# Rentokil Initial
# 2019 Preliminary Results

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## 2019 Full Year Highlights

Andy Ransom

*CEO, Rentokil Initial plc*

### Introduction

Good morning, ladies and gentlemen. Thank you for braving the weather and joining us this morning. In a few moments, Jeremy is going to provide you with details of our results for 2019 and looking at our five regions where we have again delivered an excellent overall financial performance, with revenue, profit and cash in excess of our medium-term targets.

I will then come back and provide an update on the operational and financial performance of our Pest Control, Hygiene and Protect and Enhance businesses, and then I will briefly take you through our operational model, which we call our machine.

So just to set the scene, let me just say a few words by covering the highlights of 2019. Revenue from ongoing operations increased by 8.6% at constant exchange rates with organic growth of 4.5%, and this is our strongest organic growth rate for over 15 years, with good contributions being made by all of the five regions.

During the year, we also passed a landmark in North America, with annual revenues exceeding £1 billion for the first time. Both Pest Control and Hygiene performed well, delivering organic growth of 4.9% and 4.3%, respectively. And not to be left out, Protect and Enhance, also grew organically by 3.2%.

Ongoing operating profit grew by 10.5%, with Group operating margins up by 20 basis points and up by 50 basis points in North America. Free cash flow was £58.7 million ahead of 2018, representing an excellent cash conversion rate of almost 100%. The buyout of our pension scheme is going well and is on track to complete around the end of the year.

### Acquisitions

Turning now to acquisitions. Last year was an outstanding year of M&A execution, with 41 acquisitions delivering around £137 million in annualised revenues. Of these, 30 deals were in Pest Control and 16 were in North America, and we have started the New Year with an excellent M&A pipeline.

### Outlook

So overall, the company again performed strongly with a combination of organic and acquisitive growth. That performance is down to the relentless execution of our model, and I will talk more on that later.

By continuing to execute our plan at pace, we're confident of delivering further operational and financial progress in 2020. And we are also confident that the decade ahead presents clear opportunities for sustainable and profitable growth.

Now before I hand over to the man himself over there, I am sure you will have seen in today’s statement that after a decade in the role of CFO, Jeremy is to retire from the company later this year, in line with his long-held plan to move to a non-executive career.

I am going to save my fine words and a few stories for JT to later in the year, until the interims, which will be his last results performance. But it goes without saying that he has made a huge contribution to the success of the company, and I thank him immensely for his tireless support over the last 6.5 years.

Many of you know Stuart Ingall-Tombs. He will be taking over as CFO later in the year. We are very fortunate to have strength in depth. And if you have not met Stuart, please say hello to him after the results.

So with that, let me hand over to Jeremy.

## Financial and Regional Review

Jeremy Townsend

*CFO, Rentokil Plc*

### Welcome

Thank you, Andy, and good morning, everyone. I will now run through the key financial highlights for 2019 in a bit more detail. Unless I state to the contrary, all of the numbers are at a constant rate of exchange.

### Financial Highlights

So ongoing revenue in the year grew by 8.6%, with organic growth of 4.5% and growth from acquired businesses of 4.1%. Ongoing operating profit grew ahead of revenue by 10.5% in the year, resulting in an increase in net operating margins to 13.8%. This was driven by an improvement in a number of key regions, and in particular, our North American business, but held back slightly by an increase in central costs of £7 million, reflecting the impact of the increase in our share price on LTIP costs.

Adjusted profit after interest at actual exchange rates grew by 10.7% driven by the increase in operating profit as well as a small favourable exchange rate movement of £2.6 million. Free cash flow, as Andy said, was again strong in the year, with £251 million, a £59 million increase on 2018. And adjusted EPS at actual exchange rates increased by 10.4%, in line with the growth in adjusted profit before tax.

### Strong Financial Progress

The revenue, profit and free cash flow results for the year reflect another period of delivery against the financial targets that we set for the business five years ago in 2014, and which we revised upwards at the 2017 interims. Organic growth of 4.5% is above our target range of 3% to 4%. And this resulted in revenue growth of 8.6%, again, ahead of our 5% to 8% target.

Ongoing operating profit growth of 10.5% was ahead of our target level of around 10%, reflecting leverage from the organic growth as well as the continuing impact of our M&A programme.

And free cash flow continues to be strong, with free cash flow conversion over the last 12 months at over 98%, ahead of our medium-term target of 90%.

**North America**

Looking now at performance by region, starting with North America. Our North American business grew by 11.4% in the year, of which 4.5% was organic, with Pest Control organic growth of 4.4%. Operating profit grew by 15.3%, supported by a 50 basis points improvement in operating margin. And I will discuss in more detail the progress that we have made towards our revenue and margin targets on the following slides.

We made solid progress in 2019 towards our objectives of $1.5 billion of revenue in 2020 and 18% operating margins by the end of 2021. Organic growth of 4.5% is in line with our target growth for the region of 4% to 5%. And we acquired $135 million of revenues through 16 acquisitions in the year, well ahead of both 2018 and our target of $50 million to $80 million per annum.

Pest operating margins improved by 70 basis points driven by stronger organic growth, acquisitions and the best of breed programme. However, margin improvement was held back a little by the mix effect of stronger growth in the lower-margin product sales.

Revenue growth of 8.3% is required to hit our objective of $1.5 billion of revenue in 2020. Given our organic growth momentum and a healthy pipeline of M&A deals, we remain on track to hit this objective.

The best of breed programme continues to deliver benefits in line with targets and new opportunities are consistently being identified and pursued as the programme evolves. As we have previously stated, our targeted improvement in margins is back-end loaded, following the completion of the system re-platforming and application deployment.

The system's agenda is running to plan. We continue our programme of migration of acquisitions to our core operating systems, migrating 16 businesses to one of the core operating systems in 2019. All of the data is now on the Google Cloud platform, and we are making good progress implementing the various sales, service and customer applications that feed off this platform.

While we have a margin target for 2021, I just wanted to make it clear that our ambition does not stop at 18%. This chart shows the distribution of Pest Control margins by US management region. You can see that margins are strongest in the region with the strongest market share and density, the Northeast, where margins are comparable with the rest of the Rentokil Group.

As our North American business grows through both organic revenues and M&A and we deliver our best of breed programme following the re-platforming of the business, we plan to improve margins in our Southeast, West and Central regions to similar levels, taking margin levels in North America beyond 18% over time.

**Europe**

In Europe, ongoing revenues were up 7.1% driven by strong performances across the region, including Latin America, which is managed through the European region. Organic growth continued to be very strong at 4.8%, with Pest Control growing by 6.7% and Hygiene by 3.2%.

Ongoing profits grew by 8.3%, reflecting the strong revenue performance, with good growth in Southern Europe, Germany and the Benelux. 11 acquisitions supported revenue and profit growth in the region, with total acquired revenues of around £14 million.

