



Rentokil Initial 2020 Preliminary Results

Thursday, 4th March 2021

Introduction

Andy Ransom

Chief Executive, Rentokil Initial

Protecting People Enhancing Lives

Good morning, ladies and gentlemen, and thank you all for joining us today. In a few moments, Stuart will provide you with details of our financial results for 2020 and the performance of our regions. I will then come back and provide an update on our operational model and the performance of our categories of Pest Control, Hygiene and Protect & Enhance. There will then be a Q&A session at 10 o'clock, and the details of which are in the RNS and on the website.

So, just to set the scene, let me just say a few words by covering the highlights of 2020.

COVID-19 Global Pandemic – Results Summary

Revenue from ongoing operations increased by 6.3% at constant exchange rates, a very creditable performance in the face of a global pandemic, with our North America region exceeding its target of \$1.5 billion in revenues and also making good progress towards margins of 18%.

Ongoing Operating Profit grew by 5.4%, reflecting the significant actions taken to mitigate COVID-related revenue reductions, and despite an increase of £34 million in bad debt provisions and the additional costs associated with personal protective equipment. Free cash flow of £336.8 million represented an excellent cash conversion rate of 123%.

Stuart will, of course, cover these numbers in more detail, but clearly, we once again showed both the strength and the resilience of our operating model. As you know, our overall response to the pandemic was to manage the crisis in three phases.

COVID-19 – Crisis Phase

The Crisis Management Phase required decisive action and the ability to move at pace. And this is where the strength of our culture came to the fore. Around 40% of our colleagues made some form of financial sacrifice and we were able to act swiftly to protect our liquidity, including pay waivers, as well as the suspension of bonuses and LTIPs.

But it was not all about defence. Each week we held two executive team meetings, one on managing the crisis, and the other on maximising the opportunities. And from this second meeting came the sharing of knowledge across the Group to obtain essential service status with governments across the globe, and which also led to the international roll out of our emergency disinfection services.

COVID-19 – Recovery Phase

We entered the Recovery Phase in the second half of the year, and clearly the success of our disinfection services was a significant part of that phase, generating £225 million of revenues, as well as significant goodwill from customers in food retail, transportation, pharmaceuticals and e-commerce, which we kept in operation, or returned to operation quickly after a confirmed COVID case on their premises, and so protecting their people and their customers.

Disinfection is reflected in the overall Hygiene category numbers for the year, but the underlying Pest Control and Hygiene businesses continued to make good progress throughout

the year in line with the reducing level of customer lockdowns. And I will show you some charts later to demonstrate this.

Indeed, the core Hygiene business also played a significant role in protecting people from the virus, with a 17-fold increase in hand soaps and sanitisers delivered to customers around the world. These were used not just inside the washroom but all around the customer premises from the reception and throughout the office areas. The importance of Hygiene, hand hygiene, air hygiene, surface hygiene has changed and significantly so.

COVID-19 – Strategic Opportunities Phase

The third phase is to explore the strategic opportunities that come from the crisis, and in particular, the opportunities in M&A, in digital and in the expansion of our Hygiene business. I will come back to talk about these in more detail shortly, but we see no let-up in the medium-term opportunities presented by highly-fragmented market for:

- M&A;
- For remote monitoring and digital services, in line with the need for greater social distancing; and
- Of course, the opportunities in Hygiene, where we accelerated the international expansion of the category by launching in 20 new markets in 2020.

2020 – From Crisis to Recovery

So, in summary, in 2020, in the midst of a global pandemic, we showed:

- Once again, the strength of our operating model;
- Increasing revenue and profit; and
- Delivering an outstanding cash performance;
- We demonstrated great agility by pivoting into emergency disinfection services;
- We had a strong finish in M&A; and
- While uncertainty remains about the global distribution of vaccines, the level of lockdowns and the eventual rebound of HORECA, overall, we remain very optimistic about performance in 2021, and indeed, onwards.

And therefore, the Board is recommending a dividend payment of 5.41p for 2020.

So with that, let me now hand over to Stuart.

Financial & Regional Overview

Stuart Ingall-Tombs

CFO, Rentokil Initial

Welcome

Thank you, Andy, and good morning, everyone. I will now run through the key financial highlights for 2020 in a bit more detail. Unless I state to the contrary, all of the numbers are at constant rates of exchange.

Financial Highlights

As Andy has just said, we grew Ongoing Revenue in 2020 by 6.3% and Ongoing Operating Profit by 5.4%, notwithstanding the bad debt provision and additional costs of PPE relating both to our disinfection and underlying core business in the year.

Excellent cost and CapEx control and working capital management resulted in a very strong free cash flow of £337 million. We are delighted that our net debt-to-EBITDA ratio has reduced to 1.6 times at the year end. And, as Andy has just told you, we are very pleased to be able to resume dividend payments this year.

Impact of COVID-19 Crisis

Growth this year has been supported by a very strong performance from North America which, in particular, benefited from a high level of disinfection sales. Pest Control has also proven very robust throughout the pandemic. We saw a reducing impact from the crisis as the year progressed, with good growth in Q3 and Q4 after a weak Q2, but the rate of recovery has varied significantly across countries and regions, dependent upon local infection rates and government control measures.

At the peak of the crisis, our key financial focus was on cash preservation, through managing operating costs, reducing CapEx, suspension of the M&A programme and cancellation of the final 2019 dividend. As a result, we have been highly cash generative in 2020, and able to resume spend on CapEx and M&A in the second half.

Our cost saving programme impacted all levels of management across the organisation with salary reductions in Q2, cancellation of H1 bonus schemes, and the postponement of LTIPs until H2, contributing significantly to the total cost savings of £122 million. Collection of receivables was a notable success across all of our regions, meaning, that the increase in our bad debt provisions was some £4 million lower than we guided at the interims.

Nevertheless, while our customers are benefiting from significant government support across most major markets, we remain watchful for business failures as this support is withdrawn in the coming months.

Looking now at performance by region, starting with North America.

North America

North America was our best performing region in 2020, with revenues supported by a £144 million contribution from disinfection services and a good performance from Pest Control. Demand for Residential pest control has been strong during the crisis, and while Commercial pest services have been impacted to an extent by temporary business closures, particularly in Q2, performance has improved from Q3 and into Q4.

North America cont'd

North America Ongoing revenue grew by 14.5% meaning we have exceeded our target of \$1.5 billion of revenue. Revenues from total Pest Control increased by 3.1%, with Pest Services revenue increasing by 6.5%, reflecting good demand from Residential customers.

Ongoing Operating Profit growth of 39.9% reflects revenue growth in Pest Control, new disinfection sales and rapid and effective cost control measures to offset COVID-related impacts. Despite suspension of M&A activity during Q2, we acquired 15 businesses in North

America with combined annualised revenues of around £142 million, including the acquisition of Environmental Pest Service in December.

North America

Update on plan to deliver \$1.15bn revenue, 18% Net Operating Margins

Our stated ambition for our North America business has been for it to surpass \$1.5 billion revenues in 2020 and to achieve 18% Net Operating Margins by the end of 2021. Despite the impact from the pandemic, we have nevertheless exceeded our target revenue of \$1.5 billion this year, delivering revenues of just under \$1.6 billion.

We have also made good progress towards our 18% margin target, growing by 310 basis points in 2020 to 17.3%. This is a result of:

- Short-term cost actions taken to mitigate the revenue impact of COVID-19;
- Additional revenues from new disinfection sales launched in Q2;
- A mix effect, there has been a lower contribution from our lower-margin Ambius operations; and
- Benefits from our IT-enabled Best of Breed Programme, which we restarted in Q3.

We are delighted with the 15 acquisitions we acquired in 2020. However, synergies will take time to deliver over the course of 2021 and 2022 and acquired businesses tend to be margin dilutive in their first year.

Because of the pre-existing disciplines around remote working, the move to a 100% remote model was achieved quickly and seamlessly, with call centres and collections teams enabled to work from home in a matter of weeks. We will continue to enjoy some cost benefits from the partial continuation of this model, but we have experienced some delay to the IT-enabled structural cost initiatives which will drive long-term margin improvement.

Moving now to an update on our IT re-platforming programme.

