



2026 Q3 Trading Update 22 October 2026

Operator:

Good morning, ladies and gentlemen, and welcome to Rentokil Initial PLC Third Quarter 2026 Trading Update. At this time, all participants are in listen-only mode. Later, we will conduct a question and answer session through the phone lines and instructions will follow at that time. I would like to remind all participants that this call is being recorded. I will now hand it over to Mike Duffy, Chief Executive Officer for his opening remarks. Please go ahead.

Mike Duffy:

Thank you. Good morning everyone, and welcome to our third quarter conference call. To begin, I'm going to cover the key highlights and then hand over to Paul to discuss the results in more detail. I will then close with an update on progress against our strategy to build the platform for sustainable, organic growth. Overall, it was a solid quarter. I am encouraged by the progress we have made executing against our priorities of customer focus, sales and operational excellence, and business simplification.

Where we have taken action, we are seeing results. In North America, we delivered an encouraging performance by optimizing our marketing spend, prioritizing the highest converting lead channels, and improving service quality. In our international business, Pest delivered another strong quarter of organic growth, close to 6%, as our focus on excellent client service, targeted account management, and connected solutions continues to pay dividends. As I've said before, our first priority is to restore North America to market levels of organic growth, which will include investing in training, sales capabilities, and our separated residential and commercial businesses.

These investments will be fully funded through savings across our international business and group central costs. Over the last few months, I have been working closely with my leadership team to finalize these investment and savings plans. We will provide more detail at our full year results in February.

Finally, we are moving fast on business simplification with our divestment of SOLitude. The disposal proceeds will further reduce our leverage, and as a result, the board has approved a \$200 million share buyback program. Before I hand over to Paul to discuss trading, I wanted to say a few words about our leadership announcement this morning. Paul has

taken the decision to retire from full-time executive life for family health reasons. He retires on January the 31st, and we are pleased that he will stay on as a senior advisor, ensuring a smooth transition to a new permanent CFO. Paul's been a great partner helping me get up to speed with the business and during his time at Rentokil has had a significant impact improving our financial discipline and strategic focus.

The board, myself, and the entire leadership team are sad to see him retire, but also fully understand and support his decision to prioritize his family. The search process for a new permanent CFO is underway. If it is not complete by February the 1st of next year, Sarah Sergeant will step up from her current role as Group Financial Controller to become Interim CFO. With that, let me hand over to Paul to discuss trading.

Paul Edgecliffe-Johnson:

Thank you, Mike, and good morning everyone. Before we begin, I'd like to draw your attention to the usual cautionary statement contained in our trading update, which also applies to this call. Unless otherwise stated, all figures are in US dollars and any comparative performance is on a constant currency basis. Starting with Group, revenue was \$1.9 billion, representing 3.4% organic growth. North America delivered 3.2% organic growth and international 3.7%.

Looking at North America in more detail, pest control services revenue growth was 2.7%. Contract growth was 3.1%, an improvement from the second quarter. Weaker lead flow early in the third quarter resulted in a lower jobbing performance at 2.6%. Organic growth was 2.4% with the pricing environment remaining robust. Residential performance across core pest control and termite was solid. While pleasingly, commercial national account, which is approximately one third of our commercial business, saw improved growth driven by better service quality and continued Pest Connect adoption.

The drag from rationalizing our heritage Terminix commercial client portfolio is now largely passed. After seeing a mid to high single-digit decline for July and August, residential lead flow moderated towards a 1% decline for the month of September. North America Business Services continued to deliver strong revenue growth at 9.6% organically driven by ongoing momentum in our product distribution business and continued strength from new client wins in brand standards. We continue to anticipate growth to moderate towards mid single digits. I'm pleased to note that both customer and colleague retention continues to improve year over year. We saw progress in residential customer retention and commercial retention stabilized in the quarter. Moving on now to our international business where revenue was up 5% and organic growth was 3.7% or 4.7% excluding our two businesses serving the UK property market, which continues to be challenging. International pest control organic growth strengthened to 5.7%. Growth was broad based across regions and

it's pleasing to see some markets including the UK, our largest international pest market, sustaining high single digit organic contract growth despite tough economic backdrops.

International hygiene and wellbeing organic growth was 0.7% significantly impacted by weak trading in our DC UK asbestos removal business. Excluding DC UK, organic growth was 2.6%. Overall, as Mike said, it was a solid quarter. We've also made good progress with our cost savings program in North America and we expect to deliver full year profits in line with current market expectations.

Moving on now to capital allocation where I have consistently emphasized our disciplined returns focused approach. Our first priority is to invest in the business, both organically and inorganically, then pay a progressive dividend, and finally return surplus capital while maintaining a strong balance sheet with a target leverage ratio of two to two and a half times. We were back inside that range for the first time since the Terminix acquisition at the half-year stage, and with the sale of SOLitude, we will continue to de-lever through the remainder of the year. The board has therefore approved a \$200 million share buyback program, which will start shortly.