And you will remember that at the interims, we announced the sale of our 17.8% stake in the Haniel JV for a cash consideration of €430 million.

**UK & Rest of World**

Revenue in the UK and the Rest of the World region was up 6.3%, of which 4.8% was organic. UK organic revenues grew by 6.3% in Pest Control and 7.9% in Hygiene. The UK Property Care business declined by 2.5% in the year, although H2 was better, with growth achieved at 2.2%.

Ongoing revenue growth was also strong in the Rest of the World at 7% driven by growth in all of its regional clusters. And ongoing operating profit increased by 9.3% in the year, reflecting the organic growth in Pest and Hygiene and the improved second half performance in Property Care, leading to an increase in operating margins overall of 60 basis points.

**Asia**

Revenues in Asia increased by 11.1%, with organic revenue growth of 4.7%, with good performance in both Pest and Hygiene and acquisitions contributing growth of 6.4%. Performance was particularly strong in our Indonesian business through both organic and inorganic growth.

Progress on the integration of PCI, our 28th acquisition in India, has been steady, although delivery on the business plan has been slower than we would have expected at this stage. Operating profit in the region was up 11.1%, with operating margins in line with the prior year. And six acquisitions were completed in the region, with annualised revenues of around £17 million.

**Pacific**

The Pacific business had a solid year, delivering ongoing revenue growth of 2.6%, of which 2.3% was organic. Hygiene operations were the main driver of growth, however, Pest revenues were less strong, in part due to fumigation services increasingly being provided at the point of departure rather than arrival into Australia and New Zealand. Operating profit increased by 2.5%, in line with ongoing revenue growth.

**Operating Cash Flow**

Operating cash flow of £343 million was up £60 million, reflecting the increased profitability of the business and the timing of dividend payments from the Haniel JV. The 2019 numbers reflect adjustments relating to IFRS 16, which has effectively increased the level of depreciation and CapEx by similar offsetting amounts.

**Free Cash Flow & Movement in Net Debt**

Continuing free cash flow of £251 million was £59 million higher than last year, reflecting the increase in operating cash flow previously noted. Cash interest payments were £3 million higher than in 2018. This is largely an IFRS adjustment, with underlying cash payments in line with the prior year.

Cash tax payments were £2 million lower, with phasing benefits offsetting the impact of higher Group profits. And with a cash dividend spend of £86 million, a 15.6% increase on 2018 and a £360 million spend on acquisitions, largely funded by the £392 million generated from disposals, underlying net debt decreased by £240 million in the year.

Sterling strengthened quite significantly in the second half, resulting in an overall reduction in the sterling value of our euro and dollar-denominated debt by £24 million. And the adoption of IFRS 16 on 1st January 2019 added £184 million of lease liabilities to our reported net debt figure. Taking all the above into account, our net debt reduced by £80 million in the year to £1.073 billion.

**Balance Sheet**

Looking now at the balance sheet. Our net debt to EBITDA ratio adjusted for IFRS 16 stood at 1.8 times at the year-end compared to an unadjusted 2.4 times at the 2018 year-end. On an unadjusted basis, the ratio would have been 1.7 times at the end of 2019.

The Group's credit rating remains at BBB with a stable outlook. In May 2019, we were able to issue a €500 million bond at a coupon of 0.875% to refinance our €500 million which matured in September. And this historically low rate of interest has enabled us to reduce our expected interest costs in 2020, which I'll discuss further in a moment.

With the sale of our Haniel JV in the year, our balance sheet remains strong. And as the chart on the right shows, our net debt levels are broadly in line with where they were six years ago and substantially below FX movements and the impact of IFRS 16 are excluded.

**Coronavirus**

Just before I get on to guidance for 2020, just a few words on the coronavirus. As you might expect, our priority is the health and safety of our employees. To-date, the main impact of the virus has been on our operations in China. This has been partially offset by demand for hand-washing and hand-sanitising services in other parts of the Group. The majority of products that we source from suppliers in China are covered by existing stocks for the next few months.

And consequently, at this point in time, we would expect only a small net impact on the business in Q1. We are monitoring the situation very closely, looking to mitigate the risk of the impact that the virus may have on our colleagues, customers and supply chain. Should this situation continue for an extended period or become materially worse, obviously this could have a more negative impact for the rest of the year.

**Guidance for 2020**

So before I hand back to Andy, some numbers for your models in relation to 2020. We continue to maintain our medium-term targets of ongoing revenue growth of 5% to 8%. With organic growth in the range of 3% to 4%, ongoing profit growth of around 10% and free cash flow conversion of around 90%.

As I just mentioned, interest costs are expected to be lower in 2020 by £8 million. And this includes £3 million in relation to IFRS 16, which is consistent with 2019. Following the sale of our stake in the JV, shares of profits from associates will be around £10 million lower than 2019.

At the interims, we guided to a positive impact for 2020 from foreign exchange in the region of £10 million to £15 million. And as I previously noted, sterling has strengthened significantly in the second half of 2019. And if today's rates will continue for the rest of the year, there would now be an adverse impact of exchange movements in the range of £10 million to £15 million.

All of the above items have been reflected in market expectations. And based on our performance in 2019, we are confident of another strong performance in 2020.

In terms of cash flow, working capital outflows are estimated in the region of £10 million to £20 million, in part reflecting favourable phasing in 2019. CapEx, including IFRS 16, is estimated in the region of £260 million to £270 million. Spend on provisions is expected to be in line with 2019. But I note, that from 2021, the spend will reduce by £5 million per annum as legacy property-related issues are completed.

Following the bond refinancing in 2019, cash interest costs are expected to be £14 million lower than in 2019. Cash tax flows are likely to be in the range of £55 million to £60 million in 2020, reflecting the ongoing operating profit growth as well as the impact of phasing from 2019.

As I have already noted, dividends will be no longer received from the Haniel JV. We received £26 million or so in 2019. This is partially offset by an anticipated special dividend from our Japanese associate of £6 million. And as Andy has already mentioned, following the buy-in of the UK pension scheme in 2018, we are anticipating a pretax cash surplus of around £30 million to be returned later in the year.

**Summary**

So I will leave you with a slide summarising our key achievements in 2019. And now hand back to Andy to continue with the rest of the presentation.

## Business Performance Highlights

Andy Ransom

*CEO, Rentokil Plc*

Thanks Jeremy. So over the next few minutes, I am going to take you through an update on the performance of our three business areas of Pest Control, Hygiene and Protect and Enhance. I will then quickly take you through the components of our operating model, what I refer to as our machine. It is our relentless execution of that model that has given us success over the last few years, and it is that continued relentless execution that will drive our progress over this new decade.