North America

Significant progress on IT re-platforming and applications deployment in 2020

Our Best of Breed programme has been delayed due to strict discretionary spend and CapEx controls in Q2. And although suspension resulted in a pause to a number of IT initiatives to improve sales and service productivity, and the migration of acquisitions on to the core system, we were pleased with the progress made in the second half. You will recognise this chart as an update on how we are progressing. We provide lots of details on the operational and financial benefits of the programme to the right of the chart, and I will leave you to read these after the call.

But in summary, the re-platforming is focused on delivering a standard modern technology platform to support an efficient and unified operating model across our entire North America business. You can see by the green bars that we have achieved very good progress in 2020 and the blue bars indicate that we are on track to largely complete the re-platforming by the end of 2021. This would be a considerable achievement given the scale and complexity of the project.

North America*Outlook and margin progression in 2021*

In summary, and looking ahead to margin progression in 2021, we are expecting a gradual return to more normal levels of growth from our core North American Pest Control operations and a recovery of Brand Standards and the lower-margin Ambius business. Whilst we anticipate revenues from disinfection to continue in 2021, we expect volumes and prices to progressively unwind throughout the year.

While we expect to see margin improvements from cost savings and the implementation of the Best of Breed Programme, margins of acquired businesses are typically lower than those of our existing operations, and as such, the businesses acquired in late 2020 will have a short-term dilutive impact on overall margins for the region.

Taking all these things into account, we expect North America margins to be within the range of 16.5% to 17% by the end of 2021, leaving us on track to achieve our 18% margin target by the end of 2022.

Europe

Our Europe region has seen a mixed impact from the COVID-19 crisis. While some countries such as Germany were less impacted by the crisis due to early and effective lockdowns, parts of Southern Europe and France were more severely affected. In Latin America, while revenues in Pest Control fell year-on-year, overall performance was aided by disinfection sales.

Europe cont'd

Regional Ongoing Revenue rose by 2.5% in 2020, reflecting revenue growth in Germany, Latin America, Southern Europe and Benelux, but held back by a 3.2% reduction in France principally France Workwear, which fell by 10.4%. Hygiene grew by 22.3% in 2020, while Pest Control declined by 0.4% due to temporary customer closures.

Ongoing Operating Profit declined by 4.1%, with good growth in Germany, offset by reductions elsewhere, most notably France. In the region, we acquired four businesses. In Europe, one Pest Control and one Hygiene business with annualised revenues of around £6 million, and in Latin America, which is managed out of the Europe region, we acquired two small Pest Control businesses with annualised revenues of around £3.5 million.

UK & Rest of World

Our UK & Rest of World region was significantly impacted by the crisis, particularly in April, which was the peak of the crisis for our Group. Our UK and Ireland Washrooms businesses have been unable to service customers within many sectors, but primarily the HORECA sector, which has been subject to government restrictions and lockdowns throughout the year.

UK Pest Control also saw revenue reductions in 2020, reflecting temporary business closures and suspensions. In contrast, our Specialist Hygiene, Medical Hygiene and Products businesses have performed well, benefiting from increased disinfection services. While customer premises suspensions had fallen by the year end to 2%, we saw this number start to increase again from January as the UK went back into lockdown.

UK & Rest of World cont'd

Ongoing Revenue for the UK and Rest of World region fell by 2.2%, with reductions in UK and Ireland Washrooms and Pest Control partially offset by growth in our Rest of World operations, which grew by 5.3% in the year, reflecting the benefit of disinfection sales.

In the UK, revenues have been supported by new products and services and contract wins of connected pest control systems as customers have sought to minimise physical interaction with service providers.

Regional Ongoing Operating Profit declined by 16.2% in 2020, reflecting bad debt provisions and the costs of increased PPE for frontline technicians. Our Rest of World operations acquired two small pest control businesses in Dar es Salaam in Tanzania and Accra in Ghana with annualised revenues of about £2 million.

Asia

In our Asia region, China, Hong Kong and South Korea were among the first countries to be impacted by the pandemic, and as a result, were the first to recover, with strong demand for disinfection and hygiene product sales offsetting falls in contract revenue from other countries. Country performance across Asia was mixed in 2020, with Singapore, Indonesia, Thailand, South Korea and Sri Lanka performing well, but with India and Malaysia experiencing the worst impacts from the crisis.

Asia cont'd

Regional Ongoing Revenue rose by 3.7% in 2020, aided by very strong performances from Indonesia, Hong Kong and South Korea, but held back by India and Malaysia. Ongoing Operating Profit increased by 10.1%. The region made one acquisition during H1, acquiring a pest control business in Singapore with annualised revenues in the year prior to purchase of about £3.5 million.

Pacific

In the Pacific region all operations were impacted by lockdowns, particularly New Zealand, which entered into an extreme version of lockdown in late March. Reductions in core Pest Control and Hygiene services were offset by strong demand for hygiene products, including hand sanitisers and paper products, and other hygiene sales.

Pacific cont'd

Ongoing Profit in the region fell by 8.7%, reflecting lower revenues. The region acquired one small pest control business in Australia in 2020 with annualised revenues of about £0.5 million.

Operating Cash Flow

Operating cash flow of £443 million increased by just under £100 million, reflecting the increased profitability of the business, favourable working capital of £48 million and reduced CapEx by about £20 million.

Free Cash Flow & Movement in Net Debt

Continuing free cash flow of £337 million was £86 million higher than last year, reflecting the increase in operating cash flow previously noted. Cash interest of £41 million was £7 million lower than 2019, due to the 2019 bond refinancing. Cash tax increased by £21 million,

reflecting higher US tax payments and the settlement of a number of one-time and legacy issues.

Underlying net debt decreased by £137 million. Foreign exchange and other items of £58 million reflects the weakness in sterling as well as the impact of the closure of an instrument designed to reduce US interest rates on our US dollar debt. This has led to an overall net debt decrease of £79 million and closing net debt of less than £1 billion.

Balance Sheet

Turning now to the balance sheet. Our net debt to EBITDA ratio was 1.6 times at the year end, below the 1.8 times ratio reported at 31st December 2019. In October, we issued a 600 million Eurobond at a coupon of 0.5% to refinance our 350 million Eurobond, which matures in October 2021, roughly half of which we repurchased in November. Liquidity headroom was in excess of £1.2 billion, including £550 million of undrawn RCF, which matures in August of 2025.

The Group's credit rating remains at BBB with a stable outlook and with net debt of less than £1 billion, our balance sheet fully supports our capital allocation model of compounding revenue, profit and cash flow growth.

Outlook for 2021

So before I hand back to Andy, some comments on our expected outlook for 2021. Despite obvious uncertainty presented by the ongoing pandemic, we expect our Pest Control, Hygiene and Protect & Enhance categories to demonstrate further operational and financial progress in the coming year. At the same time, as I mentioned earlier, as the crisis hopefully abates, we would expect to see volumes and prices in disinfection services progressively reduce throughout the year.

As you are aware, foreign exchange has an impact on the presentation of our numbers and continues to be volatile, with sterling strengthening recently versus the euro and US dollar. At the current rate, this would have an estimated £15 million to £20 million negative impact on our profits in 2021. However, this translation effect is offset by our stronger than expected exit rate from 2020, and as a result, is already reflected in current market expectations for 2021. Taking all the above into account, we are confident of another year of good delivery.

Technical guidance for 2021

Finally, before I hand over to Andy, some numbers for your models in relation to 2021. I would not go through these now except to say that our medium-term targets for revenue, profit and cash are maintained, but our cash conversion rate in 2021 is likely to be slightly lower than our targeted 90%, as some of the 2020 effects, notably working capital and CapEx, unwind in 2021.

2020 Summary

So I will leave you with a slide summarising our key achievements in 2020. And now hand back to Andy to continue with the rest of the presentation.

Overview

Andy Ransom

Chief Executive, Rentokil Initial

Transitioning from Recovery to Strategic Opportunities

Thanks, Stuart. Over the next few minutes, I will take you through an update on the performance of our three businesses of Pest Control, Hygiene and Protect & Enhance, but in particular I will focus on the strategic opportunities in Hygiene and why we are starting to see parallels for medium-term growth between Hygiene and Pest Control.

To begin with, however, I will briefly cover our operating model and the three elements that start every session: safety, people and the environment.

Operating Model

Interconnected model

Over the last few years, as I have mentioned to you before, we have built an operating model which we have deployed consistently across the Group, and I call it our machine. In essence, this is a series of interconnected, well-oiled cogs or processes, which, if executed well, each turn, positively impacting on the next one, and over time, creating a virtuous circle or a flywheel.

