:

"We have experienced mixed trading conditions during Q1. The early adopters of the integrated country operating model – Asia, the UK, the US & the Nordics – have all performed well, supported in North America by an encouraging start from our 2012 acquisitions. City Link has also improved in line with Q4 2012 performance.

"Continental Europe has become more challenging, with strong pricing pressure particularly in flat linen. Restructuring is progressing in Rentokil Initial's three major workwear markets of France, Benelux and Germany. This, coupled with a strong innovation programme in H2 2013, will deliver material benefits progressively through 2013 and into 2014, which should more than offset current market pressures.

"The disposal of City Link at this stage of its turnaround enables Rentokil Initial to concentrate on our core international businesses in pest, hygiene and workwear.

"The combination of these initiatives, coupled with substantial acquisition benefit in Q2 and Q3, enables us to retain our previous guidance for the year, despite tough trading conditions in Continental Europe."

AER – actual exchange rates; CER – constant 2012 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
[3] cash flow before interest, tax, acquisitions, disposals and foreign exchange adjustments

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There will be a conference call for analysts and investors this morning at 9.00am. To access the call, please dial +44(0)20 3427 1915 (UK), +33(0)1 76 77 22 29 (France), +8523002 1615 (Hong Kong) and +1646 254 3361 (US) quoting the confirmation code: 7817158. A recording of the call will be available for 14 days on the following numbers: +44 (0)20 3427 0598 (UK), +33 (0)1 74 20 28 00 (France), +852 3011 4669 (Hong Kong) and +1 347 366 9565 (US). The pass code for all replay numbers is 7817158.

Financial Summary

£million	First Quarter 2013	First Quarter 2012	*change*
At 2012 constant exchange rates[1,2]			
Revenue	**633.1**	616.4	*2.7%*
Adjusted operating profit[3]	**35.5**	31.6	*12.3%*
Reorganisation costs and one-off items[4]	**(9.9)**	(5.9)	*(67.8%)*
Amortisation and impairment of intangible assets	**(5.8)**	(6.9)	*15.9%*
Operating profit	**19.8**	18.8	*5.3%*
Share of profit from associates (net of tax)	**1.3**	1.2	*8.3%*
Net interest payable (excluding pensions)	**(12.8)**	(11.2)	*(14.3%)*
Net interest credit from pensions	**1.5**	2.3	*(34.8%)*
Profit before tax	**9.8**	11.1	*(11.7%)*
Adjusted profit before tax[5]	**24.0**	21.6	*11.1%*
Operating cash flow[6]	**(34.1)**	(19.9)	
At actual exchange rates[1]			
Revenue	**644.8**	624.4	*3.3%*
Adjusted operating profit[3]	**37.0**	32.9	*12.5%*
Reorganisation costs and one-off items[4]	**(10.0)**	(5.9)	*(69.5%)*
Amortisation and impairment of intangible assets	**(6.0)**	(7.0)	*14.3%*
Operating profit	**21.0**	20.0	*5.0%*
Share of profit from associates (net of tax)	**1.2**	1.2	-
Net interest payable (excluding pensions)	**(13.1)**	(11.3)	*(15.9%)*
Net interest credit from pensions	**1.5**	2.3	*(34.8%)*
Profit before tax	**10.6**	12.2	*(13.1%)*
Adjusted profit before tax[5]	**25.1**	22.8	*10.1%*
Operating cash flow[6]	**(33.8)**	(19.0)	

The above table includes the results for City Link which was subsequently disposed on 26 April 2013. The revenue, adjusted operating profit, operating profit, adjusted profit before tax and profit before tax figures excluding City Link are set out below. The performance of the group will be set out on this basis from Q2 onwards.