**Rentokil Pest Control**

*The world's leading pest control company*

So starting with Rentokil. This, and I never tire of saying this, is the world's leading pest control company, and it is strongly positioned for the decade ahead. We already have global scale as the number one pest control provider in 55 of our 80 markets. We have got our very successful Employer of Choice programme in place, where we give our Pest Control technicians the very best training and career pathway they have ever had.

The Rentokil brand is second to none in our industry. We have got core strengths in the highly attractive commercial sector. We are leading the industry in digital and in innovation, and the size of the M&A opportunity in a largely fragmented market remains significant, all of this and a $20 billion global market that is expected to continue to grow at around 5% over the coming years.

*Strong performance in 2019*

In 2019, Rentokil delivered another excellent performance, with ongoing revenues increasing by 10.8%, of which 4.9% was organic growth. And as you can see there, on the right hand side, this is a consistently strong performer, with a five-year revenue growth CAGR of almost 17%. Profits in Pest Control were up by 11.6% to over £300 million, and they now account for 68% of Group profits.

*Leading in Digital*

Undoubtedly, one of the biggest changes in the pest industry over the coming decade will be the growth of digital pest control. And this is particularly so in the commercial sector. And Rentokil is leading that digital revolution. Our PestConnect Internet of Things platform is now live in over 25 countries and present in over 4,000 customer sites. The myRentokil online customer reporting platform is now rolled out to over 96% of our commercial customers around the world.

And our Command Centre, which is our central hub for data and analytics from all of those digital units across the field is processing nine million records every day.

*Strong innovation pipeline*

Our commitment to innovation is something that I have spoken about many times before. And our aim is to launch both new premium solutions, which are valued by customers as premium services, but also innovations designed to lower our cost to serve. Most of our innovations are conceived at our global science facility, that is the power centre in the UK, but we also have dedicated innovation teams in US, in Europe and in Asia.

Just to mention two very quick examples. Lumnia, that is our range of groundbreaking LED insect light traps. Lumnia reduces energy usage by 62% in comparison to traditional products. And to-date, we have sold over 100,000 units, and we increased sales by 32% last year.

Another example is Eradico, that is our new global bait box for rodent control, and we launched that later this year. Following three years in development, this is a new single multipurpose unit that has the flexibility to replace over 20 different existing products and designs, whilst at the same time addressing 57 specific requirements from our local businesses all around the world.

*Mosquito and Vector Control services*

Last year, we highlighted the excellent growth opportunity in Mosquito Control services and Vector Control, and we continue to be excited by this large and growing market, with market revenues expected to grow at around 7% each year and set to become over a $4 billion market in 2025.

I was in Latin America just a couple of weeks ago to see for myself the scale of the opportunity there. And I was hugely impressed by the quality of our Ecovec team, and that is a company we acquired just last year. And we have now, I am pleased to say, finally secured our first public sector Vector Control contract in Brazil, along with several ongoing discussions with other local authorities.

**North America**

Now Jeremy has already covered the North American region in a little bit of detail. I just want to add two quick points really. First, on the right of the slide there, you can see that the revenue growth trend for the region, over the last five years, we have got a CAGR of almost 20%, indeed 22%, in Pest Control.

And second, in our medium-term model for the region, as Jeremy said, we are looking to deliver organic growth in the 4% to 5% range. Now that organic growth will be driven by national accounts, where we are enjoying excellent progress by innovation, where we are at least two to three years behind the rest of the Group, but where we are now beginning to accelerate, from digital marketing and from growth in new focus areas such as Mosquito Control.

In addition to driving that organic growth in North America, we have obviously been continuing to execute a city-targeted acquisition strategy, where over the last five years, we have acquired 67 companies with annualised revenues of $689 million. This is another good example of our relentless execution. And as I have said, the M&A pipeline remains strong.

**Rentokil Pest Control**

*New challenge: Building 'bulkheads' in the big cities of tomorrow*

While North America obviously remains our primary growth market in the near-term, changing demographics and urbanisation are creating a really strong medium-term opportunity for the company, primarily in the emerging markets. In these developing economies, we tend to deliver organic growth, which is higher than national GDP, and in part, that is because population growth and urbanisation and economic growth is typically much higher in the bigger cities.

Today, approximately 4.2 billion of the world's population live in cities. And according to UN statistics, this is expected to rise by a further one billion people over the next decade. So we can already see what the future holds when we consider the current list of mega cities, that is cities with over 10 million inhabitants. And by targeting these cities over the last few years, we are now already operating in 18 of them.

So the challenge going forward is to build bulk heads of scale in tomorrow's mega cities, where future demand for Pest Control services will grow at rates considerably in excess of GDP.

*Jakarta: 38m people by 2035*

At the very top of the list of most populated cities by 2035 is Jakarta, which is forecast to have a population of 38 million people.

But here in Jakarta, we have already built the leading pest control company through a combination of strong organic growth and several acquisitions over the last few years. Along with increasing urbanisation, locally, we have seen increasing demand for higher standards of pest control, particularly in offices and food and beverage and pharma customers. We have seen the creation of wealthy residential suburbs, where we can focus our digital marketing and sales activities. And we have seen an inflow of international businesses demanding international standards.

A great example of this is the expansion of the global hotel chains, where we now serve 60% of all hotels in Jakarta and about 70% of all four and five-star hotels. So we have got an outstanding business in Indonesia, which delivered organic growth in 2019 of 20%, and that is four times the country's GDP level.

Last year, we entered three new major city markets, Amman in Jordan, Colombo in Sri Lanka and Montevideo in Uruguay. And you should expect to see this trend continue as we target the higher growth city markets of the future.

**Initial Hygiene**

*Strong sibling business to Rentokil Pest Control*

Turning now to Hygiene. On the screen there, you will see a summary of our operational strategy in Hygiene. It is a combination of building market-leading positions, where we are number one in 22 of our 46 countries, a strong people agenda, with high levels of engagement and training. We have got a strong initial Hygiene brand. We have got best-in-class products. And we enjoy leadership in innovation and digital, where we are benefiting from the expertise we have already developed in Pest Control. We use our detailed understanding of both customer and product density. And increasingly, we now have an overlay on that operational plan with a city-focused approach to M&A, which is similar to Pest Control.

*One of the world's leading Hygiene services companies*

In 2019, we continued to make very good progress, with ongoing revenues increasing by 5.8%, of which organic revenues grew by an excellent 4.3%, and ongoing profits were up by 8.1%. Hygiene now accounts for 22% of Group operating profits and made a 40 basis point improvement in operating margins during the year.

*Further differentiation and service efficiency*

Following the progress being made with our digital pest control services, we are now extending our hygiene line-up with the launch of our first range of digital hygiene services using our remote sensing expertise.

The premium Rapid range includes digital taps, digital soap dispensers and footfall counters, to enable a more effective washroom maintenance regime and to improve the customer experience. As an example, with the digital soap dispenser, you can see on the screen, each container will deliver over 16,000 hand washes, and that is a ten-fold increase in the number of hand washes between service intervals in comparison to standard units.

