

## 2020 Preliminary Results

*In a challenging year for our colleagues and customers, we have grown revenue, profit and cash in 2020.*

Results £m	FY 2020 AER	Growth AER	CER
<b>Ongoing Revenue</b>	<b>2,809.6</b>	<b>5.0%</b>	<b>6.3%</b>
Revenue	2,823.5	4.0%	5.3%
<b>Ongoing Operating Profit</b>	<b>383.8</b>	<b>4.3%</b>	<b>5.4%</b>
Adjusted Operating Profit	384.0	5.1%	6.3%
<b>Adjusted profit before tax</b>	<b>355.2</b>	<b>4.2%</b>	<b>5.3%</b>
Profit before tax	229.8	(32.1%)	(31.9%)
<b>Free Cash Flow</b>	<b>336.8</b>		
<b>Adjusted EPS</b>	<b>15.37p</b>	<b>6.5%</b>	<b>7.8%</b>
EPS	10.03p	(34.6%)	(34.3%)

### 2020 Highlights (at CER unless otherwise stated)

- **6.3% increase in Ongoing Revenue;** meeting our medium-term growth target despite significant challenges
  - 1.0% growth in **Pest Control** (H1: +1.0%, H2: +0.9%), reflecting our essential service status and ability to continue to serve customers. Strongly positioned for structural growth as we transition out of the pandemic
  - 36.8% growth in **Hygiene** (H1: +10.5%, H2: +62.6%), a very strong performance reflecting continued high demand for hygiene products and disinfection services which have more than offset washrooms service declines from temporary business closures
  - Revenue from **disinfection services** of £225.1m (H1: £48.8m, H2: £176.3m)
  - 12.0% decline in **Protect & Enhance** (H1: -12.9%, H2: -11.1%), principally driven by COVID-impacted performance from France Workwear (down 10.4% year on year)
- **5.4% increase in Ongoing Operating Profit;** reflecting significant actions to mitigate COVID-related revenue reductions, and despite an increased £34m bad debt provision and £25m of additional costs of personal protective equipment (PPE)
- **Strong Free Cash Flow of £336.8m;** representing 123% cash conversion, delivered through tight controls over costs, capex and working capital
- **\$1.5bn North America revenue target surpassed at \$1,585.7m revenues, good progress towards 18% margin with 2020 margins at 17.3%, IT re-platforming on track to complete in 2021**
- **International expansion of Hygiene category into 20 new markets in 2020;** including North America, Latin America, Europe and the Middle East. Hygiene medium-term organic growth target up weighted to 4% - 6% p.a. from 2022. 'Hygiene: the Next Pest Control?' Capital Markets Day planned for 28 September 2021
- **Liquidity headroom in excess of £1.2bn** at 31 December 2020; including £550m of undrawn RCF, Net Debt/EBITDA ratio at 1.6x (down from 1.8x at the start of 2020)
- **A good year of M&A despite suspension in Q2:**
  - 23 businesses acquired in 2020: 21 Pest Control, 1 Hygiene and 1 Protect & Enhance (Ambius)
  - Acquisition of Environmental Pest Service (EPS LLP) in December: 15<sup>th</sup> largest North American pest control business
  - Acquired combined annualised revenues of c.£158m (incl. EPS LLP). Cash spend in 2020 of £201.9m (excl. EPS LLP)
  - Anticipated spend in 2021 of c.£400m (incl. consideration for EPS LLP paid in January 2021)
- **Recommended dividend payment of 5.41p for 2020,** reflecting the strength of our performance in 2020 and confidence in outlook for 2021

**Andy Ransom, CEO of Rentokil Initial plc, said:**

*"In an extraordinary year, we have demonstrated the inherent strength of our business, growing revenue, profit and cash. We have shown great agility by launching new disinfection services in 60 countries to address a critical need for customers, accelerated the international expansion of our Hygiene business and have acquired 23 high quality businesses to build density, particularly in our key North America Pest Control market.*

*"In addition, we have continued to deliver record levels of colleague safety, training and retention, and our leadership in innovation and digital has contributed to our underlying success in Pest and Hygiene during the year. Having recognised at an early stage that we faced a global crisis, we acted swiftly to protect all our stakeholders – our people, shareholders, customers and suppliers, and the communities we serve.*

*"Notwithstanding the impact from business closures in lockdown, Pest Control continues to exhibit good structural growth drivers. As the world's largest commercial pest control company, Rentokil is ideally placed to capitalise on the opportunities presented in a post-vaccine world. The medium-term prospects for our Hygiene business have never looked more promising as the demand for global hygiene services is sustained post the pandemic, and its innovation, digital leadership and expertise - inside and outside of the washroom - mean we are targeting medium-term underlying organic growth in core Hygiene comparable to that in Pest Control, at 4% to 6% from 2022.*

*"2021 will be a year of transition as we cross the bridge from the worst of the crisis in 2020 to, hopefully, a post-pandemic 2022. Thanks to the significant and swift actions we took in 2020, we are strongly positioned for the coming year, and expect to see further progress from our core Pest Control, Hygiene and Protect & Enhance categories. We will continue to provide disinfection services as part of the crisis response, but expect volumes and prices to significantly unwind as the year progresses and the crisis hopefully abates.*

*"While the obvious uncertainty presented by the ongoing COVID-19 pandemic remains, we are confident of delivering further operational and financial progress in 2021.*

*"On behalf of the Board, I would like to thank all of our colleagues for their outstanding response this year. It is their commitment and sacrifice that has ensured that Rentokil Initial moved quickly from the Crisis phase to Recovery, and is now able to explore fully the opportunities presented to us in a post-vaccine world."*

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#### **Non-GAAP measures**

*This statement includes certain financial performance measures which are not GAAP measures as defined under International Financial Reporting Standards (IFRS). These include Ongoing Revenue, Ongoing Operating Profit, Adjusted profit before tax and Free Cash Flow. Management believes these measures provide valuable additional information for users of the financial statements in order to understand the underlying trading performance. Ongoing Revenue and Ongoing Operating Profit represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses, and enable the users of the accounts to focus on the performance of the businesses retained by the Group, and that will therefore contribute to the future performance. Ongoing Operating Profit and Adjusted profit before tax exclude certain items that could distort the underlying trading performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. An explanation of the measures used along with reconciliation to the nearest IFRS measures is provided in Note 13 on page 24.*

*Joint ventures: the term 'joint venture' is used to describe the Company's 57% ownership of Rentokil PCI, however our interest in PCI has been consolidated in our Financial Statements.*

#### **Summary of financial performance (at CER)**

Ongoing Revenue rose by 6.3% to £2,845.6m (H1: +1.0%, H2: +11.2%). Total Revenue of £2,859.5m grew by 5.3% and by 4.0% at actual exchange rates. Ongoing Operating Profit rose by 5.4% during the year to £388.1m, reflecting swift action to mitigate lower revenues, and despite an increased bad debt provision of £34m and additional costs of personal protective equipment of £25m. We delivered a very strong Free Cash Flow performance for the year of £336.8m reflecting tight control over costs, capex and working capital.

Our **Pest Control** category was designated as an essential service in the majority of our markets and performed well in 2020, growing Ongoing Revenue by 1.0%. Performance has varied by geography and reflects the severity and duration of local, regional and country lockdowns. Customer segments have been impacted differently by the crisis - while offices and the HORECA segment have been the most affected, demand from others, including food retail, pharmaceutical companies, transport and residential customers, has increased. At the end of December, service provision to 0.7% of Pest Control customer premises remained suspended, versus c.7% at the peak of the crisis in April, reflecting improving trends in Q3 and Q4, albeit with some markets deteriorating at the end of the year and into early 2021, particularly in the UK and Ireland. Jobbing work was strong in 2020, aided in part by warmer weather in the northern hemisphere and also by residential customers seeking swift resolution to pest issues during lockdowns.

Hygiene revenues grew by 36.8% in 2020, driven by £225.1m of revenue from disinfection services launched rapidly across the world in Q2. Our core global Hygiene operations have been more impacted by the crisis, principally due to an inability to deliver regular washroom services to customers (particularly in the HORECA sector) which have been forced to temporarily close their operations. Excluding disinfection, Ongoing Revenue declined by 4.6%. Like Pest Control, performance has varied by geography and lockdown regime and performance improvements in the second half can be attributed to an easing of lockdown conditions in certain, but not all, countries. By year end, service provision to c.4.4% of Hygiene customer premises remained suspended, versus c.22% in April.

Ongoing Revenue in our Protect & Enhance category declined by 12.0% in 2020 (H1: -12.9%, H2: -11.1%), principally driven by France Workwear which was significantly impacted by disruption in the HORECA sector, and which delivered a revenue decline of 10.4% for the year. By December, service provision to c.6% of France Workwear customers remained closed, versus c.30% in April. Our Ambius and Property Care businesses also declined during the period by 15.5% and 16.1% respectively, reflecting the more discretionary nature of Ambius products and the continued weakness in the UK commercial housing market impacting our Property Care business.

#### **Profit (at CER)**

In a very challenging year we still achieved growth in profits, with Ongoing Operating Profit increasing by 5.4% in 2020. Significant actions were taken to mitigate revenue reductions with cost savings for the full year of £121.8m (H1: £87m, H2: £34.8m). These savings were offset however by an increased bad debt provision of £34m (£23m in H1 and £11m in H2), increased costs of personal protective equipment of £25m (predominantly driven by the need for comprehensive PPE during the provision of disinfection services) and increased restructuring costs (of £13.3m versus £7.7m in the prior year). While we have not seen any major customer insolvencies to date, we continue to adopt a prudent approach with regards to ongoing risk, and our bad debt provision increase of £34m in 2020 (£4m lower than guidance at the half year) reflects the increased risk of bad debts as a result of the COVID-19 crisis.

Adjusted profit before tax at actual exchange rates of £355.2m, which excludes the impact of one-off items, increased by 4.2%. Adjusted interest of £37.1m at actual exchange rates was £5.0m lower than in the prior year, reflecting the impact of our 2019 refinancing, despite the impact of temporarily drawing down our RCF in full at the start of the COVID-19 pandemic.

One-off items (operating) of £7.7m includes £14.7m of acquisition and integration costs, a cash receipt of £2.2m related to a prior year disposal, a non-cash credit of £7.3m relating to the closure of a pension scheme in North America, profit on the sale and leaseback of a property of £2.0m, a charge for disposal of faulty PPE stock of £2.9m and a charge for legacy payroll costs in France of £3.3m, partially offset by release of smaller legacy provisions of £3.0m.

#### **Cost reduction, cash preservation and liquidity (at AER)**

Our key financial priority at the peak of the crisis was the preservation of cash flow and the measures we took have enabled us to be highly cash generative in 2020. Given the resilience of our trading position in the first half and our strong balance sheet, we reinstated our capital allocation model in Q3 to invest in the Recovery phase of the crisis, steadily increasing our levels of capex and resuming M&A. Cash spent on current and prior year acquisitions totalled £201.9m, excluding EPS LLP (2019: £316.5m), with proceeds from disposals of £2.2m (2019: £391.9m).

Cost savings of £121.8m in the year (H1: £87.0m, H2: £34.8m) included salary reductions across management in Q2, cancellation of H1 bonus schemes and postponement of the 2020 LTIP grant to the second half of the year, as well as tight control over discretionary spend. Cash savings included withdrawal of dividend payments and suspension of our M&A programme, reduced cash tax payments in accordance with local statutory schemes and reduced capital expenditure. In line with local schemes we deferred £88.0m of payments for taxes and social security costs in H1, but the majority of these amounts were paid in H2. Going forward, while we are likely to generate some savings in respect of our property footprint and reduced travel and accommodation costs, the majority of cost savings in 2020 will not repeat in 2021.

As outlined in our interim statement, we heightened our focus this year on working capital management in order to optimise inventory levels and to try to mitigate the increased risk around the delay and non-payment of receivables. Collection of receivables has remained strong during the crisis due to significant focus at all levels and our collection rate by the end of 2020 was up 30% on the prior year, with some variation across the regions.

The full year impact of trading, as well as the additional measures, delivered Free Cash Flow of £336.8m (2019: £250.7m), leading to an underlying decrease in net debt of £137.1m after net M&A spend of £199.7m. Adverse foreign exchange translation and other items of £58.4m are primarily due to the weakening impact of sterling against the euro and dollar, as well as the impact of the closure of an instrument designed to reduce US interest rates on our US dollar debt. Combined, these movements led to a decrease in net debt of £78.7m and closing net debt of £994.3m.

## Dividend

In view of our performance in 2020, and our confidence for 2021 and beyond, the Board is recommending resuming dividends with a dividend payment of 5.41p, payable to shareholders on the register at the close of business on 9 April 2021, to be paid on 19 May 2021. The last day for DRIP elections is 27 April 2021.

## Funding

On 7 October 2020 the Group raised €600m at 0.50% for eight years in the Euro-bond market. The proceeds of the bond will be used partly for liquidity headroom and partly for the repayment of the €350m bond that matures in 2021. In November 2020, the Group announced a tender offer for the early repurchase of the 2021 €350m bond and 49.8% of the outstanding bond was repurchased leaving c.€175m for settlement in July 2021 when the bond can be settled at par. As at 31 December, the Group had liquidity headroom in excess of £1.2bn, including £550m of undrawn RCF, with a maturity date of August 2025. The net debt to EBITDA ratio was 1.6x at 31 December 2020, below both the 1.8x ratio reported at 31 December 2019 and the 1.9x reported at 30 June 2020. We remain committed to maintaining a BBB investment grade and are confident of doing so.