Finally, before I hand back to Mike, as this will be my last results conference call for Rentokil Initial, I want to thank all of you who have supported us during a period of heightened change. I'm committed to ensuring a seamless transition and I'm pleased that we have the caliber of talent on the finance bench of Sarah Sergeant who will step up if required to be interim CFOs as of the 1st of February next year.

Sarah is a chartered accountant with a long track record of success across multiple senior finance leadership roles, primarily at Compass Group. Prior to Rentokil, she was Group CFO for a small listed UK business. I'm looking forward to continuing to work with Mike and the wider executive leadership team on an advisory basis. My conviction in the long-term opportunity to drive value creation has only grown since I joined the business in late 2024, and I'm pleased to remain part of the team working to unlock that opportunity. Let me now hand it back to Mike.

Mike Duffy:

Thank you, Paul. Let me start by spending a few minutes on the consumer search environment. The start of the third quarter saw reduced total Google search activity, which we flagged in July as we also saw weakness in our lead flow. We took action and saw results with our lead flow improving sequentially through the quarter. We shifted our marketing mix towards our highest yielding channels and improved year over year conversion in nearly all our channels through self-help actions.

As Paul referenced, this self-help improved our residential lead flow decline to just 1% for the month of September. We are being agile and adaptive. Where the environment is changing, we are understanding those changes and responding. With LLMs, we are moving into a world of increasing transparency where local reputation and service matters. We will win by continuing to elevate our service quality and by deepening customer relationships to become their trusted advisor.

These models draw on the broader web, not just Google, so we're strengthening our signal across the sources they trust. Reengaging affiliate channels like Yelp and the Better Business Bureau and producing hyper-local content where it moves the needle. Our scale provides us the capabilities and the resources required to win locally. We're also front-footed on AI agents. Terminix.com already lets you price, schedule and pay in minutes, and our call center is being trained to win when an AI agent calls on a customer's behalf.

Looking ahead, we are developing capabilities to push live pricing and scheduling availability into a format AI agents can interact with and expect implementation in early 2027. Before I move on, let me reiterate what I said before. AI search is currently a very small share of our mix, and whether we're dealing with a human or an AI agent, immediate availability, speed to install and service quality are what matters most. And that is exactly why we are focused on our three priorities of elevating our customer focus, delivering sales and operational excellence and simplifying the business.

Turning now to some highlights on executing those priorities. In North America, we have made good progress over the last few months, taking steps to separate residential and commercial and promoting two pest industry veterans to lead those businesses. We will continue to work towards a full functional separation to drive greater operational focus, transparency, and accountability for those businesses reflecting the distinct needs and expectations of each customer group.

In the third quarter, we implemented multiple self-help actions to drive sales excellence and improve conversion. These included shortening connection times to customer service agents through process improvements for call and chat journeys. We are also reducing friction in the online selling experience and implementing SMS and email nudges for abandoned cart recoveries. And in Atlanta, we have stood up our test and learn pilot this month to start working towards a standardized branch operating model, a model based on demonstrated best practices from within our network.

The opportunity from consistently executing a standardized playbook is significant, as demonstrated by the top third of our branches delivering above market growth. This pilot takes learnings from our best performers captured earlier in the year and puts them into practice. It will run into the first quarter next year, leaving time to start phased implementations ahead of the next peak season. The objective is to define how best to

organize people, define processes, and utilize tools in a branch to ensure that our people in the field are equipped to execute with excellence.

In closing, we've delivered a solid quarter and the buyback announced today demonstrates the board's confidence in the strength of our business model. We've made tangible progress to advance our strategy since we set out our three strategic priorities back in July to build the platform for sustainable organic growth. The goal is not to reinvent Rentokil, it's about applying the existing strengths of the group with greater consistency and the reward for driving consistency will be substantial.

We operate in an attractive industry, growing mid single digit with multiple long-term tailwinds where we have leading market positions with a strong right to win. Over the past two years where we have taken action, we've seen results backed by great people and strong brands.

And finally, talking to great people, I want to thank our 65,000 colleagues around the world who come to work every day with two simple goals, keep each other safe and take care of our customers. And they do so with my thanks and appreciation. Let me now hand it back to the operator. We'll pause for a moment to line up the questions. Thank you.

Operator:

Ladies and gentlemen, we will now begin the question and answer session. To ask a question on the phone line, please signal by pressing star one on your telephone keypad. To submit a written question by the webcast page, please click the ask a question button. We will pause for a moment to assemble the queue. We will take our first question from Andy Grobler with BNPP. Andy, please go ahead.

Andy Grobler:

Hi, good morning. Two from me, if I may. Firstly, just in terms of the full separation of the commercial and residential activities in the U.S., can you just talk us through what is involved in that process and to what extent that is a physical separation rather than a business line separation?