*Australia: Strong health and wellbeing culture*

One of the first markets to deploy digital hygiene in 2020 will be Australia, where a strong health and well-being culture creates a positive environment for us to pilot and to launch our new Hygiene services. Our business there has been the test bed for other category extensions as well, such as first aid kits and our move into air care as we seek to build density through additional service lines.

Feedback from the first digital hygiene pilots has been really positive, particularly from high footfall locations, such as airports and shopping centres. And we have already seen data presented back to us by customers, demonstrating a higher level of customer satisfaction.

**Protect and Enhance**

*15% of group Ongoing Revenues, 10% of Ongoing Operating Profit*

So turning now to Protect and Enhance. Here, revenues increased by 3.5% in 2019, while profits increased by a very respectable 6.6%. Net operating margins increased by 40 basis points to 12.3%, and that is very much in line with our Protect and Enhance strategies. Workwear, Ambius and Dental Services all posted increased revenues for the full year, and our UK Property Care business delivered revenue growth in the second half of 2.2%.

*France Workwear: Year two of three-year turnaround plan*

Now clearly the main business in Protect and Enhance is French Workwear, where it accounts for just over half the revenues and 55% of the profits in Protect and Enhance. And in France, as you can see on the screen there, the business continued to make good operational progress in year two of its three-year turnaround plan.

Organic revenue in Workwear increased by 3.4% in 2019. And whilst underlying profits improved year-on-year, the profits have now reached the level where statutory employee profit share has been triggered, resulting in a slight overall decline for 2019. We have also made the decision to separate our French Hygiene and Workwear operations into two standalone businesses during 2020, which will allow greater specialisation in each area. A significant proportion of our French Hygiene business has historically been run by the Workwear operations and has therefore suffered from a lack of focus.

And this new focus will enable us to extend our services to our Hygiene customers and to bring in more direct expertise and innovation. The initial stage will involve some duplication of cost as we split the businesses, and we anticipate this will be around £1 million of stranded overhead this year.

So all in all, the businesses had an excellent 2019 and are very well-placed to continue good progress in 2020.

**Operating Model**

Now over the last six years, I have mentioned to you several times that we have built a very strong operating model, which we have deployed consistently across the Group. As I have said, I call it the machine. In essence, this is a series of interconnected well-oiled cogs or processes. If executed well, indeed if executed relentlessly, the cogs each turn positively impacting on the next one and over time, creating a virtuous circle, a flywheel. So great people deliver great service, in turn creating happy customers who buy more services. They remain customers for longer and they accept inflationary price increases.

Indeed, they pay their bills. We have a higher level of cash conversion. And after paying dividends and interest, that cash is then completely reinvested back into the business, into training, into technology, into innovation, into M&A.

The acquisitions are then focused on density-building to enhance margins and on building leading positions in the big cities of the future. And by running the business in the right way and consistent with our long-term purpose of protecting people and enhancing lives and indeed by running the machine in a low-carbon way, this, in turn, makes us more attractive to stakeholders, particularly to our customers and, of course, to our incredibly important colleagues.

**Employer of Choice**

So I am going to take you for a very, very quick spin around the machine, starting with the biggest and most important cog, and that is becoming a great Employer of Choice. In 2019, Rentokil Initial were rated as the UK's top employer, and that's on the global job site, indeed. If one’s interested, Apple were rated number two.

We were named as Britain’s most admired company for diversity. We were the winner of the best interview experience in the UK on Glassdoor. And according to an independent survey of our colleagues globally, we again delivered world-class levels of colleague engagement and enablement across the Group.

As you can see on the screen, we also delivered record levels of job applications, more training than ever before and all of this, in turn, resulting in increased colleague retention levels, up 3.7% to a pretty impressive 87%.

**Safety**

In safety, in my view, there is typically a strong correlation between safety and financial performance. So pleasingly, 2019 was our safest year ever with world-class levels of lost time accidents, which improved by 16%, and with the associated working days loss reducing by 26%. So happy and engaged colleagues typically delight our customers.

**Service and Retention**

And in 2019, we delivered high levels of customer service, with our levels of customer satisfaction improving by 2.4 points and the all important output measure of customer retention increasing by 0.3% up to 86.2%.

Broadly speaking, each 1% of retention is worth around £20 million or nearly 1% of organic growth, so clearly, every reason for us to focus on that important KPI.

**Organic Revenue Growth**

In addition to customer retention, our organic revenues come from several other places. Growth also comes from selling more services to existing customers. In total, services sold to existing customers generated revenues of around £100 million in 2019 or about a third of our gross sales.

It also comes from pricing, which continues to be tightly managed. High levels of customer service, innovative new products, great customer relationships, all enhance our ability to pass on cost inflation to our satisfied customers through annual price increases.

**Innovation**

Our organic growth obviously also comes from creating innovations to sell to our existing and our new customers. I mentioned earlier, we have got a strong innovation pipeline in both Pest and Hygiene focused on delivering new premium services and on lowering our cost to serve. Our pipeline for 2020, and indeed beyond, continues to be focused on digital solutions, but also on products with improved environmental claims, for example, the Lumnia insect light trap I mentioned earlier, and we'll see further additions to that range in 2020.

**Low cost operating model**

This is all executed through our low-cost operating model, with single-country management teams, integrated properties and back offices and shared technologies and infrastructures. IT is a key enabler of our cost efficiencies. And as an example, in 2019, we have now developed our first artificial intelligence tool for the effective scheduling of technicians. Field trials were undertaken in Malaysia. And this is now set for rollout in Asia during 2020.

**Density**

As Jeremy highlighted earlier, one of our most important keys to margin expansion is, of course, route and product density. City-focused acquisitions, routing technology, targeting new sales, training and how we incentivise our people are all used to ensure that our technicians spend less time behind the wheel and more time with customers.

**M&A**

The next cog in the machine is M&A, where we target cities to build that density or enter new cities of the future. Last year, we delivered 41 deals with £137 million of annualised revenues. We completed 16 deals in North America during the year, and this included the acquisition of Florida Pest Control. It is an outstanding business, but is also excellent for adding density in the Southeast region. Our pipeline remains strong for the year ahead. And this year, we anticipate spending around £250 million, again, on density-building and on major new city acquisitions.

**Profit Growth and Cash**

From this focus on people, on low-cost model, on innovation, on digital, on organic growth and M&A, we drive our profit and cash growth that Jeremy showed you earlier. This, in turn, has delivered total shareholder returns of 330% over the last five years.

**Social Purpose**

*Protecting People. Enhancing Lives.*

And finally, at the heart of our machine is our social purpose of protecting people and enhancing lives. We have already got strong ESG credentials. You can see them at the bottom of the chart. But we believe that there is a strong social and business case for taking action on the environment, and we have established seven work streams to execute our environmental plan, including on vehicles, supply chain, non-tox products and on property.