## M&A

While the COVID-19 pandemic is ongoing, we moved from Crisis phase in Q2 to Recovery phase in Q3, reinstating our capital allocation model and recommencing M&A. We acquired 23 businesses in 2020 - 21 in Pest Control, one in Hygiene and one in Protect & Enhance (Ambius) - generating annualised revenues of c.£158m in the year prior to purchase. This includes the acquisition in December of Environmental Pest Service (EPS LLP) in Florida. Total spend, including prior year acquisitions, was £201.9m (excluding the consideration for EPS LLP which was paid in January 2021). Countries in which we have acquired new businesses include Australia, Canada, Chile, Colombia, Ghana, Netherlands, Peru, Singapore, Spain, Tanzania and the US. Peru and Ghana were new country entries in 2020.

M&A remains central to our strategy for growth. We will continue to seek attractive bolt-on deals, both in Pest Control and with an increased focus on Hygiene, to build density in existing markets, pursue acquisitions in new markets and the major cities of the future, and seek medium-sized transactions. Our pipeline of prospects remains strong and our anticipated spend on M&A in the coming year is expected to be in the region of c.£400m (including the consideration for EPS LLP which was paid in January 2021).

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## Enquiries:

**Investors / Analysts:** Katharine Rycroft      Rentokil Initial plc      07811 270734

**Media:** Malcolm Padley      Rentokil Initial plc      07788 978199

A presentation of the Company's 2020 Preliminary results will be held today via a webcast at 9.00am. To access the webcast, please go to our website, [www.rentokil-initial.com](http://www.rentokil-initial.com).

The formal presentation of results will be followed by Q&A at 10.00am. To join, please dial:

**From the UK:** 020 3936 2999

**All other locations:** +44 20 3936 2999

**Access code:** 023212

An operator will register your details and, should you wish to ask a question, will put you through in turn. Alternatively, to listen only, please either remain on the webcast until 10.00am, or dial back in once again at start time.

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<sup>1</sup>Ongoing Revenue represents the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses.

<sup>2</sup>Due to the impact of the COVID-19 crisis, we suspended reporting Organic Revenue and revenue from M&A in 2020, focusing instead on Ongoing Revenue and associated impacts from the crisis. We will report Organic Revenue growth metrics from Q1 2021.

AER – actual exchange rates; CER – constant 2019 exchange rates

This announcement contains statements that are, or may be, forward-looking regarding the Group's financial position and results, business strategy, plans and objectives. Such statements involve risk and uncertainty because they relate to future events and circumstances and there are accordingly a number of factors which might cause actual results and performance to differ materially from those expressed or implied by such statements. Forward-looking statements speak only as of the date they are made and no representation or warranty, whether expressed or implied, is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Other than in accordance with the Company's legal or regulatory obligations (including under the Listing Rules and the Disclosure Guidance and Transparency Rules), the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Information contained in this announcement relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance. Nothing in this announcement should be construed as a profit forecast.

## REGIONAL PERFORMANCE

*Due to the international nature of the Group, foreign exchange movements can have a significant impact on regional performance. In order to help understand the underlying trading performance, unless otherwise stated, percentage movements in Ongoing Revenue and Ongoing Operating Profit are presented at constant exchange rates.*

**North America** was our best performing region in 2020, with revenues supported by high sales of disinfection services launched in Q2 (amounting to £144.4m) and a good performance from Pest Control. Demand for Residential pest control (which accounts for 40% of Pest services revenue) has been good throughout the crisis, but Commercial pest services have been impacted to an extent by temporary business closures. While Q2 was the most challenging quarter for Commercial pest control, performance improved from Q3 and into Q4. Ambius and Brand Standards have also seen significant disruption to services, reflecting the more discretionary nature of Ambius products and Brand Standards' exposure to the fast food sector, which has also suffered from temporary business suspensions.

Ongoing Revenue in the region grew by 14.5% to £1,239.8m in 2020 (\$1,585.7m). Revenues from total Pest Control (including Distribution and Lake Management) increased by 3.1% to £1,018.4m, 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, launch of new disinfection services and rapid and effective cost control to offset the impact of the COVID-19 crisis. Despite suspension of M&A activity during Q2, the region acquired 15 businesses (14 Pest Control and one Ambius) in the region with combined annualised revenues of c.£142m (including EPS LLP) in the year prior to purchase.

Our stated ambition for our North America business has been for it to surpass \$1.5bn revenues in 2020 and to achieve 18% Net Operating Margins by the end of 2021. Despite the impact from the pandemic on our overall regional performance, we have nevertheless exceeded our target revenue of \$1.5bn by \$85.7m this year, delivering North America revenues of \$1,585.7m.

We have also made good progress towards 18% margins, growing this 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, the mix effect due to a lower contribution from our lower-margin Ambius and Brand Standards operations, and benefits from our IT-enabled Best of Breed Programme, which we restarted in Q3. Although suspension of this programme resulted in a pause to a number of IT initiatives designed to improve sales and service productivity, as well as the migration of acquisitions onto the core operating system, we were pleased with the progress made in the second half.

Looking ahead to 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 the lower-margin Brand Standards and Ambius businesses. While we anticipate revenues from disinfection to continue in 2021, we expect volumes and prices to progressively unwind throughout the year. We expect to see margin improvements from cost savings and the implementation of our core Best of Breed Programme, which is on track to complete by the end of 2021. In addition, margins of acquired businesses are typically lower than those of our existing operations and, as such, the businesses acquired in 2020 will have a short-term dilutive impact on margins for the region. Taking the above into the account, we would expect North America margins for 2021 to be within the range of 16.5% to 17%, leaving us on track to achieve our 18% margin target by the end of 2022.

Our **Europe** region has seen a mixed impact from the COVID-19 crisis. While some countries were less impacted by the crisis due to early and effective lockdowns, such as Germany, other countries including France and parts of Southern Europe were more severely impacted. In Latin America, while revenues in Pest Control declined, overall performance for the year was aided by disinfection sales. Hygiene was the region's best performing category, with good contributions from disinfection and products. Pest Control delivered a robust performance in 2020, while France Workwear was most impacted by the crisis, being particularly affected by temporary business closures in the HORECA sector.

Regional Ongoing Revenue rose by 2.5% in 2020, reflecting revenue growth in Germany (+10.7%), Latin America (+15.2%), Southern Europe (+5.3%) and Benelux (+0.5%), but held back by revenue decline of 3.2% in France (principally France Workwear, which declined by 10.4%). Hygiene grew by 22.3% in 2020, while Pest Control declined by 0.4%. Ongoing Operating Profit declined by 4.1%, with good growth in Germany (+24.5%) offset by declines elsewhere, most notably France. The region acquired two businesses in Europe in 2020 (one in Pest Control and one in Hygiene) and two businesses in Latin America (both Pest Control) with annualised revenues of c.£6m and £3.5m respectively in the year prior to purchase.

Our **UK and ROW** region was significantly impacted by the crisis, particularly in April, which was the peak of the crisis for the Group as a whole. Our UK and Ireland Hygiene businesses have been unable to service customers



within many sectors, but primarily the HORECA sector which has been subjected to government restrictions and lockdowns throughout the year. UK Pest Control also saw revenue declines in 2020, reflecting temporary business closures and suspensions. In contrast, our Specialist Hygiene, Medical and Products businesses have performed well, benefiting from increased disinfection services. Ambius and Property Care were the most severely impacted of all our regional operations as a result of customers cutting their spend on more discretionary services such as interior landscaping and plants, with Property Care being impacted by weakness in the UK commercial housing market.

Ongoing Revenue for the UK and ROW region decreased by 2.2%, with declines in UK and Ireland Hygiene and Pest Control (down 20.2% and 8.5% respectively) partially offset by growth in our ROW operations, which grew by 5.3% in the year (Nordics: +8.7%, MENAT: +12.8% and Sub-Saharan South Africa: +4.4%) reflecting the benefit of disinfection sales. In the UK, revenues have been supported by new products and services and contract wins for provision of connected pest control systems. This includes our largest PestConnect contract to date for Tesco, for whom we have installed units across the majority of its UK footprint. Regional Ongoing Operating Profit reduced 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 business in Dar es Salaam (Tanzania) and Accra (Ghana) with annualised revenues in the year prior to purchase of c.£2m.

In our **Asia** region, China, Hong Kong and South Korea were among the first countries to be impacted by the COVID-19 crisis 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.

Regional Ongoing Revenue rose by 3.7% in 2020, aided by very strong performances from Indonesia (+28.1%), Hong Kong (+18.4%) and South Korea (+21.9%), but held back by India (down 15.8%) and Malaysia (down 5.2%). 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 c.£3.5m.

In the **Pacific** region, Ongoing Revenue decreased by 2.6%, with all operations impacted by the crisis as a result of government restrictions, particularly in New Zealand which entered into extreme lockdown in late March. Pest Control revenue in the region fell by 1.3% in the year, while Hygiene declined by 2.6%. Ongoing Operating Profit in the region reduced by 8.7%, reflecting lower revenues. The region acquired one small pest control business in Australia in 2020 with annualised revenues of c.£0.5m.

Our share of **Profits from Associates** at AER amounted to £8.3m (2019: £15.2m) related to our Japanese associate (2019 included £8.2m related to our stake in the CWS-boco joint venture, which was disposed in July 2019).

## STRATEGIC REVIEW

Our approach to managing through the COVID-19 crisis has been to address the challenge through three phases: 1. **Crisis**; 2. **Recovery**; and 3. **Medium-term Strategic Opportunities**. We provide a summary of these phases below.

### Crisis phase

2020 started well, with Ongoing Revenues ahead of the prior year. However, the effects of the pandemic began to be felt widely across the Group from March. April was, for us, the peak of the crisis, with Ongoing Revenues falling by just over 12%. However, the rate of revenue decline improved in May to 5.7% and we returned to positive growth of 4.2% in June.

One of our first actions was to ensure our key services were designated as 'essential'. Government and state level liaison across the world allowed our technicians in Pest Control, Hygiene, Medical and disinfection to continue to serve customers, including supermarkets, hospitals, food producers and pharmaceuticals. In the US, all 50 states designated Pest Control as an essential service.

We took decisive actions to protect our colleagues and customers and support our financial stability. We moved 8,500 colleagues to home working and implemented strict protocols and additional PPE for frontline technicians to enable them to safely serve our customers. Pay waivers were implemented across the Board and all senior management grades, with H1 bonus schemes cancelled and the 2020 LTIP grant postponed. C.40% of our colleagues were also affected by pay waivers, suspension of bonus payments and the Company's LTIP scheme, and use of government employment-support schemes internationally.

We took swift action to reduce costs, conserve cash and boost liquidity, identifying c.£100m+ of cost savings and c.£400m of cash preservation measures, suspending our M&A and dividend programmes, and applying for the Bank of England's COVID Corporate Financing Facility (CCFF).

Over a four-week period from mid-March to mid-April, we trained approximately 7,000 colleagues to carry out disinfection services across 60 countries and this is one of the achievements of which we are most proud (see page 14 for more details).

In May, we took the opportunity to demonstrate our values and commitment to the communities we serve, holding 276 local events across the world to publicly thank health and other public sector workers. Amongst other things, we donated disinfection services to emergency services, pest control treatments to care homes and sanitiser and care packages to hospital staff.

### **Recovery phase**

We moved into the Recovery phase at the beginning of Q3. As customers began to reopen their premises, we saw an increased requirement for our Pest Control and Hygiene services and we supported them during restart by offering pre-opening specialist disinfection and hand hygiene services, as well as advice on how to adhere to stricter hygiene protocols.

At our Interim results in July, we announced 1% growth in Ongoing Revenue, Free Cash Flow of £143.5m, £87m of cost savings and liquidity headroom in excess of £800m, following the repayments of the Group's £550m revolving credit facility (RCF) and £600m borrowed under the CCFF.

Q3 delivered Ongoing Revenue growth of 9.8%, reflecting exceptional growth in Hygiene from continued high demand for disinfection services and a return to growth in Pest Control. Further improvements in Q4 led to a 6.3% increase in Ongoing Revenue for the full year - an excellent performance in highly challenging conditions.

We resumed M&A at the beginning of Q3, completing six acquisitions in North America, Latin America, Pacific and Rest of World with combined annualised revenues of c.£27m, and further supplemented this in Q4 with nine further pest control acquisitions with combined annualised revenues of c.£112m. Throughout the crisis we continued to engage with high-quality targets in areas where we can build density, building a substantial pipeline for Q4 and into 2021.

### **In It Together – protecting our colleagues and business during the pandemic**

Despite major disruption from the COVID-19 crisis, we have delivered growth in revenue, profit and cash in 2020. This is thanks to immense collaboration from all our colleagues to protect our business. We are particularly proud of the way our people worked together to ensure we could continue to serve our customers throughout the pandemic, including sharing information about how to establish essential service status quickly, learning how to most effectively navigate the crisis from our country operations that experienced the virus outbreak early in the year (China, for example) and creating detailed templates (such as technical criteria, necessary equipment and contractual documentation) for establishing and rolling out global disinfection services.

As described on page 6, the collective sacrifice of our people enabled us to protect our financial stability. Temporary pay waivers put in place in Q2 for 5,080 of our managers expired at the end of June and by 30 September, virtually all colleagues had returned to work. In return, we have taken action to protect our colleagues, implementing the financial measures described above and protecting those (primarily in Africa and India) who did not have access to government or state support by setting up an Employee Support Fund. Donations included personal contributions from Non-Executive Directors and senior management, including our CEO, who donated the remaining 65% of his Q2 salary (after his earlier 35% pay waiver) into the fund.