In 2020, despite the obvious challenges, the machine held up well. In particular, we naturally put an enormous focus and effort on protecting our people. And they continued to deliver a very high-quality service. As an aside, we launched digital customer surveys in 2020 to measure customer satisfaction immediately after a service has taken place, and with 2.6 million responses and an average score of 4.8 out of 5, in both Pest Control and Hygiene.

The launch of disinfection services was a great example of the operating model in action, demonstrating our ability to:

- Pivot at speed sharing best practice;
- Developing training and standard operating procedures;
- Building sales capability;
- Launching new innovations; and
- Deploying at scale.

Safety

Record safety performance

With regard to safety, it has been my long-held view that there is typically a strong correlation between colleague safety and the financial health of a company. And pleasingly, 2020 was our safest year ever, with world class levels of lost time accidents, which improved by 26%, and with the associated working days lost reducing by 23%.

This was all delivered despite 7,000 colleagues working in full PPE and respirators, and new safety protocols being required for all employees.

Employer of Choice

Excellent progress while responding to the pandemic

Throughout the pandemic and despite the obvious challenges, we have been focused on delivering a world-class employer of choice experience for colleagues. To give you just two examples:

- We delivered record levels of training some 3.2 million views of our online learning content; and
- We also achieved record levels of colleague retention up 1.7% to 88.6%, our highest-ever level.

Environment

Our ambition is to be at Net Zero carbon emission by the end of 2040

After safety and employer of choice, the environment is now the third item on every internal meeting agenda. In 2020, we developed our vision and made a COP26 commitment to be at net zero emissions by the end of 2040, and we are putting in place the local plans and specialist workstreams to get us there.

Just as we set out to focus on safety and then employer of choice, not just because they were the right things to do, but also because they would differentiate us and they would support our growth plans. Our environment plan is exactly the same. It is all part of creating a higher quality, more efficient and more differentiated business.

Rentokil Pest Control

Impact of COVID-19 pandemic

So, turning now to our categories and starting with the world's greatest pest control business. In 2020, Rentokil Pest Control performed very well with essential service status confirmed around the world as part of the public health agenda.

Over 90% of our customer premises remained open. And as you can see there on the right of the chart, less than 1% were closed at the end of the year. Our customers continued to look for more digital and remote monitoring solutions; jobbing work, particularly residential work in America, performed well. Our brand and expertise continued to be powerful differentiators as our customers gradually re-opened. And underlining the strength of the business, while the HORECA sector was the more affected, demand from other customer groups, such as food retail, pharmaceuticals all remained strong.

Rentokil Pest Control

The world's leading pest control company

So I am very proud of the performance of our Pest Control category in 2020, which despite significant disruption to our customers, still grew Ongoing Revenues by 1%. Our North American business performed particularly well, with pest control category revenues up by 3.1% to over £1 billion. This was off-set by some markets, particularly those with the most extreme lockdown regimes, including India and New Zealand.

As you can see on the right, with a seven-year revenue growth CAGR of over 13%, Pest Control is a consistent performer, operating in both attractive and non-cyclical markets.

Rentokil Pest Control*2021: A year of transition from the pandemic to the world after*

In 2021, we are strongly placed as we transition from the pandemic. Of course, this is dependent on many factors, including the distribution of vaccines around our key markets, the level of lockdowns and the rebound in HORECA, but the medium-term growth opportunities remain undiminished, and Rentokil is strongly positioned for sustained future success, and we see four medium-term growth drivers, in particular.

Rentokil Pest Control*Positioned for sustained future success*

Firstly, the overall pest control market shows no sign of a slowing, with most estimates for growth of around 5% per annum through to 2025. And we see no let-up in the growth drivers of growing middle classes, urbanisation, climate change and the increasing expectations of higher standards, driven even higher, of course, by the pandemic.

Secondly, our innovation pipeline remains very strong, targeting key pest groups and expanding our range of remote monitoring devices, as well as building our range of environmentally-friendly solutions. Around 80% of our innovation pipeline is now either non-tox or sustainable.

Emphasising our abilities in innovation, in 2020, the company was honoured to receive The Queen's Award for Innovation for the development and successful deployment of our Lumnia flying insect control range.

Thirdly, of course, is the importance of digital to the future growth of pest control. And this is an area where Rentokil already has a strategic advantage. Digital is now in operation throughout the entire customer journey, and we have a pipeline in place to expand our range of digital services. In 2020, Tesco chose our PestConnect service for their UK estate, as did the Nightingale Hospitals, emphasising what a great future this innovation represents.

And fourthly, the medium-term M&A opportunities remain significant with 40,000 pest control companies operating around the world. Our city-based density-building strategy remains our focus, predominately highly targeted bolt-on deals with the occasional larger deal, such as the Environment Pest Service in Florida, that we acquired at the end of last year.

So we have the operating model and the market conditions in pest control that leave us strongly placed to drive continued medium-term progress post the pandemic.

Rentokil Pest Control*Global Leaders in Pest Control*

And why do I say this is such a strong category and why will it continue to be so? Well, there is just a quick reminder set out on the chart here.

Firstly, it is:

- Essentially a subscription or a portfolio business with 75% of revenues under contract and with high levels of customer retention of nearly 85%;
- A business that we can typically achieve annual price increases on our portfolio, and therefore, recover our cost inflation;

- A route-based business, where genuine understanding of density is important and where we can drive strong operating margins with a five-year average of around 18%;
- A highly cash-generative business and it gives a very good return on investment, with a very low capital intensity, typically CapEx to revenue of under 5%.

We operate in a highly-fragmented market and we have proven in the past that there is a significant M&A rollup opportunity, and we see that continuing into the future.

In addition, we are targeting the new cities of the future, where above GDP growth will come from the world's fastest-growing cities. It is:

- An industry where the world continues to regulate and tighten its laws, which in turn requires more complex levels of pest control;
- Also a world where increasing numbers of major companies are looking for bespoke national, and increasingly, international solutions;
- Also a business where service quality and digital innovation are valued by customers as strong differentiators; and
- Increasingly, also the ability to lead a sustainability agenda will be considered extremely important by our customers and we are the ones leading it.

Add all of that together and you will see that this is an industry that has grown by around 5% in the past and shows every indication that it will continue to grow at at least similar level in the future. And we are very well placed to continue the growth of Rentokil over the coming years.

Initial Hygiene

Impact of COVID-19 pandemic

So, turning now to Hygiene. In Hygiene, we are the global leader with market-leading positions in 22 countries and a top three position in 38 markets, with a high-quality range of hand, surface and air care services.

In 2020, our core Hygiene operations, excluding the emergency disinfection services, were more impacted than Pest Control, with over 20% of customer premises closed at the height of the crisis. But again, as you can see on the right of the chart, as with pest control, we have seen this number reduced as the year progressed to around 4.4% in December.

The reduction was, of course, more than offset by the very strong demand for hand soaps and hand sanitisers and the addition of disinfection services. But perhaps in some way our most significant take-away from 2020 is the change in perception and importance of Hygiene. From a low interest category, this has become one of the most important in every country around the world.

Initial Hygiene

The world's leading Hygiene services business

So I am very pleased with the performance of our Hygiene category, which grew Ongoing Revenues by 36.8% during the year, and with profits up by 81.4%.

Disinfection Services, which we started from scratch in April and launched in around 60 markets, generated revenues of £225 million. And in 2021, we will continue to offer

disinfection services as part of our COVID response for our customers, but we expect volumes and prices to naturally unwind as indeed, hopefully, the pandemic abates. And as that tide goes out, so we would at the same time expect our core Hygiene services to increasingly return as individual countries continue to re-open.

Initial Hygiene

2021: a year of transition from the pandemic to the world after

The pandemic has led to an acceleration of many aspects of our Hygiene plan, including:

- 20 new markets that we entered in 2020;
- Expansion of our service offering, such as air purification; and
- Also examining closer links between Initial and Ambius within the wellbeing space.

It has also given us the chance to really focus on four key medium-term growth opportunities for Hygiene.

Initial Hygiene: Growth Opportunities – Inside the Washroom

Executing our strategy: medium-term opportunities

The first is inside the washroom, which is a particularly high-risk area for COVID and other viruses, and where we expect to see an increasing duty of care from employers towards employees, as well as the potential for more regulation to ensure facilities inside the washroom meet all of the hygiene requirements of a post-pandemic world.