And on the same theme, to what extent are your other businesses across the group, whether that be Ambius or Hygiene, are fully integrated and whether there is physical or business line separation that can be managed over time if you so choose to do so? And then secondly, just on PestConnect, you talked about the rollout in the U.S. gaining traction and lots of demand. What are your expectations for the number of units that could be rolled out over a 6, 12, 18-month process and how would that compare to the opportunity and success you've had in rolling that out in the UK? Thank you very much.

Mike Duffy:

Thank you, Andy. I'll start with the PestConnect and if you want to take the separation, but I'm happy to do so. I think my internal expectations for PestConnect are probably higher than others, but we've had a tremendous response from current customers as well as potential customers. It is a solution that has proven very well in international and the U.S. team. Internally has done a great job embracing the technology. Our customers have responded very well. It gives them peace of mind as they think about some of the compliance requirements from, for example, from FDA, if you're in food. And we know internally with PestConnect, as we've seen in our other markets, it's a very sticky solution and it drives retention.

So we're excited about the rollout in the U.S. The reps and the account execs have been very excited with the training and the listen and learns we've done. So we're excited about the prospects.

Paul Edgecliffe-Johnson:

And Andy, in terms of the separation, what we're making sure of here is that residential gets exactly what it needs to perform optimally and commercial does as well. So we're not having to compromise on slightly different business needs, whether that's around sales, training, or any other component of the business because they are a bit different. If you think the rest of our business outside of North America is really a commercial business and we know what retention that should run at and we know that we're running at a significantly lower retention in the U.S. So we know there's a big opportunity for us there.

If we look more broadly across our businesses around the rest of the world, it isn't really a physical separation issue if we were to decide to make further progress, whether it's on any other part of the portfolio, it's how integrated into our systems environment they are. So we've spoken about that a bit before. All of our businesses sit on the Rentokil systems. So if we wanted to extend anything further, we'd need to take a bit of time to stand up a separate system, which would make it easier to sell them. But it's not a physical issue per se. Thanks, Andy.

Andy Grobler:

Thank you very much.

Operator:

And our next question comes from the line of Annelies Vermeulen with Morgan Stanley.

Annelies, please go ahead.

Annelies Vermeulen:

Good morning, Mike. Good morning, Paul. I have two questions as well, please. So given the shifts in the customer acquisition model that you've referenced and the shifting digital landscape, you've mentioned more technician led self-generated leads. Is that where incremental investment will go or put differently is the mix of investment in terms of marketing and advertising and so on shifting as this technological change also shifts?

And then secondly, as part of that, given everything we're seeing in recent months on the technology side, could you talk a little bit about how your larger brands have been performing versus your regional and local brands more recently and if you've seen any notable changes there between those? Thank you.

Mike Duffy:

Thanks, Annelies. On the customer acquisition model, I think it certainly predates when I got here, we've been working on getting the marketing mix model right. And I think we continue to find ways to reallocate the dollars as appropriate, which I talked about before. In terms of investments, that's still work in process. So I'm not going to comment on where we think we're going to invest. But certainly equipping our frontline, as I mentioned, the learnings in the pilot or we hope to learn, equipping our frontline with what they need to execute with excellence is certainly on top of our list.

In terms of how we see the brand performance, as you know, Terminix brand is number one for unaided brand awareness and it continues to be a strong brand. It's a brand people know and trust, and we continue to leverage that in our regional brands. Regional and local, they had been neglected in the past, but I think with the pivot back to our 30-brand strategy, we've seen good strength with our regional brands out in the market.

I don't know, Paul, anything you want to add?

Paul Edgecliffe-Johnson:

No. Thanks, Annelies.

Annelies Vermeulen:

Great. Thanks, Paul and thanks. All the best. Thanks for the engagement.

Paul Edgecliffe-Johnson:

Thanks very much, Annelies.

Operator:

And your next question comes from the line of Suhasini Varanasi with Goldman Sachs.

Suhasini, please go ahead.

Suhasini Varanasi:

Hi, good morning. Thank you for taking my questions. Just a couple from me please. You've indicated that organic growth improved through the quarter. So is it possible to provide a bit more color on growth in September and October versus the 2.4% average seen in the third quarter?

Do you think that the momentum that you've seen over third quarter can continue over the next few quarters because it feels like a lot of the changes that have driven the improvement feel a bit structural? Just some color that would be helpful. Thank you. And the second one, can you guys provide some detail on how the commercial customer saves team pilot exceeded expectations and what kind of improvement in retention rates did you see please? Thank you.

Mike Duffy:

I think let me start and then I'll hand it over to Paul. I think, like I said before, I'm encouraged by the progress we've made since setting out our priorities in July to build the platform sustainable organic growth through customer focus, sales and operational excellence and business simplification. And as I talked about in July, we're on a journey, but where we have taken action, we've seen results and the team has done a great job stabilizing the business and returning to growth and we got to keep building on that hard work. We still have a lot of wood to chop, as they say in the U.S., but like I said, I'm encouraged by the progress we've made.