While the financial performance against the original full year annual bonus targets for revenue, profit and cash were all met and would have resulted in a bonus pay out above threshold for the CEO, given the impact of the COVID crisis on colleagues, customers and shareholders, and in agreement with the Board, the CEO proposed that he receive no annual bonus for 2020. Similarly, the CFO also volunteered to receive no bonus in relation to the period since his appointment.

Prioritising the health and safety of our colleagues, while maintaining back-office effectiveness and reducing costs, has been our aim throughout the crisis. We protected our operational colleagues by implementing strict safety protocols and providing additional PPE and protected our back-office colleagues by enabling them to work from home.

We achieved another record safety and training performance in 2020, with a 26% improvement in Lost Time Accidents and a 23% improvement in Working Days Lost from the already world-class levels of the previous year. Online training was at an all-time high, with a record 3.2 million content views (2019: 1.8 million) of new courses

and the development of a new virtual classroom. Overall colleague retention reached record levels in 2020, increasing by 1.7% to 88.6%. We also conducted a UK survey to assess whether colleagues felt safe, productive, and sufficiently supported by their managers and systems to enable them to effectively fulfil their roles during the crisis, and received a c.90% positive response rate.

### Strategic Opportunities in the medium term

As the world emerges from the crisis, we have a strategic hand to play that is stronger than before - particularly in Hygiene - and are ideally placed to provide services that a post-pandemic world will require. We will present some of these strategic opportunities over the following pages.

## Rentokil Pest Control

### Organic growth target

Pest Control is a non-discretionary and essential service and the long-term structural growth drivers and our medium-term opportunities are undiminished by the COVID-19 crisis. We maintain our organic growth target for our Pest Control category of 4% to 6% p.a.

### Background

Our Pest Control category represents 62% of Group Ongoing Revenue and 57% of Ongoing Operating Profit in 2020. Rentokil is the world's largest commercial pest control company with an unrivalled global position in a non-cyclical industry characterised by strong structural growth drivers. Pest control is a route-based business where profit growth is driven by a fundamental understanding of the importance of density. We have strengthened our position as global leaders in pest control through high customer retention, increased organic growth and by establishing stronger market positions, particularly in Emerging and Growth markets, through the introduction of innovative products and services, acquisitions and our determination to be an Employer of Choice across our global operations. The business has delivered a seven-year CAGR of 13.1%. Pest Control's five-year average Net Operating Margin is 17.7%.

### Pest Control continues to be a service with growing demand despite current market volatility

Many positive macroeconomic trends continue to drive growth in the pest control industry. While the economic landscape is challenging and many customer groups have been impacted by the pandemic, Pest control remains a critical service requirement for both commercial and residential customers. In addition, the pest control market continues to consolidate, presenting strong M&A opportunities for active industry participants.

Navigating the customer landscape to maximise the opportunity in targeted growth sectors, whilst protecting our position in more vulnerable customer groups, will be critical as we go forward. While our pest control offer is strong and compelling, brand trust, differentiated expert service delivery (including innovation), and an increasing desire for digital customer engagement solutions, are all areas in which we will both focus and invest.

As we begin to transition out of the global pandemic, our core strategy remains on course. The key components are:

- Growing our business in our key North America market, organically and through acquisitions, leveraging scale and building density;
- **Differentiation through our innovation** pipeline, increasingly through use of non-toxic, sustainable solutions;
- Maximising **National and International customer accounts** capability;
- Targeting **key growth sectors** and markets, Commercial Pest Control in particular;
- Pursuing medium-term growth opportunities **in emerging markets, building strong positions in key cities of the future**;
- **Building margins**, leveraging our scale and building density, particularly in North America; and
- Continuing our **M&A** strategy to expand our city footprint and density.

In this statement, we will discuss four key pillars to continued growth in Pest Control. They are:

1. Brand strength and digital customer engagement
2. M&A
3. Digital infrastructure and capability
4. Sustainable innovation



## Brand strength

Our Rentokil brand is of central importance to us. We want it to be seen as synonymous with the highest quality and trusted levels of service delivery, market-leading innovation and digital solutions that protect people and enhance lives. Our aim is to be recognised as the world's leading expert provider of pest control and the voice of authority to our customers, potential customers and influencers.

The global pandemic of 2020 has resulted in a step-change in the importance of brand trust for customers. In addition, the environment and use of sustainably and ethically sourced materials are emerging as top-ten customer priorities. Our focus is on raising greater awareness of our brand through a global brand voice campaign focused on key trust and expertise messaging to: high-dependency customers such as food suppliers; employee locations such as offices and manufacturing facilities; and guest locations such as leisure, hotels, education and food and beverage.

## Digital customer engagement

We are strongly positioned to capitalise on a 'digital first' approach post the pandemic and to use our expertise in digital sales and customer engagement in a more socially distanced world. During the year we conducted a series of sector-specific digital marketing campaigns to highlight the services we can offer to customers as part of their restart programmes and for a post pandemic world. This included sending 2.9 million emails in the UK with a very high 'open rate' of over 60% (versus an average services sector rate of 22%) in certain sectors. In the US, visits to our Western and JC Ehrlich websites rose by 34% and 14% respectively. We also undertook a series of webinars to build engagement with customers on key pest control and hygiene topics and these have proven to be very successful in 2020.

Our focus on delivering new content and localisation is driving record levels of traffic to our websites across the Group. Overall total Rentokil web traffic grew by c.18% in 2020, with total visits reaching c.33.2 million visits (2019: 28.1 million). In 2020 we launched a series of online marketing campaigns focused on how our leadership in technology and innovation helps our customers 'stay one step ahead of pests' through industry-leading levels of monitoring, reporting and insight.

In July we launched our first Rentokil website 'chat bot' in the UK to make us more effective, handle enquiries faster and reduce the 'hassle factor' for customers and prospects. People contact us via our websites for a variety of reasons, but the majority of inbounds are sales enquiries. Since launch, 99.7% of enquires to the chat bot have come from new customers, approximately two thirds of which are from residential customers and with just under half of all chats conducted outside working hours. The chat bot is reducing the volume and duration of calls to our Contact Centre, freeing up time for our sales colleagues to focus on higher-value activities.

## M&A

Acquisitions are core to our Pest Control strategy – they enable us to build further scale and density and increase our competitive positioning. We have the in-house capability to identify, evaluate and execute acquisitions at pace and have built a long track record of successful delivery. Our model for value-creating M&A is structured around disciplined evaluation of targets, execution of detailed integration programmes and careful stewardship of new businesses under our ownership.

Despite taking the decision to suspend our M&A activity in Q2, the progress we made in Q1, combined with a very strong M&A performance in Q4, has resulted in 23 acquisitions in 2020. We acquired businesses in 11 countries: Australia, Canada, Chile, Colombia, Ghana, Netherlands, Peru, Singapore, Spain, Tanzania and the US, entering Peru and Ghana for the first time.

We had a very strong Q4 in North America, acquiring nine pest control companies, including EPS LLP, ranked 15th in the PCT Magazine 2020 Top 100 listing of leading US pest control companies and which generated annualised revenues of c.\$82m (£60m) in 2020. EPS LLP employs c.640 people (of which 386 are in service roles) in 30 branches across four separate regions: East Florida, West Florida, North Georgia and North Carolina.

Our pipeline of opportunities in both Growth and Emerging markets is strong and we are confident of further high-quality acquisitions in 2021. Our strategy for pest control M&A is predicated on continuing to target acquisitions in key markets to build density, targeting acquisitions in mega and large cities and also seeking opportunities in new countries where the industry and economy supports expansion. Based on our most recent analysis, our M&A programme continues to meet expectations and to deliver in line with, or above, our targeted returns.

## Digital infrastructure and capability

Digital innovation in Pest Control is necessary to meet the needs of an evolving world. Macro trends (including pandemic driven trends) are increasing demand for digital solutions and these include demand for more remote monitoring solutions due to COVID-19, smart technology becoming a norm driven by younger generations, and customers demanding increased transparency of data. Rentokil has developed the world's leading digital pest control platform, providing an unmatched level of monitoring, reporting and insight for our customers who face the risk of increased fines and censure without effective pest management and reporting.

**PestConnect**, the "world's smartest mousetrap", is the world's most advanced digital pest control system. It provides our customers with a complete remote pest detection solution and full traceability. We have seen increased demand for the product in 2020 as customers (including hospitals such as London's Nightingale Hospital, which was specially constructed to support all NHS London hospitals in the event of a surge of COVID-19) have sought to minimise physical on-site interactions with service providers and prevent the spread of Coronavirus.

This year also saw our largest commercial PestConnect contract to date with Tesco, for whom we have installed tens of thousands of PestConnect units across the majority of its UK estate. Since launch in 2016, we have installed over 150,000 PestConnect units across 7,684 customer locations in 26 countries. In addition, 12,000 frontline colleagues in 25 countries now have access to our PestConnect floorplan app to manage PestConnect at scale across customer sites. We continue to develop and expand our product range, and in Q4 we launched our newest unit, Multi-Mouse Riddance. We will add to our growing range in 2021 with the launch of six additional new products for rodents, crawling insects, birds and flies.

Our **myRentokil** online customer portal provides secure 24/7 access to real time information that provides easy access to documentation required for pest control, including reviewing service recommendations and responding to audits. Currently 1.1 million customer sites and 95% of our commercial customers use myRentokil in 44 countries.

**CommandCentre** is our central information hub containing data compiled from over 50 countries with 7 billion records, populated with historic and current data to track pest trends and identify emerging risks. 9 million messages were sent or received across our digital pest control network every day in 2020, recorded on the central CommandCentre and stored on the Google Cloud Platform.

## Sustainable innovation

Innovation is a core component of growth and embedded within our cultural DNA. We encourage and empower all our colleagues to innovate with the desire to improve customer service. We deploy innovation consistently, targeted at key pest sectors and with potential for new non-toxic and sustainable solutions, which are increasingly becoming an important source of differentiation. Innovation provides a significant opportunity for organic growth, and in 2019 this contributed 25% of our £74m of organic growth. Our core innovation categories are stored product infestation (SPI), rodents, birds, crawling and flying insects.

### Rodents

Rodent control accounts for c.\$2bn of the global pest control market and continues to grow at c.4% p.a. (*source: Allied Analytics*). Recent new product innovations include Dual AutoGate Connect, Riddance Connect, Rodent Ceiling Trap (a ceiling solution for rodent control in gaps above ceilings and which provides indicator alerts to a capture) and our Multi-Mouse Trap product - a monitoring sensor that can be attached to several live catch products for real-time reporting, allowing for early technician support.

In 2020, and after three years of development, we piloted Eradico, our new Global Bait Box in 22 countries with launch planned for Q3 2021. Eradico is an innovative, single-solution, flexible, technology-enabled rodent solution which addresses 57 different needs and market requirements. A connected version of the system, called RADAR X, a next generation mouse riddance unit that uses CO<sub>2</sub>, will also be launched later this year.

In our quest for ever better pest control we are adding to our range of proofing solutions with our FlexiArmour range that is designed for ever better protection of customer premises, by reducing access points into buildings for rats and mice. A number of solutions in this range will be introduced through 2021.

## Bird control

Birds can become a nuisance if they are allowed to congregate on business premises. They can dislodge roof tiles, block guttering, encourage insect infestations and their detritus can drive away customers and spread diseases. Certain nuisance bird species can be dealt with but others, such as wild birds, are protected by law in many countries. Laser technology is now being used for bird management in industrial, aerospace and urban areas as an effective dispersal technique – birds perceive the laser beam as an approaching danger and so move away from the area. In 2020 we added to our range of bird control solutions with the Agrilaser Autonomic deterrent system, securing a £650,000 contract with a major US customer.

## Flying insects

We have sold c.168,000 Lumnia solutions across 58 countries since launch in 2017, with 2020 accounting for 32% of the sales volume. Lumnia is the world's first range of illuminated fly traps to use patented LED lighting technology rather than traditional fluorescent tubes and we were proud and delighted to win this year The Queen's Award for Innovation for the development and launch of Lumnia. Lumnia attracts, kills and encapsulates insects hygienically – eliminating the risks of contamination – and is suitable for a wide range of internal environments. It is also more environmentally friendly than traditional units, reducing energy output by c.70% and carbon emissions by 62%. Our products include Lumnia Standard (offices, shops, food retailers) and Lumnia Ultimate (which uses second generation lamps for high-dependency customers). We have now added to this range with Lumnia Colour (offering customers a choice of coloured units to match interior décor) and Lumnia Slim. In 2021 we will launch our new Lumnia Connect model, fitted with camera technology for better risk management and greater audit trail transparency, and Crawling Insect Connect, which will be positioned in no-tolerance areas in customer food processing sites to primarily target moths and cockroaches.

## Non-toxic solutions

Customer and regulatory requirements are leading to an increasing demand for innovative, non-toxic solutions in pest control. Our aim is to become the leaders in sustainable pest control and to do this we need to find better ways to exclude, remove, destroy and monitor pests with the lowest possible impact on the environment. This impact must be sustainable, taking into account the impact of the hardware we use, consumables required and cost of service to the environment. Sustainable innovations are required both **internally**, where premises require safer pest control from lower toxic solutions using biological and physical methods and lower waste management and **externally** – where we need to develop and promote solutions and service cycles to reduce our environmental footprint. Across all pest types we continue to expand and develop our range of sustainable, non-toxic and humane solutions.