£million	First Quarter 2013	First Quarter 2012	*change*
At 2012 constant exchange rates[1,2]			
Revenue	**560.4**	543.2	*3.2%*
Adjusted operating profit[3]	**43.6**	44.3	*(1.6%)*
Reorganisation costs and one-off items[4]	**(6.7)**	(4.0)	*(67.5%)*
Amortisation and impairment of intangible assets	**(5.8)**	(6.9)	*15.9%*
Operating profit	**31.1**	33.4	*(6.9%)*
Profit before tax	**21.1**	25.7	*(17.9%)*
Adjusted profit before tax[5]	**32.1**	34.3	*(6.4%)*
At actual exchange rates[1]			
Revenue	**572.1**	551.2	*3.8%*
Adjusted operating profit[3]	**45.1**	45.6	*(1.1%)*
Reorganisation costs and one-off items[4]	**(6.8)**	(4.0)	*(70.0%)*
Amortisation and impairment of intangible assets	**(6.0)**	(7.0)	*14.3%*
Operating profit	**32.3**	34.6	*(6.6%)*
Profit before tax	**21.9**	26.8	*(18.3%)*
Adjusted profit before tax[5]	**33.2**	35.5	*(6.5%)*

[1] *all figures are unaudited*
[2] *results at constant exchange rates have been translated at the full year average exchange rates for the year ended 31 December 2012. £/$ average rates: Q1 2013 1.5617; FY 2012 1.6248, £/€ average rates: Q1 2013 1.1866; FY 2012 1.2320*
[3] *before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items*
[4] *see Appendix 2 for further details*
[5] *before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items and net interest credit from pensions*
[6] *cash flow before interest, tax, acquisitions, disposals and foreign exchange adjustments*

Appendix 1

Regional Analysis

3 months to 31 March 2013
£million

	3 months to 31 March 2013 AER	Change from Q1 2012 AER	Change from Q1 2012 CER
Revenue			
France	90.9	0.6%	(0.7%)
Benelux	66.3	(1.0%)	(2.3%)
Germany	49.1	1.9%	0.9%
Pacific	38.6	1.0%	0.3%
East	**244.9**	**0.5%**	**(0.7%)**
North America	74.3	49.2%	47.5%
UK & Ireland	44.9	(1.8%)	(1.8%)
Rest of World	47.3	2.2%	2.9%
West	**166.5**	**17.4%**	**17.1%**
Asia	**25.6**	**6.2%**	**5.5%**
City Link	**72.7**	**(0.7%)**	**(0.7%)**
Initial Facilities	**135.1**	**(4.5%)**	**(4.6%)**
At actual exchange rates	**644.8**	**3.3%**	[redacted]
Exchange	**(11.7)**	[redacted]	[redacted]
At constant exchange rates	**633.1**	[redacted]	**2.7%**
Adjusted operating profit			
France	13.0	0.8%	(0.8%)
Benelux	11.3	(8.9%)	(9.9%)
Germany	10.2	7.4%	7.6%
Pacific	7.2	(2.7%)	(2.7%)
East	**41.7**	**(1.2%)**	**(1.9%)**
North America	1.1	37.5%	25.0%
UK & Ireland	8.1	28.6%	28.6%
Rest of World	8.5	(1.2%)	1.2%
West	**17.7**	**12.7%**	**13.6%**
Asia	**1.5**	**36.4%**	**36.4%**
City Link	**(8.1)**	**36.2%**	**36.2%**
Initial Facilities	**6.0**	**(3.2%)**	**(3.2%)**
Central Costs	**(21.8)**	**(11.2%)**	**(11.2%)**
Segmental profit	**37.0**	**12.5%**	**12.3%**
Reorganisation costs and one-off items	**(10.0)**	**(69.5%)**	**(67.8%)**
Amortisation of intangible assets[1]	**(6.0)**	**14.3%**	**15.9%**
At actual exchange rates	**21.0**	**5.0%**	[redacted]
Exchange	**(1.2)**	[redacted]	[redacted]
At constant exchange rates	**19.8**	[redacted]	**5.3%**