We believe that an increasing number of customers will require a complete no-touch washroom experience, where we can enable washroom users to enter and exit the washroom without having touched any surface. In 2021, we will be expanding our range of no-touch products, including new hand and surface sanitisers, and launching our range of digital no-touch products.

Initial Hygiene: Growth Opportunities – Digital leadership

Executing our strategy: medium-term opportunities

The post-COVID medium-term opportunity for Digital Hygiene remains significant with the Digital Hygiene market expected to grow at around 10.7% per annum. Here, we already have the expertise, the insight, the tools and we now have the product line up too, with Rapid Hygiene, which provides a range of premium no-touch services and remote monitoring as well as compliance and audit-ready reports.

Initial Hygiene: Growth Opportunities – International Expansion

Executing our strategy: medium-term opportunities

As part of our strategic response to COVID, in 2020 we accelerated our plan to launch Hygiene services in 20 additional countries. We took our first steps in America with the launch of hand and air care products, as well as re-launching back into a number of European markets that we had exited as part of the Haniel Joint venture, including Germany and the Netherlands. And this gives us an expanded platform to build upon, whether through organic initiatives and/or through M&A.

Initial Hygiene: Growth Opportunities – Outside the washroom*Executing our strategy: medium-term opportunities*

So the final part of the opportunity is outside of the washroom. And as I have said already, Hygiene has moved from being a relatively low interest category to one of the world's most important.

Much of the obvious consumer concern over the last 12 months has been focused on the importance of clean surfaces and clean hands and the risk of cross contamination. And we have seen this with high levels of demand for hand soaps and sanitisers, as well as surface hygiene products, being used around offices, on public transport and in retail stores for instance.

But increasingly, we believe that the focus is now also on the risk of infection passing via air-borne particles or aerosols. For this reason, we have launched two ranges of air purification products: Inspire Air and VirusKiller, which decontaminate the air and reduce the risk of cross contamination.

The VirusKiller units use air purification technology, which is proven to kill 99.9999% of viruses with a single air pass, including COVID-19, through the use of hospital-grade HEPA filters and ultra-violet light. Now this ability to kill 99.9999% of viruses with a single air pass is what really sets this technology apart.

Just take the following scenario, if you had one million viruses passing through a traditional air filtration device with, say, 99.95% effectiveness, then 500 viruses would remain in the air. With Initial VirusKiller, just one single virus would be re-circulated from the original one million. This all-in-one solution effectively filters dirty air, neutralises toxic air and decontaminates sick air.

We are offering different sized units to suit a wide range of sectors from offices to education and healthcare, hospitality and leisure venues. This air market, which is expected to grow at a CAGR of around 42% to 2025 and we believe that we are well placed to participate in this growth market.

Now another area where we are also seeing potential growth opportunities outside of the washrooms is in the medical waste collection market, where we have existing businesses across a small number of countries, and which gives us the experience to deal with vaccination needles and sharps, as well as potentially contaminated testing kits and used PPE, and where we see the opportunity to transfer our experience and best practice across the wider Rentokil Initial Group.

Clearly, we believe that with these four clear areas of focus and a significant change in the importance of the category, the time for Hygiene has come.

Initial Hygiene*The world's leading Hygiene services business*

Now a few moments ago, I reminded us as to why pest control is considered to be such an attractive business. Perhaps less obviously apparent to some is the fact that our Hygiene business enjoys an extremely favourable comparison to Pest Control.

Just to take a few examples. This too is a cash-compounding subscription or portfolio business but with 95% of revenues under contract, also with high levels of customer retention, actually a little higher than pest control. It is:

- Also a business that we can typically get annual price increases on our portfolio;
- A route-based business requiring a genuine understanding of density, which I know I have explained to you in the past in the context of Pest, but which in turn drives strong operating margins in Hygiene as well;
- Also a highly cash-generative business, gives a good return on investment;
- An industry where the world will continue to regulate and to tighten its laws; but
- Also, a business where service quality and digital innovation are valued by customers as strong differentiators.

And much like Pest, increasingly, the ability to lead a sustainability agenda will be considered extremely important by customers. And again, we are the ones leading it. But the real question in the past has been whether Hygiene growth rates of 2-3% broadly correlated to GDP growth, could be capable of being raised to levels of growth comparable to that in pest control?

And what I am now saying is that, whilst we have obviously got to navigate our way through this year of transition in 2021, I fully expect that from next year the medium-term growth potential of our core Hygiene business will indeed be very similar to Pest Control, so around 4-6% on an ongoing basis.

Protect & Enhance

So turning now to Protect and Enhance. Here we have three main businesses:

- Ambius, our global plants business;
- Property Care in the UK; and
- Workwear in France.

Protect and Enhance

7% of Group Ongoing Operating Profit in 2020

These businesses have weaker characteristics than our Pest Control and Hygiene businesses. But it is also fair to say that they have been significantly more impacted by the COVID crisis in 2020 with Ongoing Revenues down by 12% and Profits by almost 30%.

Ambius was impacted by the lockdown of hotels and offices, and the more discretionary nature of interior plants, making this a challenging environment for the business. UK Property Care, which is essentially discretionary remediation work inside of properties, was affected by social distancing requirements but also the UK property market condition itself.

However, the main business in Protect & Enhance, is French Workwear, which accounts for approximately 50% of its revenues.

Protect and Enhance*France Workwear*

In France, after a positive couple of years, both operationally and financially, Ongoing Revenues declined by 10.4% in 2020 caused by significant temporary closures of customer premises during the height of the crisis, and again, during the lockdowns later in the year.

The lockdown of the HORECA sector particularly impacted the smaller flat linen side of the business, with restaurants and hotels no longer needing their table linen to be laundered. However, we did see a gradual recovery in the volume of workwear garments, as industrial customers reopened, as the year progressed.

Notwithstanding the COVID crisis, the business did make good progress with its plan to separate the Workwear and Hygiene businesses, and this was completed by the end of the year.

M&A*Value creating M&A programme performed very strongly in Q4*

So, turning now to M&A. As you know, this is an extremely important part of our growth strategy, and after a short pause, we restored our M&A programme in Q3. In 2020, we delivered 23 deals with around £158 million of annualised revenues, and this includes Environment Pest Services that we acquired at the end of the year, but payment, as you know, was made early in 2021, and is therefore, part of the £400 million that we expect to spend this year.

Based on our most recent annual M&A review, shared with the Board, the M&A programme has once again continued to meet our expectations and to deliver in line with, or indeed above, our targeted returns criteria.

Rentokil Initial*Robust and resilient performance in 2020*

So, to summarise; in 2020, in a particularly challenging external environment, the company has performed very well.

- Ongoing revenues increased by 6.3%;
- North America achieved its revenue target of \$1.5 billion;
- We demonstrated the agility to train over 7,000 colleagues and roll out disinfection services, creating a new revenue stream, which generated £225 million during the year;
- We made excellent progress in digital, and in innovation, and we had a strong end to the year in M&A;
- Our Operating profits grew by 5.4%; and
- We delivered an outstanding cash performance.

And reflecting our performance in 2020 and confidence for 2021, the Board is recommending a dividend of 5.41p for 2020.

Rentokil Initial

Strongly positioned post pandemic as we transition back to core business

But we are also looking forward as we hopefully now begin to transition out of the pandemic in 2021 and into the post-COVID era of strategic opportunities, where we are both optimistic about delivering further operational and financial progress in 2021 and indeed over the medium term.

- Pest Control is in a strong position, with an operating model and market conditions that leave us strongly placed to drive continued medium-term progress;
- Our leadership in digital and innovation is set to be even more important with greater focus on health and on wellbeing;
- The medium-term M&A opportunity post-COVID remains very positive; and
- With four clear growth opportunities in Hygiene from 2022 onwards, we expect to see underlying organic growth in core Hygiene operations over the medium term to be comparable with Pest Control, i.e., 4-6%.

Initial Hygiene*The world's leading Hygiene services business*

Given the acceleration of our plan for Hygiene, subject of course to social distancing requirements, we are aiming to deliver a Capital Markets Day on 28th September called Hygiene: The Next Pest Control.

We will provide a thorough briefing on the Hygiene opportunities, as well as updates on Pest Control innovation and on ESG. Our aim is to deliver this face-to-face and we will update you at the Interims, but please do save the date for now.