## Initial Hygiene

### Organic growth target

In recent years, our organic growth expectation for our Hygiene category has been broadly correlated to GDP, at around 2-3% p.a. Like Pest Control, Hygiene is an essential, non-discretionary business and we believe its medium-term opportunities are enhanced by rising demand for global hygiene services. From 2022 onwards, we are now targeting medium-term underlying organic growth in core Hygiene services comparable to that in Pest Control, at 4% to 6%.

### Background

In 2020, our Hygiene category represented 26% of Group Ongoing Revenue and 36% of Ongoing Operating Profit. Initial Hygiene is a strong, complementary business to Pest Control. Both businesses service the same types of customers and also share country management, technology, infrastructure and back office services. They are also route-based businesses where profit growth is driven by deep understanding of the importance of density. The megatrends in the hygiene industry – and the importance of being able to prevent the spread of diseases, germs and bacteria – are fueling demand for our services, as is the COVID-19 crisis. Over the past few years our Hygiene business has delivered a significant improvement in revenue growth, established a strong product range, launched the myInitial customer portal for enhanced customer insight and engagement and has begun to acquire bolt-on businesses to build scale and density. The category has delivered a seven-year CAGR of 11.6%. Hygiene's five-year average Net Operating Margin is 16.2% excluding disinfection services.

### Reshaping our hygiene business for future growth

The COVID-19 crisis is accelerating changes in the way the world views hygiene - it has gone from being seen as a basic requirement to an essential part of daily life. Without high standards of hygiene, our customers cannot protect their people or their customers from illness. While vaccines against the virus will hopefully enable the

world to recover from the crisis, fear of other pathogens that may emerge in the future and the severity of this particular pandemic, is likely to have a lasting effect on global hygiene standards over and above pre-existing trends driving rising hygiene standards.

Our core offer in our Initial Hygiene business has been based around the provision of regular washroom services to customer premises. We have grown the business through broad-based operational improvements in our product range, density (both product penetration and post code density), service quality, productivity, innovation, digital applications and products, sales capability and highly-targeted M&A.

We are now seeking to expand our Hygiene business beyond the washroom into new, higher growth areas and into new areas at customer premises. This can be illustrated by the fact that while our ability to provide regular washrooms services to customers during the pandemic was negatively impacted by the pandemic, we were able to support revenues through new disinfection services and other services such as air, surface and hand hygiene offerings which have more than offset washroom service shortfalls.

We anticipate that both volumes and prices for disinfection services will progressively unwind during 2021 as the world hopefully recovers from the pandemic. Other non-washrooms hygiene services, however, are more likely to be sustainable long-term. These include air care, surface hygiene, route-based service extensions (such as first aid) and digital products and applications.

Our success in growing our Hygiene category in a post-COVID world will be underpinned by:

- Being the [Experts in Hygiene & Wellbeing](#), through service, product innovation and sales capability;
- Having a compelling proposition that covers the three key areas of [washrooms](#), [premises and environments](#);
- Creating [differentiated propositions](#), such as our Rapid range of smart hygiene products;
- [Targeting sales growth](#) in sectors less impacted by the pandemic (e.g. logistics, food, health and
- [Investing in our brand](#) in order to be recognised in all our markets as the global leader;
- Leading [sustainable](#) provision of hygiene and wellbeing services; and
- Investing in [digital](#) infrastructure to capture future opportunities.

We have identified four main opportunities for growth for our Hygiene category. They are:

1. Inside washrooms
2. Digital leadership
3. International expansion
4. Expanding our expertise outside the washroom

## **Inside washrooms**

Washrooms are high risk areas for COVID-19 and other viruses – they are small spaces, with smooth surfaces and high levels of traffic. ‘No touch’ washrooms are the most effective way to avoid cross-contamination, particularly within cubicle settings. Toilet paper dispensers that seal away paper until use, ‘no-touch’ feminine hygiene units and toilet seat cleaners all prevent cross-contamination. Our Signature Range of washrooms products have antimicrobial surfaces which helps reduce cross contamination, as do our ‘no touch’ auto-lift lids on bins and auto dispense of paper towels and soaps. Air care quality is also an important indicator of washroom cleanliness, with air sterilisers providing an ongoing method of removing potentially harmful pathogens from the air.

### **Unprecedented demand for hand hygiene products in 2020**

As the world adopts increasingly high standards of hygiene, customer demand for soaps, hand drying products and sanitisers is rising significantly. This year we sold c.540,500 dispensers (soaps and sanitisers) during the year, three times that of our total sales in 2019, while refills of soaps and hand sanitisers were 17 times greater than in the prior year. Hand sanitiser revenues of c.£21m increased by just under £15m in 2020.

## **Digital leadership**

We believe the COVID-19 pandemic will provide a potential springboard for increased use of digital hygiene services and we are taking our digital expertise from Pest Control and expanding it into Hygiene. Increased regulations and the threat of fines and reputational damage drove early take up of digital pest control and we anticipate the same trend will occur within hygiene.

## Digital products

The global smart washrooms market is estimated to deliver an 11.5% CAGR to 2027, reaching a value of some \$6.5bn (*Grand View Research, August 2020*). In 2020 we launched our first range of digital 'no-touch' products which includes taps, soap dispensers, hand wash monitoring and cubicle sanitisers. Digital monitoring of consumables enables more efficient washroom operations at lower cost, with a reduced environmental impact and offering a better guest experience. We are expanding our Rapid Smart Washroom range into new customers and regions, with customer trials currently underway in offices, retail malls, airports, leisure facilities and tourist attractions across five countries.

## Digital sales and service tools

Our digital sales and service tools are also increasing productivity and are being used to build customer awareness of Initial's multiple product offerings. Our online Hygiene customer portal, myInitial, is being developed to highlight the full spectrum of Hygiene solutions on its home page and is now used by 22,300 customers in 18 countries. In addition, we now track sales leads per driver on a monthly basis and the current average across the Hygiene category is 1.29 leads up from 1.07 last year (a 17% increase) per technician per month, with our Denmark colleagues performing particularly well and averaging 5.76 leads.

Our smartphone field service app, ServiceTrak, also improves productivity and leads to better colleague retention, higher gross margins achieved through greater service productivity and cost savings, and more professional service delivery. Across 30 countries, our technicians use the app to record service visits – for example, start time, services performed, customer recommendations, customer signatures and end time. New for this year, we have received over 2.6 million responses to our digital customer satisfaction surveys, with an average score of 4.8 out of 5 in both Pest Control and Hygiene.

## Digital channels - building the sales funnel in Hygiene

We focus on driving continuous improvements to our web estate around the world to increase customer traffic to our sites and generate new business leads. During 2020 total web traffic to Initial websites increased by 60% on 2019 and can be attributed to a number of successful, targeted cross-sell, up-sell and email campaigns to increase customer visits.

## International expansion

In 2020 we launched Hygiene in 20 new countries, and now operate in 65 countries, with top three positions in 38 markets. We launched our first hygiene services in North America in June with hand, surface and air hygiene products. Initially, this is being delivered through Ambius which has considerable expertise in wellbeing and is an existing business of scale. We also launched hygiene services in Curaçao (Caribbean) and expanded our footprint in Latin and Central America, building on our position in 10 markets to provide hygiene services (including hand sanitisers, surface wipes and air care) in Mexico, Dominican Republic, Costa Rica, Brazil, Guatemala, Honduras, El Salvador and Uruguay. We also commenced operations in Belgium, Germany, Jordan, the Netherlands, Poland, Sweden, Switzerland, Saudi Arabia, Turkey and the UAE.

## Growth through targeted M&A

As our confidence in our Hygiene model grows, so too has our focus on securing attractive hygiene acquisitions and we have acquired 24 hygiene businesses since 2014. While the pandemic has slowed M&A progress this year, we acquired one small business in Spain and will continue to pursue attractive bolt-on deals in 2021. Our focus will be on building our density across our cities and regions, and additions to our portfolio will focus on extension areas that we have defined as key to growth including air care, surface hygiene, safety and digital monitoring.

## Expanding our expertise outside the washroom

From a relatively low interest sector, hygiene has now become one of the world's most important, presenting opportunities for us to expand outside of the washroom into high growth areas including air care, route-based service extensions (such as first aid) and digital products and applications. We can provide hand, air and surface hygiene products in multiple environments, including offices, kitchens and reception areas.

## Service innovations

The pandemic has driven increased demand for hand hygiene and we are developing service innovations to satisfy long-term social behaviour change with a range of new solutions which include new hand hygiene products that enable positioning outside the washroom, new consumables for hand and surface, and larger capacity soap and sanitiser dispensers. In addition, we are developing additional service solutions to provide a



compelling offer to new target customer sectors, such as food processing and healthcare, which require specific hardware and consumables to comply with higher hygiene standards.

## **Air Care**

The global air care market is estimated to reach revenues of over \$90bn by 2025 and is expected to deliver a 42% CAGR to 2025 (*source: Arizton Advisory and Intelligence, July 2020*). There is no safe level of airborne pollutants and, according to the WHO, 68% of all diseases are related to air pollution. In addition, the pandemic has raised awareness of how viruses are transmitted in aerosol form via droplets produced by coughs and sneezes. Our current air care product range features air purification, air sterilisation and air scenting products and in 2020 we launched two important new air filtration products: InspireAir72 which utilises a medical grade, multi-layer HEPA filter to capture 99.97% of harmful particulates and which can clean a 36m<sup>2</sup> office space in 10 minutes, and the VIRUSKILLER™ Air Purifier which uses its patented UV technology to kill 99.9999% of viruses with a single air pass, including the COVID-19 virus.

## **Disinfection services**

One of our great successes in 2020 was disinfection and our people pivoted at great speed to provide these services in more than 60 countries this year. In addition to our existing c.1,000 Specialist Hygiene colleagues, we trained c.7,000 Hygiene, Pest Control and Ambius technicians to perform the service in those 60 countries, sourced PPE and began selling disinfection to customers in under four weeks. £225.1m of revenues were generated in 2020 with Net Operating Margins broadly comparable to those in Pest Control. Multiple customer sectors have utilised the service this year including offices, shops, schools, airports, emergency vehicles and public transport. Key customers include a global customer requiring weekly disinfection of its distribution centres at specific times of the night and a public transport customer in France requiring daily disinfection services across its network. By the end of December, we had made approximately 1 million service visits to this customer, disinfecting 4,000 buses every day, seven days a week.

As experts in hygiene, we have developed Standard Operating Procedures to ensure maximum service efficacy and consistent global standards. These included, for example, a 19-stage donning sequence for PPE and removal of all waste from sites in line with guidance set out by public health authorities in order to prevent cross contamination.

In our experience, there is a strong correlation between high levels of COVID-19 and a market requirement for disinfection services, and this can be illustrated by our experience in Australia. At the height of COVID-19 case levels, we responded to significant market need for disinfection services. However, Australia was one of the first countries to achieve to a very low incident rate of COVID-19 transmission and, as a result, we have seen a significant reduction in demand for ongoing disinfection services in 2020. In addition, in countries where demand for disinfection remains high, other service providers have inevitably entered the market, offering lower-quality service provision at lower price points.

Going forward, we will continue to provide disinfection services as part of the crisis response but expect volumes and prices to significantly unwind as the year progresses and the pandemic hopefully abates.

## **Adapting and enhancing our sales capability**

As our Hygiene offer evolves post the pandemic, we are evolving our sales model to enable better conversion of some of the more complex solutions we have described in this review. Historically, we have found that dedicated sales specialists demonstrate a higher payback than generalist sales colleagues and therefore we are putting in place additional dedicated 'experts' who understand the science, proposition and customer needs of new products, giving them certified training to enhance their knowledge and capability.

## **Protect & Enhance**

Our Protect & Enhance category represents 12% of Group Ongoing Revenue and 7% of Ongoing Operating Profit. In 2020, category Ongoing Revenue and Ongoing Operating Profit declined by 12.0% and 29.7% respectively. Net Operating Margins declined by 240 basis points to 9.5%. The businesses within the category are Workwear (France), Ambius (Global), Property Care (UK) and Dental Waste (Germany and Sweden). Our strategy for the category has been focused on protecting the businesses – quality, service, retention and operational efficiency.

The businesses within Protect & Enhance have a high exposure to the HORECA sector - for which we supply interior plants, ambient scenting and workwear – and hotels, bars and restaurant chains have been predominantly closed during the crisis and in many places, will be the last to be reopened. Our UK Property Care



business was impacted by both ongoing weakness in the property market and also by customers unwilling to allow external service providers into their homes.

Approximately half of category revenue is generated from our France Workwear business, which specialises primarily in the supply and laundering of workwear, uniforms, cleanroom garments and personal protective wear. The business was significantly impacted by disruption caused by the pandemic in 2020 and delivered a revenue decline of 10.4% for the year. However, the rate of decline improved in the second half, down 4.9%, as business reopened due to the lifting of COVID-19 restrictions.

Recovery of the business is likely to take longer than our other operations, notably reflecting continued customer closures within the HORECA sector. As with our other categories, April was the weakest month for France Workwear, with May and June seeing progressive improvements in performance. Q4 volumes were once again affected but not to the same extent as the first wave of the pandemic. Actions taken by the business to protect costs and cash have included reducing working hours for around 1,500 employees and reducing spend on capital expenditure by 16% (c.£9m) on the prior year.

Notwithstanding the difficult conditions this year, our project to separate the Hygiene and Workwear businesses in France completed in 2020, with the remaining Washrooms services portfolio transferred from Workwear to Hygiene in H2. We also opened five dedicated Hygiene branches in France, which completes national coverage of hygiene services in the country.