Not only is this the right thing to do, but by establishing genuine environmental leadership in our industries, we believe this will give us further differentiation and competitive advantage. The combination of Lumnia, our connected products, our non-tox range, innovations such as Autogate are already setting us apart from the competition.

But in the decade ahead, we plan to evolve our services significantly to reflect the changing needs of our customers and those of society. We have already introduced some innovative thinking in this area, working with Cool Earth to protect vital rainforests, and in doing so, preventing the release of carbon into the atmosphere, equivalent to our entire annual carbon footprint. And this is all funded by our Rentokil Initial Cares unclaimed dividend scheme.

**Our Purpose is at the heart of our plan**

So here is our machine, supporting colleagues, customers and shareholders with our purpose of protecting people and enhancing lives at the very heart.

**Summary**

In summary, in 2019, we delivered another strong overall performance. We made great progress on our people agenda, resulting in improvements in colleague and customer retention. We continued to create a higher-quality business through innovations and digital expertise. We delivered organic growth at 4.5%. That is our highest level for 15 years. And we maintained a disciplined approach to M&A with 41 acquisitions.

Encouraged by the company's performance in 2019 and the outlook for the year ahead, the Board is recommending a final dividend of 3.64p per share, equating to a full year dividend of 5.15p per share, an increase of 15.2% year-on-year.

2019 was another year of relentless execution of our model, and we remain confident of delivering further progress in 2020 and indeed, in the new decade.

Jeremy and I will now be happy to take any questions.

## Q&A

**Sylvia Barker (JP Morgan):** Three please. First of all, on North America. Could you comment on what has happened to your pipeline in terms of the number of deals and potential valuations after ServiceMaster effectively seems to have exited the market for M&A? Secondly, on your acquisition contribution in 2019, it seems like there was some high-margin deals within that, probably contributing a fair share of the 20 basis points. Could you maybe talk about which regions those were in? And then finally, you have mentioned a large digital installation in Australia within your report. Can you maybe talk about how the economics work on a contract like that? Do you get more revenue than on a normal contract? Is it more profitable? Do you take any of the risk on, given it seems to be quite important contracts for the customer?

**Andy Ransom:** We could do an hour and a half on the last one alone. But I will try not to. I will take the first and the third. JT you take the second.

**Jeremy Townsend:** Yeah.

**Andy Ransom:** Look, you made the comment that ServiceMaster have appeared to exit the M&A market. I would not draw that conclusion. I think they may have paused activity, but I would not assume for a moment that they have exited. And as I have said many times before, it only takes two parties to make an auction. So there is plenty of competitive tension in the M&A processes in North America and across the world.

I have said many times, it is possible that at some point in the future, the pipeline for M&A will look different. But at the moment, it does not. It looks strong. It looks full. I think valuations remain where they are. They have certainly not increased, in my view, in the last 12 months.

There are some commentators who believe that they have peak turnout coming down a little bit. My view is they are high. They have remained high. I have not seen them go up. I have not yet seen them come down. But the pipeline is good, plenty of opportunities. And I cannot see any change in that, positive or negative, to be honest, at the moment. So nothing to see here, pretty much as it was. Jeremy, perhaps you can cover number two.

**Jeremy Townsend:** So most of our M&A or a big chunk of our M&A in 2019 was actually quite backend loaded. If you remember, in Q3, our run rate was actually behind our guidance. It was actually Florida Pest Control in Q4 that took our overall spend up. So actually, the impact on our margins from M&A in 2019 from 2019 deals was relatively small.

Actually, now what we did benefit from was 2018 M&A flowing through and helping margins. So it is less of a 2019 piece. But certainly, that 70 basis points improvement in North American pest margins was around good organics, the best of breed and some of that M&A in 2018 flowing through. But apart from that, the impact on the rest of Group was relatively small, and it was those North American margins feeding through, there is a bit of IFRS and then the central costs abating, that was the main bridge.

**Andy Ransom:** I will try and give you a really quick answer on the third question because it is a complex question. So what Sylvia was referring to is part of our digital suite of products means that we can put bait stations in place that will send us digital alarms when there is activity taking place at the customer site as opposed to the way we currently find out whether there has been pest activity as we open the box and we see whether the bait has been taken or whether there is little teeth marks in the bait blocks. Then we know there has been activity.

This is a digital signal saying there has been activity here. And Sylvia was referring to our single biggest deployment to-date, although there are others we are working on at similar scale, where we have put that in the field. And to be actually honest with you, the model is evolving as we and customers learn from that model.

At the moment, with the conventional non-Internet of Things service, if you have a problem between service intervals, you see a mouse running around or a rat running, you call us up and say, "There’s a mouse running around. Come down and sort it." And we come down and sort it. And that is all within the pricing of the contract.

The technology, of course, is much more efficient at spotting and identifying mice and rats and activity. So if we end up in a situation where we sell a service every time a device is triggered, we are going to send someone down to the customer. That is probably not going to be a very good model. It is not actually needed in any event. So the economics are a little bit uncertain.

It is a premium product for which we are charging a premium price. We are working with customers as to, well, what sort of response regime do you want. Do you want gold plated? Do you want us to drop everything and come to you when there is an issue? And if you are a pharmaceutical tablet bottling facility, you probably do want us down immediately if there is a mouse running around in the tableting facility of a pharma outfit.

If it is a distribution warehouse, you might be comfortable if we come down tomorrow, next week, the next scheduled visit. So it is not an easy one to answer. We are certainly looking to recover the cost of the product, the hardware that we have to put down.

Our model says this is better pest control because we can see problems happening and occurring and anticipate them. If we can solve them before you get an infestation, before you get lots and lots of mice and rats running around, that has got to be better for you, but that is more expensive. So the real balance in the discussion is, well, okay, two things. One, are you going to visit the customer less frequently because you have got the technology in place. And two, what sort of service regime does the customer want and is willing to pay for.

Like all technology, we do get some false triggers. So one of the things we are trying to work out is make sure we do not get too many false triggers, otherwise, that is not good for anyone. As I say, if you want to learn more, I can bowl for Britain on this one and it is complex. But the intention is it is a premium product for premium solutions, but it also ultimately will lower our cost because probably we will visit as frequently, but not for as long on each customer visit. But that is to be proven out. But hopefully, that is enough to be going on with.

**Andrew Grobler (Credit Suisse):** Just three please. The French Workwear and Hygiene business, which you are splitting apart, is there a sense that is getting the French Workwear business ready for sale at some point? Would that make it easier? Secondly, in terms of Group margins, can you let us know how much of IFRS 16 added to the Group margin, and again for North America? And then thirdly, termites have been a bit of a story within the pest industry in North America. Where were you on that? And are there any liabilities we should know about?