Paul Edgecliffe-Johnson:

And look, on the specific questions as to the leads, we talked about at the interims that we'd seen in June and into July, some weakness in the leads environment. And then as I said in my prepared remarks earlier, we saw a mid to high single digit decline for July and August, and then September was significantly better. And we've seen that progress in the latest few weeks trading into October. So we are encouraged by that.

There's a lot of work, as Mike said, that has been done over the last few years to improve our marketing capabilities, our digital marketing capabilities, and we've got some great people working with us.

In terms of the customer saves team and the broader work that we're doing on commercial retention, we've spoken before about how this is an opportunity for us and a real focus. We should have a very high level of retention in our commercial business and it wasn't at the same level and still isn't as around the rest of the group.

Customer sales team, that's helped, as has the installation of PestConnect. And we've also lapsed now the headwind that we were seeing from exiting the Copesan weaker clients. So that seems to be on a better path now. So we have high hopes there. That should be averaging us up and it hasn't been. So a lot of opportunity in that area.

Thanks, Suhasini.

Suhasini Varanasi:

Thank you.

Operator:

And our next question comes from the line of Will Kirkness with Bernstein. Will, please go ahead.

Will Kirkness:

Thanks. Had two questions, please. Firstly, if we look at that contracted number within pest control services, the 3.1, if that's organic plus M&A, I guess with pricing, that might imply that volumes are still negative. So I just wondered if you had a view on or if you could help us with what the volume performance is within the contract book and how you feel about that moving into positive trends.

And then secondly, just with regard to cost savings and think about Paul's departure earlier next year, how far through in terms of U.S. cost savings and perhaps more importantly, the international cost savings, to fund the U.S. investments do you think you'll be before then? Thanks.

Paul Edgecliffe-Johnson:

Thanks, Will. Yes, so you're right. What we're pleased about is that the pricing environment continues to be very good. We've talked about inflation pricing and we talked before about the sophisticated way that we go about this. It's hyper personalized and data driven. So it's not that everybody gets a blanket price increase. There's a lot of factors that come into play and pricing has been a big part of our performance uplift in the last few years, but volume is still negative. And so that is still an opportunity for us, no doubt.

In terms of the cost savings, look, it's never about one person. There's a broad team that's been working on this across the business. And Mike, I think has been very clear that we will be taking cost out of the international business. And now that it's moved under the leadership of Phil, it's easier for him to look at all the costs and where they overlap and say, "Well, actually we can do that differently." And I've spoken before about the fact that our costs at the group level have been going up very significantly for some years, and there's a big opportunity for us to address that and move that back to where it should be. And we are working at pace and very comprehensively against that. So we'll see that continue to deliver and fund the investment the business needs to make into North America. Thanks, Will.

Will Kirkness:

Perfect. Thanks for everything. Cheers, Paul.

Paul Edgecliffe-Johnson:

Cheers, Will.

Operator:

Our next question comes from the line of Tim Ramskill with Bank of America.

Tim, please go ahead.

Tim Ramskill:

Thanks. Good morning both. Try three questions, please. So pretty big picture, but there's obviously a prevailing wisdom that the market here grows in North America at 6%, but clearly the dynamics across the larger players we could observe isn't quite as strong as that. So just interested in your thoughts as to whether there's anything changing in regards to that long-term growth trajectory.

Second question is around North American margins. Obviously you have the reset of expectations at H1, but as it stands today, consensus expects to see no change in margin in '27 or '26, which seems quite ambitious given the plan for investment back into growth. So just interested in your thoughts as to whether that's feasible or not.

And then I know you've touched a couple of times already on some of the commercial dynamics, but I guess again at Q2, H1, you were talking about how commercial had shifted from being a boost to overall growth to a drag. I just wondered if you could comment on the differential in growth performance between resi and commercial in Q3, please.

Mike Duffy:

Yeah, thanks Tim. Let me start and then I'll hand over to Paul. We compete. I think the U.S. is no different than international. It's a structurally growing and attractive market. I think the industry fundamentals are still strong. It's got a good TAM. It's good CAGR, like you mentioned, characterized by the high market fragmentation. The tailwinds include climate change, the urbanization, a growing middle class. I was in the food industry. That's a heightened food safety and compliance requirement, especially obviously in commercial, and that's where our PestConnect solution plays really well because it gives people peace of mind that if they get a surprise visit from the FDA, at least it's one less thing they have to worry about.

So to your question on the market growth for the long term, I think it's still very structurally growing and attractive.

Paul Edgecliffe-Johnson:

Yeah. And look, Tim, I guess I would say a couple of things. You've heard me talk before about our terciles. Our top branches are growing well ahead of that market growth that you talk about. And there's no specific advantage that those branches have. So there is a very big opportunity for us to go to that market level and then beyond it.