## **Financial Review**

### **Central and regional overheads**

Central and regional overheads of £91.1m at CER were £12.6m higher than prior year (2019: £78.5m), due to increased bad debt provisions and centrally sourced PPE costs.

### **Restructuring costs**

With the exception of integration costs for significant acquisitions, the Company reports restructuring costs within adjusted operating profit. Costs associated with significant acquisitions are reported as one-off items and excluded from adjusted operating profit.

Restructuring costs of £13.3m at CER (2019: £7.7m) consisted mainly of costs in respect of initiatives focused on our North America transformation programme from Q1, together with severance costs as a result of the COVID-19 crisis.

### **One-off items and amortisation (at AER)**

One-off items -operating of £7.7m includes £14.7m of acquisition and integration costs, a cash receipt of £2.2m related to a prior year disposal, a non-cash credit of £7.3m relating to the closure of a pension scheme in North America, profit on the sale and leaseback of a property of £2.0m, a charge for disposal of faulty PPE stock of £2.9m and a charge for legacy payroll costs in France of £3.3m, partially offset by release of smaller legacy provisions of £3.0m.

The amortisation charge of £82.5m for the period includes goodwill impairments of £8.1m related to the Rentokil PCI cash generating unit (CGU) and £2.5m related to the Brazil CGU. Both impairments arose mainly due to an increase in the discount rates used as a result of external economic conditions in each country due to the COVID-19 pandemic.

### **UK defined benefit pension scheme buy-out**

In December 2018, the Company reached agreement for a bulk annuity insurance buy-in for its UK Defined Benefit Pension Scheme ("the Scheme") with Pensions Insurance Corporation. The buy-in had been secured in contemplation of a full buy-out and winding up of the Scheme with an expected pre-tax cash surplus of c.£30m. The timing of the wind-up is uncertain, following the recent High Court judgement that ruled that trustees of defined benefit schemes that provided Guaranteed Minimum Pensions should revisit and, where necessary, top-up historic cash equivalent transfer values paid since 1990. The Trustee may therefore need to revisit these before the wind-up can be completed. This may mean that the wind-up is delayed until 2022.

However, following consultation with members, the Trustee agreed a pre-tax partial refund of surplus of £13.0m, which was paid in December 2020. The balance of the refund of the surplus will be paid when the buy-out is complete.

### Interest (at AER)

Adjusted interest of £37.1m was £5.0m lower than in the prior year, reflecting the impact of our 2019 refinancing, and despite the impact of temporarily drawing down our RCF at the start of the COVID-19 pandemic.

### Tax

The income tax charge for the year at actual exchange rates was £43.5m on the reported profit before tax of £229.8m. After adjusting the reported profit before tax for the amortisation and impairment of intangible assets (excluding computer software), one-off items and net interest adjustments, the Adjusted Effective Tax Rate for 2020 at AER was 19.7% (2019: 21.6%). This compares with a blended rate of tax for the countries in which the Group operates of 24% (2019: 23%).

### Net debt and cash flow

£m at actual exchange rates	Year to Date		
	2020 FY £m	2019 FY £m	Change £m
Adjusted Operating Profit	384.0	365.4	18.6
One-off items – operating	(7.7)	(14.6)	6.9
Depreciation	228.8	219.8	9.0
Other	11.1	26.1	(15.0)
EBITDA	616.2	596.7	19.5
Working capital	41.0	(7.0)	48.0
Movement on provisions	4.6	(4.0)	8.6
Capex – additions	(225.4)	(245.8)	20.4
Capex – disposals	6.3	3.2	3.1
Operating cash flow	442.7	343.1	99.6
Interest	(41.0)	(48.1)	7.1
Tax	(64.4)	(43.2)	(21.2)
Special pension contributions	(0.5)	(1.1)	0.6
Free Cash Flow	336.8	250.7	86.1
Acquisitions	(201.9)	(316.5)	114.6
Disposal of companies and businesses	2.2	391.9	(389.7)
Dividends	-	(85.8)	85.8
Underlying decrease in net debt	137.1	240.3	(103.2)
Foreign exchange translation and other items	(58.4)	24.2	(82.6)
IFRS 16 lease obligations on transition	-	(184.0)	184.0
Decrease in net debt	78.7	80.5	(1.8)
Opening net debt	(1,073.0)	(1,153.5)	80.5
Closing net debt	(994.3)	(1,073.0)	78.7

Operating cash flow (£442.7m at AER for continuing operations) was £99.6m higher than in 2019, driven by a £18.6m increase in Adjusted Operating Profit, favourable working capital of £48.0m and reduced capex of £20.4m as a result of a freeze on any non-essential capex from the second quarter onwards.

Interest payments of £41.0m are £7.1m lower than in the prior year, due to the 2019 bond refinancing. Tax increased by £21.2m, due to higher US tax payments, a payment relating to a legacy issue in the UK and the non-repeat of certain tax repayments received in 2019.

The full year impact of trading, as well as additional measures, is Free Cash Flow delivery of £336.8m (2019: £250.7m), leading to an underlying decrease in net debt of £137.1m after net M&A spend of £199.7m. Adverse foreign exchange translation and other items of £58.4m are primarily due to the weakening impact of sterling against the euro and dollar, as well as the impact of the closure of an instrument designed to reduce US interest rates on our US dollar debt. Combined, these movements led to a decrease in net debt of £78.7m and closing net debt of £994.3m.

### Going Concern

The Directors continue to adopt the going concern basis in preparing the accounts on the basis that the Group's strong liquidity position and its demonstrated ability to manage the level of capital expenditure, or dividends or expenditure on bolt-on acquisitions are sufficient to meet the Group's forecast funding needs, including those modelled in a severe but plausible downside case.

## Outlook for 2021

Despite obvious uncertainty presented by the ongoing COVID-19 pandemic, we expect our Pest Control, Hygiene and Protect & Enhance categories to demonstrate further operational and financial progress in 2021. We will continue to provide disinfection services as part of the crisis response but expect volumes and prices to significantly unwind as the year progresses and the crisis hopefully abates. Taking the above into account, we are confident of another year of good delivery in 2021.

Foreign exchange continues to have an impact on the presentation of our financial performance and remains volatile, with sterling strengthening recently versus the euro and US dollar. At the current rate, this would have an estimated £15m to £20m 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.

## Technical guidance for 2021

### P&L

- Medium-term growth targets maintained:
  - Ongoing Revenue growth target 5% to 8% (3% to 4% Organic)
  - Ongoing Operating Profit growth c.10%
  - Free Cash Flow conversion c.90%
- Restructuring costs c.£10m;
- Central and regional overheads £10m to £15m lower than 2020, principally reflecting lower bad debt charges which, given our prudent provisions at the end of 2020, we expect to normalise;
- P&L interest costs c.£2.5m higher than 2020, cash interest costs c.£2.0m lower than 2020;
- Estimated Adjusted Effective Tax Rate expected to return to 2019 levels at ~22%; and
- Share of Profits from Associates in line with 2020, dividend from our Japanese associate of c.£8m.

### Cash Flow

- Cash conversion likely to be slightly lower than our targeted c.90% as some of the effects we have seen in 2020 unwind;
- Working capital outflows up to £30m, reflecting some reversal of our strong working capital management in 2020;
- £270m to £290m net capex, reflecting some catch up on capex deferred from 2020;
- Cash interest c.£38m to £40m, cash tax payments £65m to £75m;
- We expect to receive the remainder of the £30m pre-tax surplus from the buy-out of the UK pension scheme (£13m received in 2020). Due to the recent pensions judgement in the High Court however, this may be delayed until 2022; and
- Spend on 2021 M&A of c.£400m (includes the consideration paid for EPS LLP in January 2021).

Our expectations for 2021 have taken the items above into account and, notwithstanding continued uncertainty, we expect to deliver further operational and financial progress in the coming year.

**Quarterly regional analysis of Ongoing Revenue performance in 2020** (at CER)

	Ongoing Revenue at CER					
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	FY2020 £m	% YOY
France	74.5	57.4	78.9	89.6	300.4	(3.2)
Benelux	23.1	22.6	24.8	25.3	95.8	0.5
Germany	26.3	29.1	30.9	32.7	119.0	10.7
Southern Europe	33.6	33.3	37.1	37.7	141.7	5.3
Latin America	15.5	15.2	17.6	18.2	66.5	15.2
<b>Total Europe</b>	<b>173.0</b>	<b>157.6</b>	<b>189.3</b>	<b>203.5</b>	<b>723.4</b>	<b>2.5</b>
UK & Ireland	77.3	59.6	80.2	70.2	287.3	(6.0)
Rest of World	41.0	37.6	41.9	44.4	164.9	5.3
<b>UK &amp; Rest of World</b>	<b>118.3</b>	<b>97.2</b>	<b>122.1</b>	<b>114.6</b>	<b>452.2</b>	<b>(2.2)</b>
<b>Asia</b>	<b>63.6</b>	<b>56.2</b>	<b>64.6</b>	<b>64.8</b>	<b>249.2</b>	<b>3.7</b>
<b>North America</b>	<b>241.6</b>	<b>299.8</b>	<b>343.4</b>	<b>355.0</b>	<b>1,239.8</b>	<b>14.5</b>
<b>Pacific</b>	<b>47.9</b>	<b>39.5</b>	<b>45.3</b>	<b>48.3</b>	<b>181.0</b>	<b>(2.6)</b>
<b>Ongoing operations</b>	<b>644.4</b>	<b>650.3</b>	<b>764.7</b>	<b>786.2</b>	<b>2,845.6</b>	<b>6.3</b>

**Quarterly category analysis of Ongoing Revenue performance in 2020** (at CER)

	Ongoing Revenue at CER					
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	FY2020 £m	% YOY
<b>Pest Control</b>	<b>411.6</b>	<b>424.2</b>	<b>469.7</b>	<b>446.2</b>	<b>1,751.7</b>	<b>1.0</b>
- Growth	345.8	373.6	405.0	382.2	1,506.6	1.6
- Emerging	65.8	50.6	64.7	64.0	245.1	(2.4)
<b>Hygiene</b>	<b>139.8</b>	<b>157.4</b>	<b>210.6</b>	<b>236.0</b>	<b>743.8</b>	<b>36.8</b>
- Core Hygiene	139.8	108.6	136.0	134.3	518.7	(4.6)
- Disinfection	-	48.8	74.6	101.7	225.1	-
<b>Protect &amp; Enhance</b>	<b>93.0</b>	<b>68.7</b>	<b>84.4</b>	<b>104.0</b>	<b>350.1</b>	<b>(12.0)</b>
<b>Ongoing operations</b>	<b>644.4</b>	<b>650.3</b>	<b>764.7</b>	<b>786.2</b>	<b>2,845.6</b>	<b>6.3</b>

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

### For the year ended 31 December

	Notes	2020 £m	2019 £m
<b>Revenue</b>	2	<b>2,823.5</b>	2,714.4
<b>Operating profit</b>		<b>293.8</b>	265.6
Net gain on disposals		-	103.8
<b>Profit before interest and income tax</b>		<b>293.8</b>	369.4
Finance income	4	<b>6.2</b>	10.7
Finance cost	3	<b>(78.5)</b>	(56.8)
Share of profit from associates, net of tax of £4.8m (2019: £7.0m)		<b>8.3</b>	15.2
<b>Profit before income tax</b>		<b>229.8</b>	338.5
Income tax expense <sup>1</sup>	5	<b>(43.5)</b>	(54.7)
<b>Profit for the year attributable to the Company's equity holders (including non-controlling interests of £0.4m (2019: £0.3m))</b>		<b>186.3</b>	283.8
<b>Other comprehensive income:</b>			
<i>Items that are not reclassified subsequently to the income statement:</i>			
Re-measurement of net defined benefit liability		<b>(13.1)</b>	(5.9)
Tax related to items taken to other comprehensive income		<b>3.9</b>	0.1
<i>Items that may be reclassified subsequently to the income statement:</i>			
Net exchange adjustments offset in reserves		<b>(52.6)</b>	(38.9)
Cost of hedging		<b>(1.0)</b>	-
Cumulative exchange recycled to income statement on disposal of foreign operations		-	(4.1)
Effective portion of changes in fair value of cash flow hedge		<b>(4.9)</b>	(0.5)
<b>Total comprehensive income for the year (including non-controlling interests of 0.4m (2019: £0.3m))</b>		<b>118.6</b>	234.5
<b>Earnings per share attributable to the Company's equity holders:</b>			
Basic	6	<b>10.03p</b>	15.33p
Diluted	6	<b>9.98p</b>	15.24p

All profit is from continuing operations.

1. Taxation includes £40.0m (2019: £48.1m) in respect of overseas taxation.

Non-GAAP measures shown below are explained in further detail in Note 21 Alternative Performance Measures.