Q&A with management team

So that is it. A Q&A with Stuart and myself will begin shortly at 10 o'clock. You have just about got enough time to grab a quick cup of coffee. And if you would like to ask a question, please do join the conference call and the details are there in front of you on the screen. Thank you.

Q&A

Sylvia Barker (JP Morgan): Two questions from me, please. Firstly, obviously, you have not disclosed the organic. And we have tried to guestimate the various kind of impacts from acquisitions. But just broadly speaking, could you talk around kind of the organic, excluding disinfection into Q4? And what are you seeing so far into Q1? So my initial impression is that it was probably a little bit weaker into Q4 relative to Q3. But it will be helpful just to hear your thoughts on that.

Secondly, on the 3% to 4% organic that is in the 2021 outlook section. Could you clarify that comment on 2021 and on the medium term? And just to understand within the 3% to 4%, if Pest is still expected to grow at 5% and the Hygiene growth has been upgraded to 4% to 6% from 2% to 3% previously, is something else being downgraded within that? Or how should we think about it?

And then finally, in North America, obviously a lot of moving parts, could you maybe just remind us the pound millions revenue from your Pest Services business or data for the 2020 figure?

Andy Ransom: Sylvia, thanks for the questions. Yeah. Look, we said early on we were not doing organics for 2020, and that was for good reason, because there is so many moving pieces and so many ups and downs, countries moving up and down, regions up and down, categories moving up and down. It really is a meaningless exercise, I should say. Broadly speaking, what you saw on organics was broadly correlated to those charts we put in the deck, which showed you that as the year progressed and the lockdowns and the suspensions improved from the second quarter, we typically saw the business follow those lines.

So, Q4 directionally a little better than Q3. Pest held up reasonably well, better than Hygiene. Hygiene better than Protect and Enhance. But really trying to get underneath it and pick it apart, I think, is not really terribly informative of the business, because it is really a function of those local lockdowns. We had businesses going from growth to negative and back to growth again.

And it does not tell you anything about the business other than frankly that the businesses are correlated, particularly, the commercial businesses are correlated, essentially to those suspensions, which are following lockdown.

So broadly speaking, the fourth quarter showing positive trends on the third. The third, much better than the second. The second obviously the worst. But again, we have seen, say, in the UK, and we are all living here, are not we? We have seen the impact of the third national lockdown again impacting the UK. Whilst in Australia, New Zealand, they are back on the beach, back down in the pub, back watching cricket. And you have seen that organic rebound.

So not trying to duck the question, just do not think it is particularly informative really of how the business is performing. The 3-4%, I know you are a numbers woman, Sylvia, so you have asked me the numbers question. I would not really read it, certainly not that because we have upgraded the medium-term aspiration for Hygiene, that somewhere else we have downgraded somewhere else.

Just to remind, last year 2019, organic growth in Hygiene was 3.9% and the year before was 2.9%. So we have been saying that, that is a category that over the medium term probably grows at 2-3%. And what we are saying is that is a category that now we see grows at 4-6%, very similar to Pest Control.

So does there have to be a correlation between our overall growth guidance for the Group of 3-4%? Well, we will come back and update that this time next year once we are through this year of transition. The specific question of does the 4-6% apply to the year itself or is it the medium-term? It is essentially a medium-term statement. And it is really for the same reason I gave earlier, that you are going to see some very, very odd organic numbers for lots of companies this year because the lap on Q2, which is when the pandemic hit most, is going to look very positive for a lot of the companies.

So yeah, it is the medium-term aspiration that we are talking about in the 4-6%. Underlying core Hygiene, we think, comes back nicely as businesses reopen. And I mentioned Australia,

Sylvia, but it is really a good example. As we have seen, Australia and New Zealand really the first countries hopefully on the other side of this pandemic and people back to work and back in the shops and going about their normal lives, we really have seen the recovery of the core businesses bouncing back very quickly.

So that is really what we are saying. Let us trade through the unusual trading conditions, I think we all experience in 2021. But 2022 onwards, we think Hygiene is a very good medium-term play, very similar to Pest Control. That is the core message. Stuart, did you want to pick up the third question? It is on Pest Control revenues.

Stuart Ingall-Tombs: Yeah. So core Pest Services revenue in 2020 was about \$900 million, Sylvia. So constant exchange rate is about £750 million. If you could include all the services businesses, it is about £1 billion.

Andrew Grobler (Credit Suisse): Three questions, if I may. The first one, just on cost savings. You called out the £122 million last year. How much kind of net comes back in 2021 and 2022?

Secondly, around Hygiene and international expansion into those new countries. Excluding the disinfectant work, what kind of scale did you achieve last year? And when you look at those markets, can you give us any kind of quantum of potential size and also whether margins and returns are similar in those new areas once you reach a certain scale than the countries you already operate in?

And then lastly, just on colleague retention, which you called out at 89%. Maybe in specific markets, US Pest Control or whatever is the most relevant, how would that compare to the competition? And apart from the obviously social benefits, what kind of commercial benefits do you think that provides to the Group?

Andy Ransom: Thanks, Andy. Maybe, Stuart, you take the first. I will take the second and third.

Stuart Ingall-Tombs: Yeah, sure. So the \$122 million, Andy, a large proportion was the one-time cost savings from the Q2 action that we took, bonuses, LTIPs, pay reductions. So pretty much all that comes back. I think it is an open question for us exactly what we can harvest from the new way of working that we are seeing. So the model where people work partly from home, partly in the office, sort of hybrid way of working.

So that is an open question for us. It varies market by market. So I would not be writing down a big cost saving number to carry forward into 2021. It is looking pretty modest by 2020 comparisons, but we are certainly exploring what our opportunities are there.

Andy Ransom: Sorry, did you have a follow-up there, Andy?

Andy Grobler: Yeah, sorry, because I was not very clear what to think from that. So if the savings are \$122 million last year, what roundabout should we assume? Do they all just disappear, or is it kind of \$100 million goes back in, or any kind of quantification would be really helpful.

Stuart Ingall-Tombs: Yeah. I mean, I would certainly see about over £100 million going back in.

Andy Ransom: Yeah, international expansion. Look, it is one of the reasons that we are having the Capital Markets Day or subject to conditions around the Capital Markets Day is we are going to do a deep dive for you on the hygiene opportunity, the geographic opportunity as well as the broadening of the category. Relatively small, do not have a number for you. We are not disclosing that at this stage, Andy. Relatively small, I think is the answer. If you think about it, we are going into markets, in some cases, that we have no position in Hygiene, in some cases, markets that we used to be there three, four years ago.

In terms of medium-term margins, yes, they will have the exactly the same shape and ability to get to those. But you are quite right or implied in the question; in the early days with a lack of density, you would expect that to be margin dilutive to the Hygiene category. But it is one of the reasons we say look, we are going to approach this through organic and through M&A. If we are able to secure core anchor opportunities through M&A, then you have got density on day one, and we build on that density. If we have not, and it is all done organically, what we will typically do is to try and graft those revenues to a degree onto our Pest Control cost base.

So we will try and use as much of that existing pest control density and overhead as we can to support the business, but that would not be possible in all cases. So early days, it is small to start with. It will build over time. It will be relatively low margin to start with. It will build over time. We will do acquisitions where we see good opportunities, and that will give us better margins. But it is a medium-term play and relatively small numbers in the first few months of trading in that way.

The colleague retention, to be quite honest, I do not know what competition's number is recently. We have been tracking and publishing our colleague retention numbers for a long time. Different companies add them up in different ways. I think what we have seen is there is two factors here. One, we would feel that we were as good as an employer as we possibly could be during the pandemic, and we took our obligations to our colleagues very seriously. And I think that was rewarded through retention. But equally, it was a relatively difficult job market. So there was understandably, I am sure, colleagues more likely to stay than go in that difficult job market. We see a very strong read across from colleague retention into customer retention. And that is really the economic play, if you like, Andy, that if we keep colleagues in role, in place doing the same job for the same customers, the customers like that. They like seeing the same technician in particular. They like seeing the same salesperson. They do not like it when we chop and change, when we have to chop and change.

So really, that is where we would hope to see the sort of lag benefit of improved colleague retention. Obviously, there is cost benefit of not having to hire new people, not having to train new people, not having to take a risk of hiring someone who is not up to standard, and they take quite a bit of time to get to standard. But overall, the main economic benefit we have typically seen is strong colleague retention translates into good customer retention.