I think what we're focused on is getting first back to that level of growth and then going beyond it. If you think about what our UK business did, nearly 10% organic growth in an economy in the shape of the UK economy, and that was after similar performance earlier in the year, that this business can grow extremely fast. Obviously we've got a lot of proving to do to get it to that point, but we are going to invest appropriately

Paul Edgecliffe-Johnson:

... we need to make sure we've got the competencies, skills, and all the tools that are needed to get up to that level of performance. So that's why we've said that for 2027, we've stepped back from that 20% margin target. There's a lot of opportunity for margins to accrete, and they clearly will as we add more and more revenue onto a cost base which can support a much bigger business. But we're just not focusing on that in 2027, it's investing back in with the savings that I've talked about that we will generate in the international business and [inaudible 00:28:39] costs. So it continues to drive up growth, and then the margin will come over time.

And then in terms of commercial versus resi, I think this is the story that I've talked about before. Commercial should be structurally a higher retention business. And that does make it easier to have high levels of OG, because you haven't got the same drag from clients cycling off. That's where we need to get to. It is still a drag for us, though it's better than it was. So we're pleased with the quick results from the changes we've been making. And as

Mike said, this is what we see across the business. When we see something and we get at it, we see a sharp response, and then that's really encouraging. That's everything I've seen over the last few years as we diagnose the patient and start to give it medicine, it recovers. But there's still a lot more work for us to do, as Mike said, a lot more wood to be chopped, and that's the journey we're on. Thank you, Tim.

Tim Ramskill:

Thanks. I think Paul, you and I first spoke 20 years ago, so I genuinely wish you very best of luck in your retirement.

Paul Edgecliffe-Johnson:

Thank you very much, Tim. I appreciate that. It has been a great 20 years.

Operator:

Our next question comes from the line of Ollie Davies with Rothschild & Co Redburn. Ollie, please go ahead.

Ollie Davies:

Yes, good morning. Thanks. Just a couple from me. So firstly, just a question on the 30-brand strategy. Given that LLMs are favoring more local brands, do you still plan to consolidate the 10 or is there now a better reason to potentially re-look at that and keep them? And then secondly, you talked about the macro, particularly housing impacting termite lead flow in Q2. So can you just talk about how that progressed through the quarter versus I guess more normal resi?

Mike Duffy:

Yeah, I'll start on the brand strategy and if you want to take the lead. I don't think we've said we were going to consolidate to 10. I think we said we were going to consolidate to 30. We'll pause here and see what makes our sense going forward. As I talked about earlier, the regional power brands are actually holding up very well. And to your point around local people, at the end of the day, they want a brand they know and trust, and I think we got to look at that through that lens, especially given some of the dynamics you referenced.

Paul Edgecliffe-Johnson:

Yeah, look, absolutely. I mean, I think that 30 is truly brands. Beyond that, we do have some names, but there might only be in one branch, so it's a bit hard to say that's truly a brand. I mean, a brand has to mean something, has to have a promise, has to have a proposition, et

cetera. So I think that isolating the 30 and saying that this gives us enough coverage across the United States market to build out and invest behind, do promotions, et cetera, that's the right level. And we're really pleased we've got those great 30 brands.

And in terms of the dynamics that drive the market, we've said before, this is really a non-discretionary spend item for the vast majority of households. So this isn't linked so much to consumer sentiment, but in the termite business, it is more correlated with housing starts and housing moves. So we did call out some weakness, particularly in the Northeast at the second quarter, and that has continued to be a drag into the third quarter, but it is correlated to housing rather than the general consumer.

Mike Duffy:

Yeah.

Paul Edgecliffe-Johnson:

Thanks, Ollie.

Ollie Davies :

Thanks very much and all the best, Paul.

Paul Edgecliffe-Johnson:

Thank you, Ollie. I appreciate it.

Operator:

Our next question comes from the line of James Beard with Deutsche Bank. James, please go ahead.

James Beard:

Yeah, thanks guys. Morning. Just one from me , going back to digital lead flow. How material now is AI LLM search as a proportion of your lead flow? And to what extent has that changed over the last three to six months?

Mike Duffy:

This is Mike. It still represents a small portion of our lead flow. And like I said, we're reacting and adapting quickly and shifting our media strategy accordingly. So reestablishing those relationships with key affiliates like Yelp, Consumer Affairs, the Better Business Bureau, Triple B, developing FAQ layers to optimize the LLM extraction, adding hyper local content

and imagery for the Google profiles and local webpages. So the team's doing a great job adapting and responding to these shifts, and we're certainly encouraged by the progress we've made. And like Paul said, where we have taken action, we've seen results, and that here in the LLM in the marketing space is no different than operationally.