**Andy Ransom:** Once again, I will take one and three.

**Jeremy Townsend:** That is good.

**Andy Ransom:** Thanks Andy. Look, you should not interpret the decision to split the business as anything other than as I have explained it. The Hygiene business that is within the Workwear business really has been an orphan child. We have not really supported it. So the vans go out from the big laundries to drop off their Workwear to their customers and they will do some limited Hygiene services for those customers, which is completely different to how we look after our other Hygiene customers.

So they do not get as many services nor indeed do they probably get the quality of service, if I am honest. So the primary reason is separation and specialisation and focus is good and that will drive performance. Clearly, I have said many times, there may come a time where we decide that not being the owner of the French Workwear business is in the shareholders' best interest.

If that time comes, you know what, you can expect us to do. But you should not interpret this as we put the business up for sale. We have not put the business up for sale. In any event, the separation process will take us all of 2020. If that day comes in the future, that we do decide to monetise the asset because we think it is in the shareholders' best interest, then having separated it will, of course, have made our lives considerably easier in the process. But they are not connected in this binary session as the question suggests. So hopefully that is the answer.

**Jeremy Townsend:** On IFRS 16, the impact in profit terms for the year was about £3 million. So the impact on margins is just slightly less than 10 basis points for the Group. This is mainly operating leases coming on to the balance sheet. Proportionately, in North America, as we have got less operating leases, we tend to do more CapEx base for vehicles, and we do have some freehold buildings.

But there is an element of the margin enabler. It is less than 10 basis points for North America because it was proportionately more. So of that 50 basis points, of which 70 was Pest, it is 10 basis points of asset. And it is one of the bits and the bridges I have just said to Sylvia. There was a big impact of Valtech[?] costs going the other way, in terms of the overall bridge. But year-on-year, it was about just under 10 basis points.

**Andy Ransom:** Yeah. On termites, again for those who have not followed the story, we have got one of our competitors that has got some exposure to ongoing termite claims from customers, two or three points to make for us, really. One, we are not a big termite player. Commercial is our strongest suit, but we did have termite operations.

We typically are spending around about $200,000 on termite remediation claims each year. We will have a few at any one point in time. We have got three claims in our entire business, all from businesses that we have acquired over the last few years. And the average settlement is about $10,000 or just under $10,000, all fully reserved. So we do not have that exposure that some others do. We do not have the geographic exposure and our claims are met and dealt with quickly as and when they occur. So absolutely no exposure in our business.

**Matija Gergolet (Goldman Sachs):** Three questions from me as well. First one on North America. So you did 70 basis points of margin improvement in the Pest business. You have the 18% margin target by the end of 2021. Now is it fair, should we be assuming that in 2020, there is an acceleration in the margin improvement, or is it going to be really backend loaded towards 2021? Secondly, just one of your comments on North America. If I got you correctly, you mentioned that you are a bit behind, say, your peers of the Group on the innovation in North America. So something like two, three years behind. Can you elaborate on that? And where are you catching up on them? And then lastly, just on coronavirus, the inevitable question. Can you give us a bit of, say, colour about what are you seeing happening in China? I think China is pretty small for you. But just any colour about how is the business there at this point in time, would be welcomed. And are you seeing also maybe any developments in any other countries at this stage?

**Andy Ransom:** Sure. You want to take the first one.

**Jeremy Townsend:** Yeah. So as you say, Matija, 70 basis points in 2019. There are a number of moving parts in this equation, organic growth, the flow-through of M&A and when the best of breed programme lands. We had good momentum in organics in 2019, and we are looking to 4% to 5% in 2020. So that should flow.

Depending on the timing of M&A, that should support margin improvement as well. And we should get something from the best of breed in 2020, although that is back-ended towards 2021 Q1. We have got a very good plan. We have been through a very thorough plan with the North American business. That plan would take us somewhere into the 15, so we are looking for some improvement.

But you are absolutely right, as we said before, most of the margin improvement is back-end loaded to 2021 when we got the systems and the processes replatformed and in place. So there should be improvement in 2020, but the majority comes through in 2021.

**Andy Ransom:** Thank you, Jeremy. So the second question related to my comment that we were two or three years behind in innovation deployment in North America. There is a couple of reasons for that. The first reason JT has just covered. Many of our innovations require our IT system in place before we can deploy them. So until we finished the IT re-platform, we cannot deploy many of the digital solutions, or if we do, then it is going to be a lot of manual workarounds, which is not really the idea of a digital solution.

So those, we just cannot really do much with. That said, we are piloting Connect, the one we just talked about. We are piloting Connect in a number of our American customers in isolated sites as opposed to networks of sites. So that is an example of where we are now getting on with it. I think North America was one of the last big territories for us to take Lumnia. Again, we are now catching up with that.

The second main reason why we are behind in America is they are busy. This is a very, very busy team. That nice little chart with all of those arrows going from left to right, which looks great. It is a nice chart, is not it? There is a huge amount of work that is going on behind all of that. And we have been very deliberate. And some might say slow but we have taken our time in the IT redeployment because we get basically one time in a year to do this.

We get the quieter season, which is Q4 and Q1, to do the IT. In Q2 and Q3, we stop the project again. It is we just do not want to mess up the operations in our busy season. So that is the other reason, and a long list of priorities for the American team to work through, to get the IT re-platform, to get the best of breed to take on another 16 acquisitions to be integrated and then a memo from the Chief Executive saying, "Would you mind awfully selling a lot of innovation?" is probably one too far.

So I have protected our American team from being pushed to take more and more things on the to-do list. As the IT is finished, we can start to take up more. As we get through best of breed, we can start to take up more. But that for me is one of the exciting things that the upside on taking our innovations to the States is something I really look forward to. So that is the reason.

Corona. So as Jeremy mentioned in his slide there, first off, the primary concern we have is safety and protection of our people. So as you would imagine, PPE, Personal Protective Equipment has been the priority, getting face masks, gloves and other equipment to our Chinese team. We have been very successful in that. We acted quickly enough. So we have put all of that in place. The Chinese operations are impacted obviously. Customers have closed down.

We have got around about half of our team working, the other half at home. We try to make sure if you are at home that you are doing online training. You are doing all the things that you do not have to do later. So we will have to see. We have got no crystal ball as to where this goes next.

We have some impact in Northern Italy in the towns that are isolated because of the incident. A little bit of impact in South Korea, although not very much, which is also another very small business for us.

At the moment, our supply chain actions have been well taken and anticipated. I mean, we had the Chinese New Year shutdown, in any event. So most companies did, all built stock.

So we have got some stocks. Some of the products, which are most critical are, for us, down the road a few months out, our innovations, but for most of our innovations, we have got non-innovative products. We have got the old products as well. So it does not mean we stop doing Pest Control. We just do not give them the innovation until it is available again.