Edward Stanley (Morgan Stanley): I have got three questions, please. What activity are you seeing from your bigger commercial clients who are already returning to work? Are you seeing more callouts, back to business as normal? I guess I am trying to understand, will we see a wall of business in commercial as people get back to their desks and see rat droppings everywhere, like we have at Morgan Stanley?

Second, you had essentially guided that disinfection services would moderate at the end of 2020, but it is actually accelerating. Now you are saying it will definitely happen in 2021. But I am just curious whether it has slowed so far in 2021? And why would not you see it accelerate in Q2 as European businesses start to reopen, and whether that is just because it is more competition is emerging at lower prices?

And thirdly, on digital Pest Control. On PestConnect devices, you say you are now at 150,000. I think the last figure quoted in the press was around 80,000. And doubling feels a lot more than just customers wanting to keep their distance from technicians, and you also have a pipeline of more devices. So is this in response to competition in the area of digital pest control? And what operational and financial benefits are you finding those devices delivering in growth or EBIT or customer retention, please?

Andy Ransom: Thanks, Edward. Yeah, in terms of what activity are we seeing as customers go back, it is probably too early to say for 2021. We did see in 2020 in the summer, in the Western hemisphere summer, there was a significant reopening. And we remember the Eat Out to Help Out scheme in the UK, for example. We did see that when customers were reopening and they had not been open for some time, there was quite a bit of clean-up, quite bit of catch-up to be done.

And it is a bit too early because we have not yet got to the point where in markets like the UK, you are seeing that sort of grand reopening. As we have shown in the data, most of our customers have remained open and have remained open to taking our services. And so they are well looked after[?]. So your question is really in the context of the relatively small number, or in the UK larger number of customers that are currently closed. And the short answer is, yes, we would expect to see, if they have not taken any service because they have been suspended and it is pest control and they have food on their premises, you would expect there to be an element of catch-up. Nothing that we can't deal with.

And if you have got specific problems over at Morgan Stanley, you have got my details. Now you are about to tell me we already do your business. So do not tell me that, if we have not solved your problems, Edward.

On disinfection, look, I think we are just trying to be as transparent as we can. We see the disinfection story having two or three dimensions, but the main dimension is, it is correlated to a state of lockdown in one form or another, but businesses remaining open despite the lockdown. So very much like here in the UK, we are in a lockdown at the moment, but premises which are open have an ongoing need, and specific sectors in the lockdowns that are open have a specific need. So we have got quite a few customers who have to be open, their employees have to be in, and they need disinfection.

Where you see that the lockdown disappears, and a really good example, Australia and New Zealand, colleagues back at work, people back at work, but no ongoing need for disinfection. That is what we see. The customers are saying, 'No, thank you very much. You helped us through the crisis. We will still call you out if we have a case, we have a COVID situation, we have an emergency, but we do not need you, thank you, because we are not going to spend money on disinfection. Now we are back to work.' That is essentially what we see. That is what we are expecting to see.

The second dimension is how frequently you have disinfection done. We have got a lot of customers that, in the height of the crisis, wanted it carried out every day. And we see daily moving back to weekly. Previously, we had weekly moving up to daily. We now see daily moving back to weekly. Each customer is different. But as a general trend, the service frequency, how often do you want us around to do disinfection, that is going back to a less frequent model.

And the third, and we mentioned it, is price. Yes, I mean, arguably, I think we moved fastest and first into the space and trained our people up and made a very technical service available to a lot of customers. We have cheaper alternatives available. A lot of companies have gone into it and offer it as a service, and they do offer at a lower price. Our view is it is at a lower standard. But that is your choice as a customer. So I think it is the combination of lockdown unwind, service frequency rolling back to less frequent and more competitors in there. So yes, we did indicate that before. That is because that is what we thought. But equally, we did not see the world move as aggressively as it did in the fourth quarter back into lockdown. And that makes the point as to why the volume is correlated and the value is correlated to the lockdown conditions.

We will see. I think Q1 disinfection will be lower than Q4. Our view is Q2 will be lower than Q1. Let us see what the world is looking like in the second half. I have talked about this before as a hedge[?] effectively. If coronavirus takes longer to abate, disinfection will be around a bit longer. But our core business, which is not back to work, will be a bit longer before it is back. I would refer to it as a tide.

But as coronavirus abates, which we would expect it to, tracking the vaccine, then we would see the disinfection tide to go out, but we would also see the core operation coming back strongly. So that is how we think about it. We can only share with you, Edward, the best view that we have got, and that is what we have done today.

Digital, I think, is a really interesting story for us. We have had our digital offering now for a number of years. We have positioned it very much as a niche, as a premium product, top manufacturing, pharmaceutical, microelectronics, clean room type customers, and we have positioned it as such.

As we went into 2020, before we knew what was coming, we're determined that 2020 was going to be a key year for our Connect product, to see if we could convert a material proportion of our commercial Pest Control customers in the United Kingdom. That was our pilot market. Could we sell the broader benefits of Connect to a wider customer base and really take the UK and see if we can prove that we can do this on a large scale in the UK.

Notwithstanding the coronavirus, and maybe arguably, in part because of, we were still able to make very, very good progress in the United Kingdom in 2020 with PestConnect. We mentioned TESCO. That is a big customer account, that accounts for quite a bit of that unit increase from 2019 to 2020. But we have also got a lot of other commercial customers in the UK, which are now taking Connect as their standard offering.

So no, we do not see this as going head-to-head with competitors. This is something we see we have got a marked advantage and a lead. The advantages for the customer is better pest control, 24/7/365 transparency, but like having a burglar alarm, you have got a pest control alarm that is effectively telling us when there is an issue, when there is an activation.

It also means we can look at service frequency. We can leave devices in the field for longer. If they are not being tripped, if there is not activity, that has a margin potential. But it also means we can make early intervention. So when that alarm goes off, we can deal with the problem before it becomes a crisis. So there is quite a lot of economic and pest control advantage to the customers.

Overall, when we are selling it as a niche for niche premium product, it is comparable to our margins and slightly above. We are now moving it into less niche and more mainstream. But overall, we would see it. Again, it is a comparable margin play to our business at this point in time.

So 150,000 devices. I will be disappointed if we were not 250,000 to 300,000. Not quite exponential, but doubling again in this year. But it is a strategic play. And as I say, we are focusing on seeing how much of the UK commercial market we can convert, because it is better Pest Control. It is better for the customers.

Simona Sarli (Bank of America): I have three, if I may. So in North America and also in other regions, you benefited from the strong demand from disinfection services from existing customers in Pest Control. So my question is, have your offering in disinfection services helped you to get some contracts in core Hygiene? And if so, do you have an idea of the conversion ratio?

And second question, it is a follow-up on slide 44. You show the sequential growth improvement in core Hygiene, which seems to be back to growth in December. How does that compare to the trends observed in January and February? And similarly, if you can please comment on the exit rate in Pest Control in December, and how does that compare in January and February?

Third question is related to the operating profit margin that you achieved in 2020, and how sustainable is that in 2021, considering that the disinfection services will be fading off?

Andy Ransom: Thanks, Simona. I will take the first couple, and then, Stuart, you can pick up the margin. The first one was a broad question. North America, but more broadly, disinfection. Have we been able to convert that into Hygiene portfolio, into contracted customers? And if we have, what is the conversion rate?

Not a lot, is the honest answer. We are seeing it now. And this will be one of the interesting things for us to figure out with our customers as this tide goes out, as I said, as people move from, say, daily to weekly and less frequent. I do think there will be an element of core disinfection left. I think some customers will want to put the disinfection on a contract. I think they will want maybe a monthly or a quarterly disinfection, and probably some of them will want a call out for emergency disinfection, which is a business we have had for many years, which is how we got into it.

But at the moment, we are still in the crisis here. At the moment, we are not really seeing people wanting to talk about converting the disinfection into a contracted disinfection, nor are we seeing a huge amount of converting the disinfection customers into hygiene customers. But we are seeing some of it.

So I could not give you a conversion rate. It is not a number that we are tracking. It will be less than 5%. But it is a discussion that we are now beginning to have, talking to the guys in

Indonesia last week, and they are having really good success with converting jobbing disinfection customers into hygiene portfolio customers. It is not just existing customers that we have sold disinfection to. So it is not just existing pest customers. And one of our biggest customers for disinfection is now a big customer for Pest Control. So there is that cross-sell, but it is not the main driver of growth here.