Paul Edgecliffe-Johnson:

Thanks, James. Did you have another question or did that cover it?

James Beard:

No, that was it. Yeah.

Paul Edgecliffe-Johnson:

Great. Appreciate it. Thank you very much.

Operator:

Our next question comes from the line of James Rose with Barclays. James, please go ahead.

James Rose:

Hi there. Just one from me. It's on your residential termite, smaller commercial subscription business. For you and the industry, what does new customer pricing look like versus existing customer pricing? Is it a fairly flat structure across the book or do you have a back book of longstanding customers who are paying quite significantly higher prices?

Mike Duffy:

I'll let Paul jump in. We don't discuss pricing obviously with customers. And I think new customers, there's a number of variables that go into pricing new services. So it's not a one size fits all, but like I said, there's a number of variables that go into our pricing engine.

Paul Edgecliffe-Johnson:

Yeah. And thanks, James. I think one of the opportunities we've talked about before is to cross sell more products to customers. So as they come in, well, they might start with a job, and then we will say, "Well, actually it makes sense for you to be working on a contract with us." And then we'll say, "Well, would you like us to also deal with the mosquitoes because your neighbor has a mosquito problem, so you're likely to have a mosquito problem, et cetera, et cetera." And then we may initially only be looking after pest control, not termites, and we'd like to sell them the termite services, et cetera, et cetera, et cetera.

So we can build over time a stronger relationship as a trusted advisor to our clients. And they want that because it's easier to deal with one provider than multiple providers. And so our longstanding customers do tend to be the most valuable ones, and that links back to what Mike has talked about before. The number one priority is excellent customer service, and doing that, keeping those customers happy, they'll then refer more customers to us and the lifetime value of that customer continues to increase, and that's what we're very focused on. Thank you, James.

James Rose:

Thank you.

Operator:

Our next question comes from the line of Jane Sparrow with JP Morgan. Jane, please go ahead.

Jane Sparrow :

Morning. Two questions, please. The first one, just returning to the improved trend in lead generation in September. I appreciate you've taken a lot of action, those are paying off, but just wondered if there's also any improvement in the underlying market, maybe due to monthly weather variability or anything to call out on prior year comps, really just anything that you'd call out beyond the actions that you have taken? And then the second question is just on capital allocation. I appreciate leverage has come down. It's still relatively elevated, and you also have the additional obligations on the legacy termite provisions, which is effectively debt. So I just wondered how much debate there was around the deployment of those solitude proceeds on a buyback rather than reducing leverage or retaining the firepower for future pest M&A perhaps?

Mike Duffy:

Yeah, thanks, Jane. I'll start with the lead generation. My background, I come from a retail background where we got great data from Nielsen, IRI, et cetera, on category performance, channel performance, et cetera. We don't have that type of data in this industry, so it's not great. I think what we've seen in October has been consistent with what we saw in September. So I think, as you said, where we've taken action we've seen results, but I wish I had better causation correlation in terms of data to market performance, but we just don't.

Paul Edgecliffe-Johnson:

Yeah. And look, in terms of capital allocation, I think you know the algorithm that I work to, Jane, and that's very consistent. Our first priority is always to invest into the business, and

Mike's talked about the areas where we will continue to invest to drive organic growth. Then we will buy businesses, and this year we think we'll probably spend about a hundred million dollars on that. And we are focused on strong, strategically relevant businesses in strategically relevant markets to bring in. And this year, 100 million is sufficient for the opportunities we see there. We'll reduce debt down when we see a need. But if you think about the 2.4 times that we were at the half year, well, seasonally, we do tend to de-lever more in the second half, and about half a turn on that 2.4 is the IFRS 16 capitalized leases. So if you take that out, we'd be sub two.

And yes, we do have a continued cash need on the Terminix provision, which we've spoken about before. No real change on that obviously, given this is just a quarter, but we were very comfortable with returning the proceeds from SOLitude. This business should be highly cash generative, and we've spoken before about our ambition is to grow revenues against a consistent cost base so we can accrete margins, generate surplus cash, return that to shareholders, and drive mid-teens EPS growth, and this business should be perfectly capable of doing that on a sustained period. That's the algorithm, that's what we're working towards. Thanks, Jane.

Jane Sparrow :

Thanks very much, and best of luck with everything, Paul.

Paul Edgecliffe-Johnson:

Thank you. Appreciate it, Jane.

Operator:

Our next question comes from the line of Allen Wells with Jefferies. Allen, please go ahead.

Allen Wells:

Hey, good morning, gentlemen. A couple from me, please. Firstly, just on circling back on the lead gen side, you obviously saw lead gen fall from six to seven down to negative in the quarter, but can you just talk us through the lag effect on how lead gen flows into growth, because growth has obviously held up quite well, so is there an expectation that that could still impact as we go into Q4, the gen that's come down? And then specifically with the lead gen down, but growth stable, can you just maybe the building blocks of what the offsets are? I'm guessing it's higher conversion on the leads that you are getting, or is there something else that's keeping growth up? You obviously do mention higher retention there. That's the first question.