On the other side, and honestly, I do not know what this will look like, the phone is ringing a lot from customers and potential customers who want more Hygiene Services. They want more hand sanitizers. They want more soaps. Over the medium term, who knows what the impact of this pandemic or potential pandemic is.

One might imagine that some people that did not take hand hygiene as seriously as perhaps they should, will take it more seriously in the future. So being the world's largest hygiene services company, I would imagine that some of this will flow through in the future. But in the immediate short-term, as the brief statement that Jeremy made, we do not think this will have a material impact in the first quarter given the two months of the quarter gone. What happens next, frankly, is anyone's guess. But I think we are as well prepared as most companies in this situation.

**Jane Sparrow (Barclays Bank):** Three questions please. Just on Hygiene, where you are comfortably above your 2% to 3% target range. Did you contemplate increasing that medium-term organic growth target or are there some one-off features in that 2019 number that make that unsustainable going forward? Secondly, on PCI. Could you expand a bit on your comments around the business plan being slow than expected, what you need to do there to get back on track? And then thirdly, just on below the line restructuring and integration costs, which for the last couple of years, have been in the sort of £20 million and prior to that, they were around £7 million a year. Obviously, it depends on the M&A pipeline. But if you spend around £250 million this year, what should we expect that below the line restructuring costs to be?

**Andy Ransom:** Thank you, Jane. I see you have all got the memo about three questions each, two for me, one for Jeremy. First one. It is a good question. I have been a bit reticent to up the target for Hygiene mainly because the growth drivers for the hygiene industry are not as strong as they are for Pest Control.

So in Pest Control, I can see with growth in the market at 5%, and all of the long-term drivers looking to push that on in the future, how strong we are in our business. I can be much more confident about our abilities there. So in Hygiene, the industry does not grow at 4.5%. So I have been a bit more cautious about that.

In the first half of last year, there were some reasonably chunky one-off contract wins. In the second half, some of that flowing from the first half, but it was good, solid execution of the plan across the piece. And it really is a very, very operational business. And I have said many times, if we turn up on time infill for every customer every day, the business grows. Saying that is quite easy. Doing it is actually quite challenging for thousands of people.

I think the second half, we did that very well. Operationally, we performed very well. So put it this way. I have got no conviction to tell you that it is going to be 2%. It is going to slide back. One of your lumpy phrases, decelerate back to. I have got no reason to say it is going to do that, but I am not yet brave enough to say going forward you can put us down for 3% to 4%.

What I will say is it performed strongly in the second half. I do not see any reason why it will perform less strongly going forward operationally. We are just going to have to see. And if there comes a moment where I think it is appropriate to guide, the organics look a bit different to how I have previously guided, I will.

We have not done that at the moment. No major reason. I just want to see the track record develop over a longer period of time.

PCI, I will tell you, I could not be more confident that over time what we are creating in India will be a fantastic business. I am just utterly convinced of that. I have not seen anything about the country, the opportunity, our business that throws me in any other direction other than this is going to be a big strong business.

I have got to be honest. I think it has taken longer to do what we needed to do. First excuse, roll out is IT. I mean, we took over a business or we joint-ventured for the business that has largely relied on paper, paper processes, paper everywhere in the business. By the end of April 2020, couple of months, we will have our core IT across the entire of our business. So that removes excuse number one because without the IT, it is actually quite difficult to monitor what is going on in the business because you have not got that. So you are having to add it all up manually.

I think the other big reason, excuse, if you like, is the culture journey. This was really a reverse in many respects. We had about 1,000 people. PCI had about 6,000 people. Actually probably the combined total is now about 6,500. We are trying to invite the combined organisation to take the best of the PCI culture, but also to embrace the change of the Rentokil culture, and cultural change is difficult.

And to do it on that sort of scale, where the predominant culture is the existing one, and we were very, very respectful when we do this. We are not going in and rip it all up, but we do need the business to look and feel and behave like every other business. And I will give you just one example. I know it is a long answer.

But safety. Safety is absolutely critical to me and everyone in the organisation. We will not run a business at lower standards in a part of the world just because it is accepted or the legal standard is low. We just would not do that. So to try to get everyone in our business to perform to the standards that we demand of them has been a challenge. And so we have shut down operations in our India business.

We have shut down fumigation operations in our India business several times because we are not satisfied to the standard to which it is being done. And then everyone gets retrained and we go again. So long answer, I know, incredibly important business. It will be very successful. I am confident of that. The cultural journey is moving nicely. The IT journey is moving nicely. And we are probably a year, 18 months behind the plan where we were. But I am confident we will get there.

**Jeremy Townsend:** So I will give you a three-part answer, Jane, to your question number three. Restructuring costs, which are not on M&A. They are much more around internal. They have been running at £7 million a year for the last two, three years, and that is what I have guided for 2020.

In terms of one-off costs, they are more one-off by the nature, so the hardest to predict. With the £250 million of M&A, there will be some integration costs relating to M&A. But a reasonably big chunk of the 2018 and 2017 costs related to the whole Cannon and Mitie situation, let me put it like that. And those costs clearly would not recur now that, that issue has been resolved. So I would expect, overall chunk to come down. It is hard to know without knowing what the M&A is, but I would expect it to come down somewhat now that we are through the Cannon and Mitie situation.

**James Winckler (Jefferies):** Just a few for me keeping the trend. On the free cash flow, and specifically working capital, the guidance is £10 million to £20 million. Typically, I do not think you have been explicit in at least your statements. But typically, I think we have been guiding sort of more of a £20 million to £30 million outflow from working capital side. Is it correct to read this as some sort of step change in your cash collection and a positive change in how you see working capital on a full year basis? With regard to M&A, your guidance of about £250 million net debt to EBITDA of 1.8. Would you be comfortable reiterating sort of the medium-term guidance of you being comfortable with 2 times to 2.2 times net debt to EBITDA, because I think you can spend about £250 million without increasing your leverage pretty much at all next year. And then lastly, in terms of margins in the products division in North America, obviously, still dilutive with some better growth to the overall division. But part of your bridge that you get to that 18% is dependent on some increase of economies to scale in that division. I am wondering if you saw any improvement year-over-year in 2019?

**Andy Ransom:** Do you want to pick up all three of that? Okay. Do you want to do number two?

**Jeremy Townsend:** Yeah. I will do number three.

**Andy Ransom:** Okay.

**Jeremy Townsend:** Yeah. So working capital, I cannot remember what have we guided previously? I would have thought we were nearer £10 million to £20 million than £20 million to £30 million. We actually have been inside that number in the last two years. So our actual outflows are being more in the 0 to 10, rather than 10 to 20. Some of that is around phasing as I have intimated.

So I do not think there is any step change. Just a bit of colour. So what we do see and Andy is continuing to look to the finance community to offset this trend, but we are seeing a trend increasing around the world of increased key accounts. We just talked about it for North America in terms of the increased mix of key accounts.