<b>Non-GAAP measures</b>			
<b>Operating profit</b>		<b>293.8</b>	265.6
Adjusted for:			
Amortisation and impairment of intangible assets (excluding computer software)	2	<b>82.5</b>	85.2
One-off items – operating	2	<b>7.7</b>	14.6
<b>Adjusted operating profit</b>		<b>384.0</b>	365.4
Finance income	4	<b>6.2</b>	10.7
Finance cost	3	<b>(78.5)</b>	(56.8)
Net interest adjustments	4	<b>35.2</b>	4.0
Share of profit from associates, net of tax of £4.8m (2019: £7.0m)		<b>8.3</b>	15.2
One-off items - associates		-	2.4
<b>Adjusted profit before income tax</b>		<b>355.2</b>	340.9
Basic adjusted earnings per share attributable to the Company's equity holders	6	<b>15.37p</b>	14.43p
Diluted adjusted earnings per share attributable to the Company's equity holders	6	<b>15.29p</b>	14.34p

# Consolidated Balance Sheet

## At 31 December

	Notes	2020 £m	2019 <sup>1</sup> £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	1,922.1	1,673.4
Property, plant and equipment	9	402.7	391.7
ROU assets		217.5	221.2
Investments in associated undertakings		27.2	29.7
Other investments		0.2	0.3
Deferred tax assets		37.7	29.3
Contract costs	2	67.8	65.4
Retirement benefit assets	13	19.0	37.4
Other receivables		13.1	12.7
Derivative financial instruments		37.0	7.6
		<b>2,744.3</b>	<b>2,468.7</b>
<b>Current assets</b>			
Other investments		172.2	1.7
Inventories		131.3	106.5
Trade and other receivables		548.6	500.7
Current tax assets		10.6	7.0
Derivative financial instruments		5.6	0.2
Cash and cash equivalents <sup>1</sup>	11	2,225.6	1,169.2
		<b>3,093.9</b>	<b>1,785.3</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		(925.0)	(660.7)
Current tax liabilities		(80.0)	(72.9)
Provisions for other liabilities and charges	14	(30.1)	(25.1)
Bank and other short-term borrowings <sup>1</sup>		(1,846.6)	(944.2)
Current lease liabilities		(72.7)	(72.0)
Derivative financial instruments		(3.5)	(0.5)
		<b>(2,957.9)</b>	<b>(1,775.4)</b>
Net current assets		<b>136.0</b>	<b>9.9</b>
<b>Non-current liabilities</b>			
Other payables		(70.4)	(57.7)
Bank and other long-term borrowings		(1,337.6)	(1,059.3)
Non-current lease liabilities		(141.8)	(144.7)
Deferred tax liabilities		(94.7)	(110.8)
Retirement benefit obligations	13	(38.8)	(37.5)
Provisions for other liabilities and charges	14	(34.1)	(34.0)
Derivative financial instruments		(32.3)	(32.3)
		<b>(1,749.7)</b>	<b>(1,476.3)</b>
<b>Net assets</b>		<b>1,130.6</b>	<b>1,002.3</b>
<b>Equity</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	15	18.5	18.5
Share premium account		6.8	6.8
Other reserves		(1,926.2)	(1,867.7)
Retained profits		3,030.6	2,844.1
		<b>1,129.7</b>	<b>1,001.7</b>
Non-controlling interests		0.9	0.6
<b>Total equity</b>		<b>1,130.6</b>	<b>1,002.3</b>

1. Both cash and cash equivalents and bank and other short-term borrowings have been restated in 2019, to gross up the effect of overdrafts (£859.6m) and cash (£859.6m), see Note 11.



# Consolidated Statement of Changes in Equity

## For the year ended 31 December

	Attributable to equity holders of the Company					
	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2019	18.4	6.8	(1,824.2)	2,631.2	0.4	832.6
Profit for the year	-	-	-	283.5	0.3	283.8
<b>Other comprehensive income:</b>						
Net exchange adjustments offset in reserves	-	-	(38.9)	-	-	(38.9)
Re-measurement of net defined benefit liability	-	-	-	(5.9)	-	(5.9)
Effective portion of changes in fair value of cash flow hedge	-	-	(0.5)	-	-	(0.5)
Cumulative exchange recycled to income statement on disposal of foreign operations	-	-	(4.1)	-	-	(4.1)
Tax related to items taken directly to other comprehensive income	-	-	-	0.1	-	0.1
Total comprehensive income for the year	-	-	(43.5)	277.7	0.3	234.5
<b>Transactions with owners:</b>						
Shares issued in the year	0.1	-	-	(0.1)	-	-
Dividends paid to equity shareholders	-	-	-	(85.8)	-	(85.8)
Dividends paid to non-controlling interests	-	-	-	-	(0.1)	(0.1)
Cost of equity-settled share-based payment plans	-	-	-	5.3	-	5.3
Tax related items taken directly to equity	-	-	-	2.4	-	2.4
Movement in the carrying value of put options	-	-	-	13.4	-	13.4
At 31 December 2019	18.5	6.8	(1,867.7)	2,844.1	0.6	1,002.3
Profit for the year	-	-	-	185.9	0.4	186.3
<b>Other comprehensive income:</b>						
Net exchange adjustments offset in reserves	-	-	(52.6)	-	-	(52.6)
Cost of hedging	-	-	(1.0)	-	-	(1.0)
Re-measurement of net defined benefit liability	-	-	-	(13.1)	-	(13.1)
Effective portion of changes in fair value of cash flow hedge	-	-	(4.9)	-	-	(4.9)
Tax related to items taken directly to other comprehensive income	-	-	-	3.9	-	3.9
Total comprehensive income for the year	-	-	(58.5)	176.7	0.4	118.6
<b>Transactions with owners:</b>						
Dividends paid to non-controlling interests	-	-	-	-	(0.1)	(0.1)
Cost of equity-settled share-based payment plans	-	-	-	5.5	-	5.5
Tax related items taken directly to equity	-	-	-	3.2	-	3.2
Movement in the carrying value of put options	-	-	-	1.1	-	1.1
At 31 December 2020	18.5	6.8	(1,926.2)	3,030.6	0.9	1,130.6

Shares of £0.1m (2019: £0.1m) have been netted against retained earnings. This represents 7.7m (2019: 7.7m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2020 was £39.0m (2019: £35.1m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

# Consolidated Statement of Changes in Equity (continued)

## For the year ended 31 December

### Analysis of other reserves

	Capital reduction reserve £m	Legal reserve £m	Cash flow hedge reserve £m	Translation reserve £m	Cost of hedging £m	Total £m
At 1 January 2019	(1,722.7)	10.4	1.0	(112.9)	-	(1,824.2)
Net exchange adjustments offset in reserves	-	-	-	(38.9)	-	(38.9)
Effective portion of changes in fair value of cash flow hedge	-	-	(0.5)	-	-	(0.5)
Cumulative exchange recycled to income statement on disposal of foreign operations	-	-	-	(4.1)	-	(4.1)
Total comprehensive expense for the year	-	-	(0.5)	(43.0)	-	(43.5)
At 31 December 2019	(1,722.7)	10.4	0.5	(155.9)	-	(1,867.7)
Net exchange adjustments offset in reserves	-	-	-	(52.6)	-	(52.6)
Effective portion of changes in fair value of cash flow hedge	-	-	(4.9)	-	-	(4.9)
Cost of hedging	-	-	-	-	(1.0)	(1.0)
Total comprehensive income for the year	-	-	(4.9)	(52.6)	(1.0)	(58.5)
At 31 December 2020	(1,722.7)	10.4	(4.4)	(208.5)	(1.0)	(1,926.2)

The capital reduction reserve arose in 2005 as a result of the scheme of arrangement of Rentokil Initial 1927 plc, under section 425 of the Companies Act 1985, to introduce a new holding company, Rentokil Initial plc, and the subsequent reduction in capital approved by the High Court whereby the nominal value of each ordinary share was reduced from 100p to 1p.

The legal reserve represents amounts set aside in compliance with local laws in certain countries in which the Group operates.

## Consolidated Cash Flow Statement

### For the year ended 31 December

	Notes	2020 £m	2019 £m
<b>Cash flows from operating activities</b>			
Cash generated from operating activities	17	649.6	554.2
Interest received		7.6	10.8
Interest paid <sup>1</sup>		(48.6)	(58.9)
Income tax paid		(64.4)	(43.2)
Net cash flows from operating activities		544.2	462.9
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(129.9)	(140.1)
Purchase of intangible fixed assets		(22.6)	(30.8)
Proceeds from sale of property, plant and equipment		6.3	3.2
Acquisition of companies and businesses, net of cash acquired	18	(194.7)	(315.7)
Disposal of companies and businesses		2.2	391.9
Dividends received from associates		11.7	30.4
Net cash flows from investing activities		(327.0)	(61.1)
<b>Cash flows from financing activities</b>			
Dividends paid to equity shareholders	7	-	(85.8)
Capital element of lease payments		(85.4)	(86.3)
Cash outflow on settlement of debt related foreign exchange forward contracts		(23.7)	(11.7)
Net investment in term deposits		(170.5)	0.7
Proceeds from new debt		1,694.0	433.8
Bond repayments		(1,352.2)	(472.0)
Net cash flows from financing activities		62.2	(221.3)
Net increase in cash and cash equivalents		279.4	180.5
Cash and cash equivalents at beginning of year		273.9	100.9
Exchange losses on cash and cash equivalents		(2.5)	(7.5)
Cash and cash equivalents at end of the financial year		550.8	273.9

1. Interest paid includes interest on lease payments of £6.8m (2019: £8.1m).

# Notes to the financial statements

## 1. Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with effect from 1 January 2020:

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates;
- Amendment to IFRS 3 Business Combinations;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform.

The application of these amendments has had no material impact on the disclosures of the amounts recognised in the Group's consolidated financial statements. Consequently, no adjustment has been made to the comparative financial information at 31 December 2019.

The Group has not early-adopted any standard, interpretation or amendment that was issued but is not yet effective.

## 2. Revenue recognition and operating segments

### Revenue recognition

Revenue represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled. All revenue is considered revenue from contracts with customers as defined by IFRS 15, including job work and sale of goods. Under IFRS 15, revenue is recognised when a customer obtains control of goods or services in line with identifiable performance obligations. In the majority of cases the Group considers that the contracts it enters into are contracts for bundled services which are accounted for as a single performance obligation. Accordingly the majority of revenue across the Group is recognised on an output basis evenly over the course of the contract because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs. Job work is short-term contract revenue whereby the period of service is typically less than one month in duration. The performance obligations linked to this revenue type are individual to each job due to their nature, with revenue being recognised at a point in time on completion. Where consumables are supplied separately from the service contract, revenue is recognised at the point the goods transfer.

The transaction price reported for all contracts is the price agreed in the contract and there are no material elements of variable consideration, financing component or non-cash consideration. The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations because the Group has a right to consideration from customers in an amount that corresponds directly with the value to the customer of the performance obligations completed to date.

There are no circumstances in which the Group acts as an agent.

Disaggregation of revenue into category, region and major type of revenue stream is shown below under segmental reporting and in Note 21.

### Contract costs

Contract costs are mainly incremental costs of obtaining contracts (primarily sales commissions directly related to contracts obtained), and to a lesser extent costs to fulfil contracts which are not within the scope of other standards (mainly incremental costs of putting resources in place to fulfil contracts).

It is anticipated that these costs are recoverable over the life of the contract to which they relate. Accordingly the Group capitalises them as contract costs and amortises them over the expected life of the contracts. The expected length of contracts across the Group and associated amortisation periods are between three and six years.

The contract costs recognised in the balance sheet at the period end amounted to £67.8m (2019: £65.4m). The amount of amortisation recognised in the period was £28.1m (2019: £25.9m) and impairment losses were £nil (2019: £nil).

Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

### Contract assets

Contract assets relate to the Group's right to consideration for performance obligations satisfied but where the customer has yet to be invoiced. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. All opening balances have been invoiced in the year.

## 2. Revenue recognition and operating segments (continued)

### Contract liabilities

Contract liabilities relate to advance consideration received from customers where the performance obligations have yet to be satisfied. All opening balances have subsequently been satisfied in the year. In most business categories where revenue is recognised over time customers are invoiced in advance or simultaneously with performance obligations being satisfied.

### Segmental reporting

Segmental information has been presented in accordance with IFRS 8 Operating Segments. Reporting segments reflect the internal management reporting structures. Each segment is headed by a Regional Managing Director who reports directly to the Chief Executive and is a member of the Group's Executive Leadership Team responsible for the review of Group performance. The operating businesses within each segment report to the Regional Managing Directors.

Disaggregated revenue under IFRS 15 is the same as the segmental analysis below. Restructuring costs and central and regional costs are presented at a Group level as they are not targeted or managed at reportable segment level. The basis of presentation is consistent with the information reviewed by internal management. Revenue and profit are from Ongoing operations which is defined and reconciled to the nearest equivalent GAAP measure in Note 21.

	<b>Revenue 2020 £m</b>	Revenue 2019 £m	<b>Operating profit 2020 £m</b>	Operating profit 2019 £m
France	303.2	310.4	33.7	46.0
Benelux	96.7	95.3	27.9	27.9
Germany	120.6	107.5	42.1	33.4
Southern Europe	143.0	134.6	21.8	22.2
Latin America	57.7	57.7	5.5	6.6
<b>Europe</b>	<b>721.2</b>	<b>705.5</b>	<b>131.0</b>	<b>136.1</b>
UK & Ireland	287.5	305.6	50.1	65.6
Rest of World	157.3	156.6	33.7	35.7
<b>UK &amp; Rest of World</b>	<b>444.8</b>	<b>462.2</b>	<b>83.8</b>	<b>101.3</b>
<b>Asia</b>	<b>242.0</b>	<b>240.2</b>	<b>26.9</b>	<b>24.9</b>
<b>North America</b>	<b>1,224.1</b>	<b>1,082.5</b>	<b>211.9</b>	<b>153.4</b>
<b>Pacific</b>	<b>177.5</b>	<b>185.8</b>	<b>34.5</b>	<b>38.6</b>
<b>Central and regional overheads</b>	-	-	<b>(91.1)</b>	<b>(78.5)</b>
<b>Restructuring costs</b>	-	-	<b>(13.2)</b>	<b>(7.7)</b>
<b>Ongoing operations at AER</b>	<b>2,809.6</b>	<b>2,676.2</b>	<b>383.8</b>	<b>368.1</b>
Disposed businesses <sup>1, 2</sup>	13.9	38.2	0.2	(2.7)
<b>Continuing operations at AER</b>	<b>2,823.5</b>	<b>2,714.4</b>	<b>384.0</b>	<b>365.4</b>
One-off items – operating			<b>(7.7)</b>	<b>(14.6)</b>
Amortisation of intangible assets <sup>3</sup>			<b>(82.5)</b>	<b>(85.2)</b>
<b>Operating profit</b>			<b>293.8</b>	<b>265.6</b>

1. Disposed businesses for 2019 is restated to include businesses that were disposed in 2020 to aid year on year comparability.