Secondly, on that aggressive shift to AI, at least in the narrative that we're hearing since May, June time, you've clearly taken action. So would it be fair to assume that you've accelerated or increased some of the investment required in the second half? And if so, how does that actually change or impact the magnitude of the overall investment plan, or is it just timing allocation versus where we were at the start of the year? And then finally, just on the pricing, you flagged good pricing dynamics. There's obviously a higher narrative around how AI may impact pricing at an industry level with increased transparency, the use of agents. I just wonder if you can maybe just give us your thoughts on how AI impacts longer term pricing within the industry, particularly for premium price players. Thank you.

Mike Duffy:

Yeah, thanks. There's a lot here to unpack, so I'll start and then ham and egg it here with Paul. I think on the lead gen and lag effect, there's two different things on the leads, one is contract and one is jobs. Jobs are more immediate in terms of revenue recognition. And contract, obviously there is a lag there as you think about the initial and the recurring services. So it's hard to answer that cleanly without understanding the mix of the jobs versus contracts. So there is some lag on growth. In terms of what's driving our improvements, we are focused on conversion. So we've done a lot of stuff to create a more frictionless experience for customers in the customer journey, whether it's through our call centers and the IVR to speed to lead, speed to install,

And we are shifting and reallocating dollars to those higher converting channels. So we're doing a lot of things from a self-help perspective to drive conversion and control the things we can control. In terms of AI and the investments, we're shifting dollars. So this hasn't been an incremental investment for marketing spend. So we're reallocating dollars across our marketing mix to make sure that we're allocating dollars to the channels that have the highest returns. And in terms of pricing, I think at the end of the day, this is not a commodity service. So you're inviting somebody into your home and that's very intimate. And at least I know how it works in my house. And we're not just going to take anybody to show up and come into our home. You have to have a comfort with the technician that you can leave him or her in your house, invite them through personal spaces, et cetera. So brands and local reputation matters, service consistency matters, and technician reputation matters.

So I don't think, from my perspective, it's not a race to the bottom on price. Again, it's not a commodity service. It's an intimate service that when you invite somebody in your home, you want to know and go with the brand you trust and you know. Paul, anything?

Paul Edgecliffe-Johnson:

Yeah, the only thing I'd add, Alan, is if you think about the conversations we've had over the last few years about marketing spend, when I came into the business in 2024, there'd been a lot of money that had been badly spent and hadn't delivered revenue for us. So we've been reallocating that, really understanding the competencies that this business needs in the digital search environment. It isn't just about throwing more money to get more leads. It doesn't work that way. You can't just buy leads. You need to make sure that you are presenting your proposition to AI in the optimal way so that you show up well as they look to make the best recommendations to the user of the AI. And we understand that well. We've got very strong marketers who know exactly what to do with content and what the different LLMs will look for across the internet.

And so we've been reorientating ourselves to stand up well against that. And it's more doing that than just throwing more dollars at it. So it's a fundamental understanding. And that's where the scale players are going to win because we can do that. If you're just a small local operator, you can't really change anything. We can. Sometimes there's a slight lag effect as we look and see what's happening and then we make the required changes, but the scale player always wins in the long term. Thank you, Alan.

Alan Wells:

Thank you.

Operator:

Our next question comes from the line of Nicole Manion with UBS. Nicole, please go ahead.

Nicole Manion:

Good morning. Just one, I think for me. Appreciate you've already said quite a lot about commercial, but obviously it does seem as though there's been an improvement already in Q3 from some of the initiatives you outlined a few months ago. Is there any more detail you can give on the specific drivers of this? Is there an impact from the separation and the hiring of new operations managers already in there that you feel like you can speak to? Or is it more about some of the other self-help measures around customer saves and so on? Thanks.

Mike Duffy:

Thanks, Nicole. I think the separation is new. So that was announced in September. And while we'd love to say that was the catalyst, that wasn't the catalyst. I think it's going back to some of the basics, frankly, on commercial and really focusing on service quality, showing up when we said we would show up. I think PestConnect is starting to build momentum and give our sales reps confidence in getting them back on the balls of their feet versus standing

on their heels. So they're being more ... As you win, win gives you confidence. Confidence creates momentum. And I think as they see these wins, because we do have a strong right to win in this space, it is a core competency of ours outside the U.S. and we've leveraged a lot of those best practices and disciplines. Like I said, PestConnect has done really well. So I think it's just our guys getting back on the balls of their feet, doing what we say we would do and showing up on time and performing the service that we said we would do. And that's creating a lot of the momentum.

Paul Edgecliffe-Johnson:

Thanks, Nicole.