But I think as that tide goes out, I think that is the time for us to be having more conversations about, well, what about this service. And in particular, I was talking about air earlier, in particular, air. Why would not you want air quality improved to protect your employees at work?

So ask us again in six months, Simona, and we will have a better answer as to how much of that is sort of sticking, if you like, whether it is in core Hygiene or Pest.

Look, in terms of your second question, in terms of trends, we do not really comment at the prelims on what is gone on in the last few weeks. But overall, I would say you have got two factors. One is the pandemic. I think in markets like the UK, we have got two things going on. One is more lockdowns, therefore more customers suspended, therefore worse. On the other hand, the level of optimism in the UK within our business more generally, is very, very high. There is a big bounce coming on the other side of vaccination.

So I do not think we are seeing anything surprising in the UK. Europe is a little bit the same but not as bad as the UK. Winter in Europe, gone into a little bit more lockdown than we have had in some of the European markets. But again, you are now seeing the positivity of the vaccine a little bit behind the UK, so real optimism coming from those markets.

US really has not missed much of a beat, to be honest, continued strongly. Although in the US, as we say in Pest Control, we have had some weather in the US. We have had the polar vortex and very cold weather down in Texas and Southern states, which has a bit of a bearing in February.

But look, I do not think there is any new news really from the start to the year from the end of last year other than a little bit more lockdown in some countries, but strong recovery in markets like Pacific and some of the Asian markets. So it is going exactly how I would expect it to, is the honest answer, Simona. No new news from the first couple of months of trading, I would say. Stuart?

Stuart Ingall-Tombs: Yeah. And in terms of margin, I mean, Simona, we have already talked about a couple of headwinds around one-time cost savings. Clearly, North America, we flagged is would not quite achieve the margins in 2021 that it achieved in 2020. But we have also got some positive stuff, reasonably significant bad debts we expect to be lower in 2021 than 2020, the use of lump of PPE costs that we bore in 2020 declines.

And in a number of markets, you saw margins decline in 2020 as volumes decline. And as we recover, we fully expect those margins to improve and recover as well. So I think the net of all that is we do expect margins to at least hold up where they were in 2020. And just to make the point really around cost management in Q2. If markets do not recover at the rate we expect them to, then we will take cost action in 2021 as well. So I think we have demonstrated that we can flex our P&L to sustain margins at least at their current level.

Simona Sarli: And if I may, just one very quick one on cash conversion in 2021. You mentioned that you will be slightly below 90% your target because of the working capital. But how sustainable is this target in the medium term, considering that Hygiene will be accelerating, and this is a little bit more capital-intensive than Pest Control?

Stuart Ingall-Tombs: Well, I think it is sustainable. Just to use your words, it is a little bit more capital intensive, but it is really not capital intensive. So we think that 90% minimum is thoroughly attainable. We do not see an issue with that.

James Winckler (Jefferies): A few of mine have been answered. I was just wondering, again, on sanitisation. Obviously, you talked about how a bit of the lack of transparency is that most of this been done in short-term work orders. Wondering if there has been any sort of progress or any traction in rolling in some of this work into longer-term contracts? Or if that is still not something that is happening?

And then two, on the M&A opportunities in Hygiene, obviously the UK, given the concentration, is a bit of a difficult market to add more transactions into. So is this more of a Continental Europe to bolt-on and supplement some of the markets you have re-entered or entered? And what the sort of pipeline for M&A looks like there?

Andy Ransom: Thanks, James. Yeah, on disinfection, I sort of touched on it a little bit earlier. No, we are not seeing a lot of that sanitation, as you call it, disinfection jobbing revenue convert into portfolio. We are seeing some of it, as I mentioned, in some of the Asian markets. And it is something, I think, that we would anticipate seeing as that tide goes out as we do move to more normal conditions. I think that is the point at which we will say, well, would you need a monthly or quarterly, a call out service.

So some conversion into portfolio, but pretty small, to be honest. And I would expect it to be relatively minor. We will see. I mean, none of us really know what the world will look like in 6- or 12-months' time. It may be that customers do want that more routinely. But for the moment, we will treat it as effectively a one-time jobbing service as customers need it.

M&A, Hygiene, yeah, look, I think you put your finger on it, James. We will be selective and looking for good quality Hygiene businesses. Continental Western Europe is a place that we would look, obviously. We used to have businesses in markets like Germany and Holland and Belgium, Austria, Switzerland, that we do not have. And so those are markets we know well, and they are markets that we have good strong Pest Control businesses. So they are likely to be markets that, from an M&A point of view, we will target.

Pipeline for Hygiene, I would say, it is reasonable. I do not think it is burgeoning at the moment. Pest Control pipeline is still good. Hygiene, we are just really in that building phase. And it is a curious time. If you are a hygiene operator, it is probably arguably not the ideal time to be thinking about selling you business. You are probably going to be more likely to want to do that in 6- or 12-months' time.

So yeah, you are spot on in terms of how we would think about it, a reasonable pipeline, and we would expect that to build over the next 12 months or so.

James Winckler: And so one more on M&A. With France Workwear, obviously, you had the sort of three-year turnaround, which obviously got impacted by COVID. Do you still have sort

of near-term expectations of being able to sell that business, or has that been materially delayed because of coronavirus?

Andy Ransom: Yeah. Look, I do not think I have ever shared any near-term expectations of exit. I have simply said we are fundamental value managers. Our approach is, it is clearly not core, as Pest and Hygiene is. It is the only workwear business that we have left in the Group. It is a business that has required a three-year turnaround plan, which has been going very well. And it is a business that needed to be separated from our French Hygiene business. And that project went very well as well.

So I really have not changed my view on this one, James, which is, if there is an opportunity where we can create value for shareholders and look at a potential exit down the road, then we will. If that exit does not create value for shareholders, then we would not. So we are very much focused on what is the right answer for the business. If we get the right answer for the business, we get the right answer for the shareholders. So it is not something that I am overly concerned about.

And yes, as one would expect, it is had a difficult 2020. But again, we are seeing, as customers open and reopen, their need for work where their need for flat linen in restaurants has not diminished, has not gone away. So we think the business should come back pretty well as the French economy reopens. But no burning concern with me at the moment, James.

Matthew Lloyd (HSBC): Just slightly tangential question for me, because I think so much has been covered. In terms of air and sort of disinfecting the air, so to speak, what technologies are you using? Is it dry hydrogen? Is it UV? Because I think that whole space is moving very, very quickly. I wondered whether you have sort of placed a bet on one technology or another.

Andy Ransom: I always love getting a tangential question from you, Matthew. It always keeps me on my toes. Thank you for that. So you are speaking to a retired lawyer here, not a scientist, so you will have to accept my answer as I understand it.

But I talked in my remarks on the initial VirusKiller product, which is the main event in our portfolio at the moment. And that is using two technologies, but it is the combination of the two technologies. It is using a hospital-grade HEPA filter and it is using UV light as well. And it is the combined dual effect of the HEPA filter and the UV, which gives that log 6, 99.9999%. It is that combination.

You are quite right. I mean, we have looked at number of technologies and there is a lot of clever stuff out there at the moment. But in terms of having something that is available now at a sensible price point, which gives that really quite impressive level of protection. That VirusKiller unit, we think is a very strong player in that space.

Jane Sparrow (Barclays): I have got one question on the IT re-platforming in the US, and then a couple of follow-ups on other questions that were asked earlier. So just on the IT re-platforming, slide 15 where you showed the progress that you have made so far. Obviously, good progress in 2020. Still a good chunk to come there in 2021. Just in terms of the sort of risk profile of that re-platforming, when something is sort of 50% complete, is it sort of more than 50% done from a risk perspective? Does the risk profile sort of fade in that second half

of the project? And is it that that gives you your confidence in your reiteration of the 18% margin target by the end of 2022?

And then the two follow-ups. One was on Hygiene M&A. We often spend a lot of time chatting about competition for pest assets, especially in the US. But could you perhaps just comment on the sort of competitive environment for acquiring Hygiene assets? And then finally, on digital. I think you said there is a comparable margin on that product. And when you are offering as a more mainstream offering, does the customer pay a higher price to reflect the investments you have made in digital? Or are the investments funded by the lower cost to serve that product? Just wanted to understand those dynamics a bit better, please?

Andy Ransom: Jane. Yeah, Stu will take the first one. I will take the next two.