2. Includes revenue of £7.1m (2019: £10.7m) from product sales by the Group to CWS-boco International GmbH. Prior to 30th June 2017, this revenue was classified as intergroup revenue and eliminated on consolidation.

3. Excluding computer software.

## 2. Revenue recognition and operating segments (continued)

One-off items operating:

	One-off cost/(income) 2020 £m	One-off tax impact 2020 £m	One-off cash inflow/(outflow) 2020 £m
Acquisition and integration costs	14.7	(3.0)	(14.7)
Prior year disposal of business – cash receipt	(2.2)	-	2.2
Pension scheme closure in North America	(7.3)	2.0	-
Profit on property sale and leaseback	(2.0)	0.5	4.4
Disposal charge for faulty PPE	2.9	(0.5)	-
Legacy payroll costs	3.3	(1.1)	(1.1)
Release of legacy provisions	(3.0)	-	-
UK pension scheme – partial refund of surplus	-	-	8.5
Other	1.3	(0.3)	(1.6)
<b>At 31 December</b>	<b>7.7</b>	<b>(2.4)</b>	<b>(2.3)</b>

Other segment items included in the consolidated income statement are as follows:

	Amortisation and impairment of intangibles <sup>1</sup> 2020 £m	Amortisation and impairment of intangibles <sup>1</sup> 2019 £m
Europe	13.3	10.1
UK & Rest of World	12.4	19.6
Asia	15.1	8.6
North America	30.9	35.0
Pacific	3.6	3.9
Central and regional	7.2	6.0
Disposed businesses	-	2.0
<b>Total</b>	<b>82.5</b>	<b>85.2</b>
Tax effect	(17.5)	(19.6)
<b>Total after tax effect</b>	<b>65.0</b>	<b>65.6</b>

1. Excluding computer software.

## 3. Finance cost

	2020 £m	2019 £m
Hedged interest payable on medium term notes issued <sup>1</sup>	15.6	23.8
Interest payable on bank loans and overdrafts <sup>1</sup>	3.0	2.7
Interest payable on revolving credit facility <sup>1</sup>	5.4	3.6
Interest payable on foreign exchange swaps	13.8	16.1
Interest payable on leases	6.8	8.1
Amortisation of discount on provisions	0.3	0.2
Fair value loss on hedge ineffectiveness <sup>2</sup>	3.6	-
Fair value adjustment on debt repayment	4.1	-
Fair value loss on other derivatives <sup>3</sup>	25.9	2.3
<b>Total finance cost</b>	<b>78.5</b>	<b>56.8</b>

1. Interest expense on financial liabilities held at amortised cost.

2. Fair value loss on hedge ineffectiveness includes £7.6m foreign exchange loss on euro bonds not reclassified to reserves due to book value of the euro subsidiaries' net assets being lower than the designated bond liability (2019: £3.1m loss). The fair value gain on hedge ineffectiveness also includes £4.0m interest of the net investment hedge accounting of the €400m bond hedge reported in the interest payable of foreign exchange (2019: £4.1m).

3. Fair value loss on other derivatives relates to \$335m SBU entered into since February 2019 (\$170m in February 2019 and \$165m in July 2019) which do not qualify for hedge accounting. The instrument provides an annual interest benefit of 1.9% of the outstanding principal and was closed out in August 2020 with the full year loss of £26.2m excluding interest accrued.



#### 4. Finance income

	2020 £m	2019 £m
Bank interest	2.3	4.1
Interest receivable on foreign exchange swaps	3.4	5.1
Fair value gain on hedge ineffectiveness <sup>1</sup>	-	0.8
Interest on net defined benefit asset	0.5	0.7
Total finance income	6.2	10.7

#### 5. Income tax expense

Analysis of charge in the year:

	2020 £m	2019 £m
UK corporation tax at 19.0% (2019: 19.0%)	8.8	8.3
Overseas taxation	60.9	41.6
Adjustment in respect of previous periods	(3.1)	8.8
Total current tax	66.6	58.7
Deferred tax (credit)/expense	(17.0)	0.7
Deferred tax adjustment in respect of previous periods	(6.1)	(4.7)
Total deferred tax	(23.1)	(4.0)
Total income tax expense	43.5	54.7

Income tax expense for the period comprises both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustment relating to prior years. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences between accounting and tax bases. Deferred tax is determined using tax rates that are expected to apply when the timing difference reverses based on tax rates which are enacted or substantively enacted at the balance sheet date. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income.

Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in transactions other than a business combination that at the time of the transactions affect neither the accounting nor taxable profit or loss; and, differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred income tax is determined using tax rates (and laws) that have been enacted (or substantively enacted) at the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset against each other when the timing difference relates to income taxes levied by the same tax authority on an entity or different entities which are part of a tax consolidation and there would be the intention to settle on a net basis.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The amount of deferred tax assets recognised at each balance sheet date is adjusted to reflect changes in management's assessment of future taxable profits that will enable the tax losses to be recovered. In recognising the deferred tax asset in respect of UK losses, management have estimated the quantum of future UK taxable profits over the next five years as this is the period over which it is considered that profits can be reasonably estimated.

A deferred tax asset of £16.0m (2019: £14.4m) has been recognised in respect of UK losses carried forward at 31 December 2020. This amount has been calculated by estimating the future UK taxable profits, against which the UK tax losses will be utilised, and applying the tax rates (substantively enacted at the balance sheet date) applicable for each year. Remaining UK tax losses of £48.6m have not been recognised as at 31 December 2020 as it is not considered probable that future taxable profits will be available against which the tax losses can be offset. The increase in the deferred tax asset recognised on the UK tax losses is due to UK corporate tax rate reduction from 19% to 17% not coming into effect.

At the balance sheet date the Group has tax losses of £105.0m (2019: £120.4m) on which no deferred tax asset is recognised because it is not considered probable that future taxable profits will be available in certain jurisdictions to be able to benefit from those tax losses. Of the losses £14.6m (2019: £15.5m) will expire at various dates between 2021 and 2031.

## 5. Income tax expense (continued)

In addition, the Group has UK capital losses carried forward of £276.3m (2019: £276.9m) on which no deferred tax asset is recognised. These losses have no expiry date but management considers the future utilisation of these losses to be unlikely.

## 6. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year, excluding those held in the Rentokil Initial Employee Share Trust for UK employees (see note at the bottom of the Consolidated Statement of Changes in Equity) which are treated as cancelled, and including share options for which all conditions have been met.

Adjusted earnings per share is earnings per share adjusted for the after-tax effects of one-off items, amortisation and impairment of intangibles and net interest adjustments.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group's potentially dilutive ordinary shares relate to the contingent issuable shares under the Group's long term incentive plans (LTIPs) to the extent the performance conditions have been met at the end of the period. These share options are issued for nil consideration to employees if performance conditions are met.

Details of the adjusted earnings per share are set out below:

	2020 £m	2019 £m
<b>Profit from continuing operations attributable to equity holders of the Company</b>	<b>185.9</b>	283.5
One-off items - operating	7.7	14.6
One-off items - associates	-	2.4
Net gain on disposals	-	(103.8)
Amortisation and impairment of intangibles <sup>1</sup>	82.5	85.2
Net interest adjustments	35.2	4.0
Tax on above items <sup>2</sup>	(26.4)	(19.1)
<b>Adjusted profit from continuing operations attributable to equity holders of the Company</b>	<b>284.9</b>	266.8
<b>Weighted average number of ordinary shares in issue</b>	<b>1,853.2</b>	1,849.0
Adjustment for potentially dilutive shares	9.7	11.5
<b>Weighted average number of ordinary shares for diluted earnings per share</b>	<b>1,862.9</b>	1,860.5
Basic earnings per share	10.03p	15.33p
Diluted earnings per share	9.98p	15.24p
Basic adjusted earnings per share	15.37p	14.43p
Diluted adjusted earnings per share	15.29p	14.34p

1. Excluding computer software.

2. One-off items operating £2.4m (2019: £(1.1)m), amortisation and impairment of intangibles £17.5m (2019: £19.6m), net interest adjustments £6.5m (2019: £0.6m).

## 7. Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

	2020 £m	2019 £m
2018 final dividend paid – 3.16p per share	-	58.1
2019 interim dividend paid – 1.51p per share	-	27.7
	-	85.8

No interim dividend was declared for 2020 due to temporary suspension of the progressive dividend policy as a result of the global COVID-19 pandemic. A final dividend in respect of 2020 of 5.41p per share amounting to £100.3m is to be proposed at the Annual General Meeting on 12 May 2021. These financial statements do not reflect this recommended dividend.

## 8. Intangible assets

	Goodwill £m	Customer lists and relationships £m	Brands £m	Product development £m	Computer software £m	2020 Total £m	2019 Total £m
<b>Cost</b>							
At 1 January	1,376.7	782.8	66.7	33.7	135.1	2,395.0	2,170.3
Exchange differences	(45.2)	(5.5)	(0.7)	-	0.5	(50.9)	(93.2)
Additions	-	-	-	5.7	16.8	22.5	30.8
Disposals/retirements	-	(7.7)	-	-	(7.4)	(15.1)	(3.2)
Acquisition of companies and businesses	322.3	56.7	0.1	-	-	379.1	331.6
Disposal of companies and businesses	(0.4)	(1.9)	-	-	(0.2)	(2.5)	(44.8)
Transfers	-	-	-	-	-	-	3.5
<b>At 31 December</b>	<b>1,653.4</b>	<b>824.4</b>	<b>66.1</b>	<b>39.4</b>	<b>144.8</b>	<b>2,728.1</b>	<b>2,395.0</b>
<b>Accumulated amortisation and impairment</b>							
At 1 January	(34.2)	(534.1)	(42.9)	(20.0)	(90.4)	(721.6)	(661.2)
Exchange differences	(0.2)	(0.3)	0.9	-	(0.4)	-	27.0
Disposals/retirements	-	7.7	-	-	6.8	14.5	3.1
Disposal of companies and businesses	-	1.9	-	-	0.2	2.1	8.3
Impairment charge	(10.6)	-	-	(0.5)	(1.9)	(13.0)	(5.0)
Amortisation charge	-	(60.5)	(4.6)	(6.3)	(16.6)	(88.0)	(93.8)
<b>At 31 December</b>	<b>(45.0)</b>	<b>(585.3)</b>	<b>(46.6)</b>	<b>(26.8)</b>	<b>(102.3)</b>	<b>(806.0)</b>	<b>(721.6)</b>
<b>Net book value</b>							
At 1 January	1,342.5	248.7	23.8	13.7	44.7	1,673.4	1,509.1
<b>At 31 December</b>	<b>1,608.4</b>	<b>239.1</b>	<b>19.5</b>	<b>12.6</b>	<b>42.5</b>	<b>1,922.1</b>	<b>1,673.4</b>

1. Includes current year acquisitions of £374.3m as well as adjustments to prior year acquisitions within the measurement period.

## 9. Property, plant and equipment

	Land and buildings £m	Service contract equipment £m	Other plant and equipment £m	Vehicles and office equipment £m	2020 Total £m	2019 Total £m
<b>Cost</b>						
At 1 January	84.1	485.3	169.6	185.3	924.3	984.6
IAS 17 finance leases transferred	-	-	-	-	-	(60.1)
Exchange differences	3.0	19.6	6.6	(0.4)	28.8	(49.3)
Additions	2.0	93.0	11.5	20.6	127.1	141.9
Disposals	(1.8)	(74.8)	(1.8)	(13.2)	(91.6)	(109.1)
Acquisition of companies and businesses <sup>1</sup>	-	0.4	0.3	4.9	5.6	16.5
Disposal of companies and businesses	-	-	(0.1)	(0.1)	(0.2)	(0.2)
Reclassification from IFRS 16 ROU assets <sup>2</sup>	-	-	-	3.3	3.3	-
<b>At 31 December</b>	<b>87.3</b>	<b>523.5</b>	<b>186.1</b>	<b>200.4</b>	<b>997.3</b>	<b>924.3</b>
<b>Accumulated depreciation and impairment</b>						
At 1 January	(27.1)	(273.2)	(116.7)	(115.6)	(532.6)	(547.7)
IAS 17 finance leases transferred	-	-	-	-	-	18.4
Exchange differences	(1.1)	(11.9)	(4.7)	(0.1)	(17.8)	29.6
Disposals	1.1	73.4	1.6	11.9	88.0	94.4
Disposals of companies and businesses	-	-	-	0.1	0.1	-
Impairment charge	(0.1)	(0.3)	-	-	(0.4)	-
Depreciation charge	(3.0)	(97.6)	(12.3)	(19.0)	(131.9)	(127.3)
<b>At 31 December</b>	<b>(30.2)</b>	<b>(309.6)</b>	<b>(132.1)</b>	<b>(122.7)</b>	<b>(594.6)</b>	<b>(532.6)</b>
<b>Net book value</b>						
At 1 January	57.0	212.1	52.9	69.7	391.7	436.9
<b>At 31 December</b>	<b>57.1</b>	<b>213.9</b>	<b>54.0</b>	<b>77.7</b>	<b>402.7</b>	<b>391.7</b>

1. Includes current year acquisitions of £5.7m as well as adjustments to prior year acquisitions within the measurement period.