And as SMEs consolidate into key accounts, credit terms tend to move out, and there is pressure on our working capital. And we look to mitigate that through the systems re-platforming, through electronic billing and other ways of managing more professionally our debtor collection to offset that impact.

£10 million to £20 million is a very small number on £2.5 billion of revenue. So it sounds quite an exact number. There is quite a lot of swings and puts and takes in the overall piece. But I think £10 million to £20 million is a good number to go on. I do not think there was any real change year-on-year. It is just a bit of phasing between the two years in terms of what is driving that slightly bigger guidance for 2020 versus what we actually achieved in 2019.

And in terms of the balance sheet, we tend to run the balance sheet and our M&A totally separately. So the M&A guidance is really based as a product of what we see in the pipeline, what the current trends in the marketplace, where we see the opportunities around the Group.

The balance sheet, clearly, is very strong at the moment, but it has varied quite a lot in the last five to six years. We have had even lower net debt to EBITDA ratios, and we have had net debt to EBITDA ratios at 2.5 plus. So I think we have got a reasonably good transparency as to where the balance sheet is. I am very comfortable with it being at 1.8 times. It gives them some capacity, but that does not mean that if we have got that capacity, we are looking to push that number, £250 million beyond that.

It really is a totally separate field in terms of can we drive value out of the M&A programme and then where do we source the financing for that, whether it is balance sheet or other sources. So two unrelated topics. But you are right. At the moment, the balance sheet is very strong, and we do have some capacity.

**Andy Ransom:** Yeah. North American products margins, you are absolutely right to point out. But within our North American business, we have a product distribution business, chemical products distribution, those are products that we are selling to the pest industry or we are selling to other distributors. We have been in that business for quite a long time. And every products distribution business in the world operates at a substantially lower margin point than a well-run services business. It is a good business. It is growing well.

Margins year-on-year in the first half of last year were up a little bit. In the second half, were down a little bit. But they hover a roundabout the 5% net margin business. Our ambition is to improve those margins over the next two or three years, and the biggest building block to do that is the new ERP system. And the ERP system went live last week, and we have not seen any distressed players going up from North America.

There will be teething problems. But if that ERP system lands well, that will be the first time ever we have been able to have visibility of our coast-to-coast distribution business. And from there, we can start to drive much better margins. So it is part of the story. It is part of the waterfall bridge. It is a 5% margin business. Could we get it to 7%, 8%, 9% over the next few years? We should be able to. 7%, 8%, 9% would certainly take to world class in products distribution. So there are ways to go.

We have got a great team, running it well. If we want to cheat our way to higher margins in North America, we would not be in the products distribution business. I think it is a great business to be in, and it gives us some really good visibility on what is going on in the North American Pest Control market.

And just occasionally, some of our customers decide to sell their businesses to us, and we get to know them that way. So it is part of the story, and I think we can now start to make some progress off the back of the ERP system. Did I get that right?

**Jeremy Townsend:** That is very good, yeah.

**Lucas Ferhani (Deutsche Bank):** I have just two. The first one is on capital expenditure. It was slightly higher this year than, I think, what we expected. And the guidance seems also to be slightly higher. Is it simply IFRS 16, or do you ramp-up investment in anything, in particular, digital or the Workwear business maybe driving some of that? And the other one is on the emerging markets opportunity, more longer term. When you look at your business now, can you give us a bit more of an idea on market share? If you are the number one player or leader with 5% or 20% market share, and the competition you see there, especially, let us say, Asia and Latin America, is it the big US players or there is just nobody else covering those market?

**Jeremy Townsend:** Yes. On CapEx, the increase in '19 versus '18 is absolutely down to IFRS 16. The guidance for 2020 is simply based on revenue increase and CapEx increase. So I do not think there is any particular underlying increase. We continue to invest in, as Andy has shown, in digital. We continue to invest in innovation, but there is no step change in that relative to '19. So it is pretty much a similar CapEx as a percentage of sales as it was in the prior year, adjusted for IFRS 16.

**Andy Ransom:** Yeah, on the emerging markets, it is a bit of a blended answer. Inevitably, they are not all the same. We have been in a few other countries for a long time. So we have celebrated our 50th anniversary in Malaysia and in Singapore. There, you tend to see both higher margins, but higher market share. So they will be in the 20%, 25%.

Indonesia, we have got a strong position. I highlighted that one, and that is something that, in the last two years, we have done two acquisitions on the back of already having a decent position, so strong market share there. Typically, for most of the others, it is more like, I would not say, necessarily 5%, but it is very, very fragmented, lots and lots of players, very small.

And the competition, I would say, is more typically local regional players. Our American brethren are not big in Latin America. They are not really big in Asia. And Cemex, the Swedish-owned company, is more present in Asia. They have got into Asia. But one of the challenges for anyone who is not Rentokil is, unless you started a few years ago, there is not so much that you can buy to give you any scale because there are all lots and lots and lots of small ones. So for us, it is great. We are trying to build the small ones, bolting on to what we have already got.

And in some cases, it also means going into a few territories, which are, I do not know, not for the faint hearted. Some people travel better than others. So we have an experienced team that sets the businesses up in the right way, process-wise, business practices and ethics wise. And I think that model is working well for us.

So we have just gone into Sri Lanka for the first time. And we have a got a nice list of some really interesting territories that I think would not be the natural list for some of our other competitors. But for us, we know that we can run the businesses properly and in the right way. So that is the reason why I am sort of highlighting what I think is really exciting play by us, that if we can secure good businesses and make them great businesses over the next five, 10, 15, 20 years, I think that will be a pretty exciting play for us.

I am not saying the competitors are letting us have it. They are just not turning up. But I think they have got other focus areas that are more important to them. So at the moment, I think it is a playbook that is going reasonably well. Any more?

**Erik Karlsson (CapeView Capital):** Maybe just on M&A spend 2020. Is the guidance the same, £250 million to £300 million?

**Andy Ransom:** It is circa £250 million. I know you big high rollers, that means plus or minus £50 million. But it is circa £250 million is what we have said. And as Jeremy said, we do our best to give you the best guidance we can, and that is based on what we can see in our pipeline, what do we think we are going to execute. So it is not worked back how much cash will the Finance Director let me have to spend. It is much more what can we see at this moment in time.

Last year, we guided at this time, from memory, around £250 million. Then at the half year, we said, for us, £250 million to £300 million, and then we did £320 million or whatever it was. It is very difficult because I do not know what is around the corner. But right now, we would say pipeline looks good. We think it is going to be about £250 million. It could be less. It could certainly be more. But it is not based on how much we have got to spend. It is based on what we can see at the moment.

Any more? No? Super. Have a safe trip home everyone. Thank you for coming.

**Jeremy Townsend:** Thank you.

[END OF TRANSCRIPT]