Stuart Ingall-Tombs: Yes. So on the IT re-platforming, Jane, yeah, I think 50% probably reflects 50% of the risk, honestly. We know what the systems are. We are into implementation of them. We are confident of the technology. We have got very good plans. And from what we have seen so far, we have executed the plans very well.

So I do not see a particular bias around risk and opportunity depending on where we are on that curve. But nevertheless, we will get the benefits, the majority of them, as I think I have said before, at the back end of the implementation into 2022. So in that sense, it is to come. We would not get the benefits until most of it is completed and those start to flow through. And that is the nature of a big system consolidation, if I am honest. So it is going well. We are very confident. We have got the right technology. We have got the right plans. But it is not done until its done.

Andy Ransom: Thanks, Stu. Your second question, Jane, is about competition within M&A for Hygiene assets. Yeah, look, I think your comment is right. I think typically good quality Pest Control asset in a good market. There is going to be a number of people wanting to take a look at it. That is not necessarily the case for Hygiene. We have not seen much evidence. There is one or two people out there looking in a number of markets, but I do not think in the way that we are structurally looking. It is as crowded a space at all. So I think your comment is fair.

The digital one is a little bit more difficult to answer. The answer is, it depends, Jane, in terms of pricing for digital. So much depends on what regime the customer wants as a follow-up to an activation on a connected device. So if you are a pharmaceutical tablet-bottling unit, and you have an activation that there is a mouse in the pharmaceutical plant, you want that dealt with immediately. You do not want us to come down 24 hours, 48 hours later. You want us to come down immediately.

So if you want that sort of emergency response service, that costs more. We have got other customers for whom they expect to have some mice running in a warehouse. They want to know where they are, they want to know what level of infestation they have got. But they are fine if we pick it up within 24 hours or 48 hours depending upon what agreement we have and when our next visit is. So it really is a function of whether you want gold, silver or bronze is a function of what price you pay.

But overall, the selling proposition is essentially you are getting a significantly higher level of pest control. So you would expect to pay some more for the connected version because you

are getting 24/7/365 as opposed to ten scheduled or eight scheduled visits a year. So it is still a premium, but that is a function of how often or how quickly you want us to respond to a triggered event.

Dominic Edridge (Deutsche Bank): Just two questions from myself on the US. Firstly, in terms of your Pest Control business in the US is obviously a little bit underweight residential versus the market. Given the relative outperformance of residential over 2020, have you sort of changed your views as to where you want that mix to be at all?

And then the second question was just obviously on the acquisitions that you made in January. It looks as though there is quite a lot of overlap, both in Florida and I think in quite a few other locations as well. I think, roughly, I think about 10 to 12 of your current branches overlap geographically. Would you regard the acquisitions as very much about building density, i.e., there will be quite a lot of consolidation in the branch network over the next few months?

Andy Ransom: Thanks, Dominic. On the mix one, I do not think we have really changed our view. I think if we look back over a very long period, decades arguably, we would have typically said that commercial pest control is our sweet spot and where we have the expertise, the differentiators and where we, frankly, see the long-term growth potential in the industry.

That does not mean to say that we are not good at residential pest control. But we have focused for a number of years on commercial, as you say. Resi for us, we are big in resi in the United Kingdom, in Australia, New Zealand, one or two markets in Asia. But most of our markets, we are predominantly, very significantly, predominantly a commercial player. And for those markets, no, I would not really see any change in our attitude.

North America and the States in particular, as I have said many times, half of the world's pest control takes place in the United States. And that has a very, very big residential component in that market. So really, for the last ten years, we have been building up our residential position. But not because we prefer resi to commercial, or in the States we have a different strategy, it is back to actually your second question, which is about density.

So to drive good margins across a route-based business, you have got to have a decent customer concentration within a postcode or a ZIP code. And therefore, for us, we use the blended opportunity of commercial and residential in a city as the means by which we get to the margins that we are trying to get to and that we do get to.

So it has been nice to see how resi has held up so well during the pandemic, and that is good. And we have built a much bigger resi business in the States in the last five years, but it is really a function of driving density than it is a switch out of one into the other. We are still the kings of commercial pest control and we will still look to build city-based density with residential and commercial acquisitions where we can.

To your second point, yes, and it really is. The M&A rollup for us has two components. It has got a city-based density play. And in America, we have got a colour-coded heat map. So every single metropolitan statistical area in the States, every single big city in the States, we have calibrate into work out whether or not this is a red, amber or green, and that is a

function of what density we have got and what density we think we can obtain in those city markets.

So when we buy a business, it is in a city that we have already previously identified that we want to move up from a red into an amber or from an amber into a green, because with density comes margin. So you are absolutely right. We will see branch consolidation off the back of the EPS, but also other acquisitions as well.

The second type of deal that we do, that we do not tend to talk about so much, is more the flag planting types of acquisitions where we go into new cities, sometimes new countries. And these are cities, we call them the cities of the future, but these are the cities that we have identified where we see really good growth opportunities over the next few decades, frankly, not necessarily over the next two to three years. These are big cities around the world where the rate of GDP in the country is strong, but where the rate of GDP growth in the cities is even stronger.

So our play is identify the cities of the future, acquire entry platform acquisitions, build scale over time in those cities. And in the fullness of time, they will give us very, very, very strong platforms in high-growth cities of the future. So that is the way to think about it. Some of it is spent on cities of the future. Some of it is spent on building density in targeted markets based on what our current position is today and what we think the opportunity is, so yeah.

Allen Wells (Exane BNP Paribas): Just in the interest of time, just one from me. Obviously, the commentary around progress on digital pest control, new product launches in Hygiene. I am just kind of interested to understand if there is any kind of step-up in investment requirements for you guys. Obviously, you talked a little bit around some recovery in CapEx in 2021. But would we expect this to be a slightly higher capital intensity within the business as we move forward, please?

Andy Ransom: Not materially, Allen. Not materially. I think we already spend a bit more on the capital side of the business, arguably, than some of our competitors in pest control because we are investing in technology and we are investing in innovation, much of which is now connected technology, so that does cost more.

And the level of capital. As answer to the earlier question, the level of capital required to support a hygiene business is a bit higher than pest control. But I do not think that translates into a material upweighting of capital expenditure in the business. And I think it is within sort of levels that you have seen consistently in the last two or three years. If there is a material kick up, it can only be if we are being very successful in driving the hygiene growth opportunity. So probably want to hold that thought for the Capital Markets Day. But I would not be signalling a material increase in CapEx based on the current strategy, no.

Sam Dindol (Stifel): Two quick questions from me. Firstly, with Anticimex looking to IPO perhaps in the summer, do you think that could impact the pricing environment for M&A in pest control from then onwards?

And then secondly, in digital, obviously had a pilot this year to push Pest Control in the UK, what would you need to see to sort of do a similar thing in North America and perhaps back to the disruption in that market?

Andy Ransom: Good morning, Sam. Yeah. Look, on Anticimex, all I know is what I read in the media. If indeed they are coming to market as an IPO, for me all that really represents is a change in the identity of some of their shareholders. It does not fundamentally change who they are, and I doubt it will fundamentally change their strategy. It does mean that they will have to do as we do, and present the numbers and give the transparency and run the balance sheet in a way that public companies have to do as opposed to private equity ones do, but whether that translates into a different strategy, you would have to pitch that one to Anticimex. But my view is just because they are coming to market, if indeed, they are, I would not really see that as a signal of any great change in strategy or particularly in impact.

On digital, yeah, look, we certainly do believe we have got the opportunity in the States, and it is certainly on the to-do list. But more importantly, first and foremost, is the IT re-platforming in the States, which Stuart has touched on in his presentation. We need to get that done, finished, in, and have that consistent operating platform across the business.

And then we will have a number of things that we will bring to that North American market that we have already got in play in other parts of the business. So certainly coming to the North American market in the not too distant future.

Disruption, it is a much-used word. We see it as differentiated at this stage, we see it as a markedly better Pest Control. And that is how we view it. We are delivering a better service for our customers than is available from the competition. Whether that constitutes disruption, we will see in the fullness of time. But it is certainly on the plate for North America, but let us finish the IT re-platform first.

Thank you very much, indeed. Thanks for joining us this morning and all the excellent questions. Have a very safe day, and we look forward to seeing you again in the future. And save the date for the Capital Markets Day, on 28th September. Thanks for joining. Thank you very much.

[END OF TRANSCRIPT]