Nicole Manion:

Great. Great, thanks. Just a quick follow-up there, if that's okay. Just around the separation, I was meaning more around the separate operations managers. Would it be fair to say then, based on what you've just said, that that's still mostly ahead of you in terms of that kind of hiring process and finding those people?

Mike Duffy:

Yes. That's part of, as we look at our investment thesis for next year, that's still within that scope. That's correct. But we haven't done that.

Nicole Manion:

Great. Thanks for the clarification. And yeah, all the best as well, Paul.

Paul Edgecliffe-Johnson:

Thank you, Nicole. Appreciate it.

Operator:

There are no further questions. I will now hand it back to Heather Wood to address the written questions. Heather?

Heather Wood:

Thank you. Yes, so we've had some questions come in, written questions come in. Paul, I'll give this one to you because I think you covered it in your prepared remarks. So residential

lead flow recovered a 1% decline in September after the week of July and August. What were the declines in those two months?

Paul Edgecliffe-Johnson:

Thank you, Heather, and thank you for whoever sent in that question. Look, as I've said, it has improved across the quarter sequentially. So we saw a mid to high single digit decline for July and August, but not quantifying it precisely, but that sort of gives you the indication. And what we've seen in September with that negative one is broadly continued through month-to-date in October. So if there's any variation, we'll talk about that in February at the full years, but that's what we're currently seeing. So no more quantification we can provide today.

Heather Wood:

Thanks, Paul. Then another question, Mike, on the residential and commercial split. Question about when will it be complete? Does it create duplicated costs and will it require incremental investment?

Mike Duffy:

Good question. Thank you. I think we're working through the incremental investment piece. Obviously our goal is not to add redundant costs and to run a cost-efficient model where we can, but Mona and Mac, who are two industry vets with more than 40 years combined between them, one grew up on the Terminix side of the business, one on the Rentokil, they're working through the process now and understanding where, how, and when to make the right investments or splits.

Heather Wood:

Thanks, Mike. Then a question on the contract revenue improvement in North America pest control services, which was 3.1% in Q3. Just a question about how much of that improvement came from the improvement in the commercial national accounts and how much from [inaudible 00:49:31]?

Paul Edgecliffe-Johnson:

And thank you for the question. I do imagine we can't split out every component of our improvements and frankly, we don't want to give any more information because it's a bit commercially sensitive. So those have both been drivers of the improvement, but I'm not going to split it out with any more specificity, but thank you for the question.

Heather Wood:

And then one last one on the pilot. We've obviously identified the 150 improvement opportunity, a specific question on which 3 to 5 will have the greatest financial impact and what determines whether they will be rolled out nationally.

Mike Duffy:

Which 3 to 5 of the 150? That's why you do a pilot. I think we're doing two things. We're looking at the customer journey and we're also looking at the operating model. So as we go through the pilot, we're taking learnings and best practices. I know Paul's talked about it a lot, and I think I mentioned it earlier. We have a number of branches, especially the upper third, the top tercile, that are performing above market from an OG, from a growth perspective. So learning from them and what they do well and repackaging it, if you will, and piloting it in these sites in Atlanta, that's, like I said, why you do a pilot, see what works, what's scalable. And certainly there will be things we can do immediately. And I know the team's already doing things immediately. For example, in residential, looking at pre and post calls to make sure they're done consistently from the text with the consumer.

So there's a number of things I'm sure that we'll be able to roll out immediately at scale and some other things that'll probably be more of a phased implementation, but it's not rocket science, it's hard work, it's detailed work, but it's work that I've done in my past. And I think as you get after it, and people are excited about the pilot across the network because they're looking for opportunities to improve as well. So they're anxious to see what learnings come out that can be replicated. So a lot to learn over the next 12 weeks.

Heather Wood:

Great. Thanks, Mike. That's the end of the written questions, so I will hand it back to you to close up the call.

Mike Duffy:

I'll close. First, thank you, Paul. So Paul, over the last seven months, has been very patient with me as I've asked him a thousand questions a day, and I appreciate it. So he's been a great partner and a great asset to the company for the last two years. So I know he'll be missed, but family takes priority, so we all support that decision.

Turning to the business, I'll end where I started. I'm encouraged by the progress we've made since setting out our priorities in July to build the platform for sustainable organic growth through customer focus, through sales and operational excellence, and by simplifying the business. Our goal is not to reinvent Rentokil, but to take the many strengths of the company and apply them consistently across the group. And as I mentioned, we're on a

journey. So where we have taken action, we've seen results. The team has done a great job stabilizing the business and returning to growth, and we need to build on that hard work. As I said, we still have wood to chop, but I'm encouraged by the progress and how adaptive and resilient this organization is. So appreciate everybody's time. Thank you. For those in London, enjoy the sun. It's nice to see it out today. I don't know if it's staying tomorrow though, but thank you everybody.

Paul Edgecliffe-Johnson:

Thanks everybody.