[1] *excluding computer software*

Category Analysis

3 months to 31 March 2013
£million

	3 months to 31 March 2013 AER	Change from Q1 2012 AER	Change from Q1 2012 CER
Revenue			
Pest Control	157.3	21.6%	20.9%
Hygiene	125.0	0.5%	(0.2%)
Workwear	108.2	1.8%	0.7%
Plants	32.1	-	(0.9%)
Facilities Services	135.1	(4.5%)	(4.6%)
Parcel Delivery	72.7	(0.7%)	(0.7%)
Other	14.4	(17.7%)	(18.6%)
Total	644.8	3.3%	2.7%
Adjusted operating profit			
Pest Control	21.0	7.1%	7.3%
Hygiene	24.3	5.2%	4.9%
Workwear	14.2	(7.2%)	(8.1%)
Plants	1.8	28.6%	21.4%
Facilities Services	6.0	(3.2%)	(3.2%)
Parcel Delivery	(8.1)	36.2%	36.2%
Other	(22.2)	(11.0%)	(10.5%)
Total	37.0	12.5%	12.3%

Reorganisation costs and one-off items

	3 months to 31 March 2013 £m	3 months to 31 March 2012 £m
East	(3.7)	(0.9)
West	(0.1)	(0.6)
Asia	-	0.3
City Link	(3.2)	(1.9)
Initial Facilities	(1.7)	(1.9)
Central Costs	(1.2)	(0.9)
At constant exchange rates	(9.9)	(5.9)
Exchange	(0.1)	-
At actual exchange rates	(10.0)	(5.9)

Net reorganisation costs and one-off items amounted to £10.0m (2012: £5.9m). £5.2m (2012: £6.4m) of these relate directly to the group's major reorganisation program, including Olympic, and consists mainly of redundancy costs, consultancy and plant and office closure costs net of the profit on sale of certain properties.

ANNUAL CONTRACT PORTFOLIO - CONTINUING BUSINESSES

3 Months to 31 March 2013

£m at constant 2012 exchange rates	1.1.13	New Business / Additions	Terminations / Reductions	Net Price Increases	Acquisitions / (Disposals)	31.3.13	31.3.13 at actual exchange
East	833.5	28.2	(30.2)	3.5	(19.3)	815.7	844.7
West	485.3	21.0	(21.3)	2.8	44.0	531.8	539.4
Asia	84.3	5.8	(3.7)	0.1	-	86.5	88.5
Initial Facilities	499.4	17.0	(17.9)	0.7	-	499.2	500.7
TOTAL	1,902.5	72.0	(73.1)	7.1	24.7	1,933.2	1,973.3

Notes

Contract portfolio definition: Customer contracts are usually either “fixed price”, “as-used” (based on volume) or mixed contracts. Contract portfolio is the measure of the annualised value of these customer contracts.

Contract portfolio valuation: The contract portfolio value is typically recorded as the annual value from the customer contract. However, in some cases – especially “as-used” (based on volume) and mixed contracts – estimates are required in order to derive the contract portfolio value. The key points in respect of valuation are:

“As-used” contracts: These are more typical in Textiles and Hygiene and Catering, where elements of the contract are often variable and based on usage. Valuation is based on historic data (where available) or forecast values.

Income annualisation: In some instances, where for example the underlying contract systems cannot value portfolio or there is a significant “as-used” element, the portfolio valuation is calculated using an invoice annualisation method.

Inter-company: The contract portfolio figures include an element of inter-company revenue.

Job work and extras: Many of the contracts within the contract portfolio include ad hoc and/or repeat job work and extras. These values are excluded from the contract portfolio.

Rebates: The contract portfolio value is gross of customer rebates. These are considered as a normal part of trading and are therefore not removed from the portfolio valuation.

New business/Additions: Represents new contractual arrangements in the period with a new or existing customers and additional business added to existing contracts.

Terminations/Reductions: Represents the cessation or reduction in value of an existing customer contract or the complete cessation of business with a customer.

Net Price Increases: Represents the net change in portfolio value as a result of price increase and decreases.

Acquisitions/Disposals: Represents the net value of customer contracts added or lost as a result of businesses acquired or disposed in the period. Also includes the net volume related changes for the textiles businesses, where it is common practice for customers to increase or decrease service volumes according to their daily operational requirements.

Retention rates: Retention rates are calculated on total terminations (terminations and reductions).