2. Certain leased assets become owned assets at the end of their lease period and are therefore reclassified from ROU assets.

## 10. Financing

### Fair value estimation

All financial instruments held at fair value are classified by reference to the source of inputs used to derive the fair value. The following hierarchy is used:

**Level 1** – unadjusted quoted prices in active markets for identical assets or liabilities;

**Level 2** – inputs other than quoted prices that are observable for the asset or liability either directly as prices or indirectly through modelling based on prices;

**Level 3** – inputs for the asset or liability that are not based on observable market data. Fair value is equal to carrying value for all instruments at level 3.

The Group uses the following methods to estimate fair value of its financial instruments:

Financial instrument	Hierarchy level	Valuation method
Financial assets traded in active markets	1	Current bid price
Financial liabilities traded in active markets	1	Current ask price
Long-term debt	1	Quoted market prices
Liquidity fund	1	Quoted market prices or dealer quotes for similar instruments
Interest rate/currency swaps	2	Market swap rates at the balance sheet date
Forward foreign exchange contracts	2	Forward exchange market rates at the balance sheet date
Borrowings not traded in active markets	2	Cash flows discounted at current market rates
Financial instruments not traded in active markets	2 or 3	Valuation assumptions based on market conditions at the balance sheet date
Trade payables and receivables	3	Nominal value less estimated credit adjustments
Other financial instruments	3	Variety of techniques including discounted cash flows

## 11. Cash and cash equivalents

Cash and cash equivalents include cash in hand, short-term bank deposits, and other short-term highly liquid investments with original maturities of three months or less (and subject to insignificant changes in value). In the cash flow statement cash and cash equivalents are shown net of bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Cash at bank and in hand includes £6.7m (2019: £9.0m) of restricted cash. This cash is held in respect of specific contracts and can only be utilised in line with terms under the contractual arrangements. Cash at bank and in hand also includes £51.0m (2019: £45.6m) of cash held in countries with foreign exchange regulations. This cash is repatriated to UK where possible, if not required for operational purposes in country.

Fair value is equal to carrying value for all cash and cash equivalents.

The Group operates pooling arrangements whereby cash balances and overdrafts held within the same bank have a legal right of offset. However the Group did not net down the year end balances after the reporting date in the prior period and therefore has restated both the cash and cash equivalents in the Consolidated Balance Sheet and the bank and other short term borrowings to show these amounts gross. This £859.6m restatement has no effect on the profit or loss, net assets or the cash flow statement. These cash and bank overdraft figures are shown in the table below:

	£m
At 31 December 2020	
Cash at bank and in hand	2,219.5
Short-term bank deposits	6.1
Cash and cash equivalents in the consolidated balance sheet	2,225.6
Bank overdraft	(1,674.8)
Cash and cash equivalents in the consolidated cash flow statement	550.8
At 31 December 2019	
Cash at bank and in hand	1,099.1
Short-term bank deposits	70.1
Cash and cash equivalents in the consolidated balance sheet	1,169.2
Bank overdraft	(895.3)
Cash and cash equivalents in the consolidated cash flow statement	273.9

## 12. Analysis of bank and bond debt

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are classified as current liabilities unless the Group has a continuing right to defer settlement of the liability for at least 12 months after the balance sheet date.

The Group's bank debt comprises:

	Facility amount £m	Drawn at year end £m	Headroom £m	Interest rate at year end %
<b>Non-current</b>				
£550m RCF due August 2025	550.0	-	550.0	0.14

In August 2020 the Group extended its main revolving credit facility (RCF) until August 2025 with a one-year extension option. At the year end the RCF was undrawn.

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
<b>Current</b>		
€175 bond due October 2021	Fixed 3.25%	Fixed 3.41%
<b>Non-current</b>		
€400m bond due November 2024	Fixed 0.95%	Fixed 2.31%
€500m bond due May 2026	Fixed 0.875%	Fixed 1.40%
€600m bond due October 2028	Fixed 0.50%	Fixed 0.58%
Average cost of bond debt at year end rates		1.72%

The effective hedged interest rate reflects the interest rate after the impact of interest due from currency swaps. The Group's hedging strategy is to hold foreign currency debt in proportion to the foreign currency profit and cash flows which are mainly euro and US dollar. As a result, the Group has swapped a portion of the bonds it has issued into US dollars, thus increasing the effective hedged interest rate.

In November, following a successful tender offer, the Group repaid 49.8% of the €350m bond that is due in October 2021. The bond has a three months at par call option, which means that the bond can be repaid on 7 July 2021 without additional premium. In October 2020, the Group issued a new €600m eight year bond with a coupon of 0.50% under its EMTN Programme.

The Group considers the fair value of other current liabilities to be equal to the carrying value.

## 13. Retirement benefit obligations

Apart from the legally required social security state schemes, the Group operates a number of pension schemes around the world covering many of its employees.

The principal pension scheme in the Group is the UK Rentokil Initial 2015 Pension Scheme (RIPS) which has a defined contribution section, and a number of defined benefit sections which are now closed to new entrants and future accrual of benefits. On 4 December 2018 the Group signed an agreement with Pension Insurance Corporation plc (PIC) to take over the payment of the liabilities in the scheme via a buy-in, which is anticipated to convert to a full buy-out before the end of 2022.

A number of much smaller defined benefit and defined contribution schemes operate elsewhere which are also funded through payments to trustee-administered funds or insurance companies.

Defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions. Significant judgement is required in determining these actuarial assumptions.

The Group achieved buy-in within the value of the assets held by the scheme and was not required to make any further contributions. There is still some uncertainty regarding the final adjustments to the price that will be paid to PIC on full buy-out of the scheme, and therefore the final surplus that will be available to the Group. However, in December 2020 the Trustee made a partial refund of surplus to the Group of £13.0m. The remaining surplus is recognised as a retirement benefit asset at management's estimate of the value that will be returned to the Group on wind-up of the Scheme.

### 13. Retirement benefit obligations (continued)

The defined benefit schemes are reappraised semi-annually by independent actuaries based upon actuarial assumptions in accordance with IAS 19R requirements (including schemes which are insured under a buy-in contract). The assumptions used for the RIPS scheme are shown below:

	2020	2019
<b>Weighted average %</b>		
Discount rate	<b>1.4%</b>	2.0%
Future salary increases	<b>N/A</b>	N/A
Future pension increases	<b>3.0%</b>	3.1%
RPI inflation	<b>3.0%</b>	3.2%
CPI inflation	<b>2.3%</b>	2.2%

The movement in the net defined benefit obligation for all pension schemes over the accounting period is as follows:

	Present value of obligation 2020 £m	Fair value of plan assets 2020 £m	Total 2020 £m	Present value of obligation 2019 £m	Fair value of plan assets 2019 £m	Total 2019 £m
At 1 January	(1,443.9)	1,443.8	(0.1)	(1,342.0)	1,337.3	(4.7)
Current service costs <sup>1</sup>	(1.6)	-	(1.6)	(1.2)	-	(1.2)
Past service costs <sup>1</sup>	7.1	-	7.1	0.6	-	0.6
Settlement of defined benefit obligation <sup>1</sup>	-	-	-	-	17.4	17.4
Administration expenses <sup>1</sup>	(0.1)	-	(0.1)	(0.4)	-	(0.4)
Interest on net defined benefit asset <sup>1</sup>	(28.2)	28.7	0.5	(35.6)	36.3	0.7
Exchange difference	(0.1)	(0.4)	(0.5)	3.6	(2.3)	1.3
Total pension income	(22.9)	28.3	5.4	(33.0)	51.4	18.4
<b>Remeasurements:</b>						
Remeasurement gain on scheme assets	-	70.2	70.2	-	90.8	90.8
Remeasurement loss on obligation <sup>2</sup>	(83.3)	-	(83.3)	(96.7)	-	(96.7)
<b>Transfers</b>						
Transferred on acquisition of business	-	-	-	(46.0)	35.2	(10.8)
<b>Contributions:</b>						
Employers	(0.3)	0.5	0.2	-	1.2	1.2
Participants	(0.2)	0.2	-	(0.2)	0.1	(0.1)
Benefit payments	69.4	(68.7)	0.7	73.6	(72.2)	1.4
Refund of surplus	-	(13.0)	(13.0)	-	-	-
Administration costs	0.1	-	0.1	0.4	-	0.4
At 31 December	(1,481.1)	1,461.3	(19.8)	(1,443.9)	1,443.8	(0.1)
Retirement benefit obligation schemes <sup>3</sup>	(110.6)	71.8	(38.8)	(106.6)	69.1	(37.5)
Retirement benefit asset schemes <sup>4</sup>	(1,370.5)	1,389.5	19.0	(1,337.3)	1,374.7	37.4

1. Service costs, settlement and administration expenses are charged to operating expenses, and interest cost and return on plan assets to finance cost and finance income respectively.

2. The actuarial movement on the UK RIPS scheme comprises remeasurement gain arising from changes in demographic assumptions of £16.1m (2019: gain £16.5m), remeasurement loss arising from changes in financial assumptions of £117.1m (2019: £129.3m) and remeasurement gains arising from experience of £25.0m (2019: £20.9m).

3. Benefit plans in an obligation position include plans situated in Ireland, the UK, Martinique, Barbados, Trinidad, Norway, South Africa, Germany, Austria, France, Italy, South Korea, Philippines, India, Hong Kong and the US.

4. Benefit plans in an asset position include plans situated in UK and Australia.

Included in the table above is a net defined benefit surplus in relation to the UK RIPS scheme of £18.2m (2019: £36.6m) recognised as defined benefit obligation of £1,369.3m (2019: £1,333.3m) and plan assets of £1,387.5m (2019: £1,369.9m). Of the £1,481.1m (2019: £1,443.9m) of obligations, £18.3m (2019: £16.7m) is unfunded.

### 13. Retirement benefit obligations (continued)

Total contributions payable to defined benefit pension schemes in 2021 are expected to be less than £1m.

The fair value of plan assets at the balance sheet date is analysed as follows:

	2020 £m	2019 £m
Equity instruments	37.3	38.6
Debt instruments – unquoted	16.7	14.8
Property	0.7	0.6
Insurance policies	1,343.6	1,335.6
Other	63.0	54.2
Total plan assets	1,461.3	1,443.8

### 14. Provisions for other liabilities and charges

The Group has environmental, self-insurance and other provisions. Provisions are recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount is capable of being reliably estimated. If such an obligation is not capable of being reliably estimated it is classified as a contingent liability.

Future cash flows relating to these obligations are discounted when the effect is material. This year the US is the only country where the effect of discounting is material. The discount rates used are based on government bond rates in the country of the cash flows, and were 0.9% (2019: 0.9%) for the US.

Judgement is required in determining the worldwide provision for environmental restoration. These provisions tend to be long-term in nature and the use of an appropriate market discount rate and forecast future utilisation based upon management's best estimate determines the level of provision required at the balance sheet date. The phasing and actual cash spend may be different from the forecast on which the provision is based.

	Environmental £m	Self-insurance £m	Other £m	2020 Total £m	2019 Total £m
<b>At 1 January</b>	<b>14.2</b>	<b>29.3</b>	<b>15.6</b>	<b>59.1</b>	71.2
Adjustment on initial application of IFRS 16	-	-	-	-	(6.4)
Exchange differences	0.7	(0.9)	0.3	0.1	(2.1)
Additional provisions	0.4	14.7	13.0	28.1	18.8
Used during the year	(1.8)	(10.7)	(6.7)	(19.2)	(21.2)
Unused amounts reversed	-	(0.2)	(4.1)	(4.3)	(1.6)
Acquisition of companies and businesses	0.1	-	-	0.1	0.2
Unwinding of discount on provisions	-	0.3	-	0.3	0.2
<b>At 31 December</b>	<b>13.6</b>	<b>32.5</b>	<b>18.1</b>	<b>64.2</b>	59.1
Analysed as follows:					
Non-current				34.1	34.0
Current				30.1	25.1
<b>Total</b>				<b>64.2</b>	59.1

#### Environmental

The Group owns a number of properties in Europe and the US where there is land contamination. Provisions are held for the remediation of such contamination. These provisions are expected to be substantially utilised within the next five years.

#### Self-insurance

The Group purchases external insurance from a portfolio of international insurers for its key insurable risks, mainly employee-related risks. Self-insured deductibles within these insurance policies have changed over time due to external market conditions and scale of operations. These provisions represent obligations for open claims and are estimated based on actuarial/management's assessment at the balance sheet date. The Group expects to continue self-insuring the same level of risks and estimates that 50% to 75% of claims should settle within the next five years.

#### Other

Other provisions principally comprise amounts required to cover obligations arising and costs relating to disposed businesses and restructuring costs. Other provisions also includes costs relating to onerous lease contracts on properties it no longer occupies such as security, utilities and insurance. Existing provisions are expected to be substantially utilised within the next five years.

## 15. Share capital

	2020 £m	2019 £m
Issued and fully paid		
At 31 December – 1,854,332,965 shares (2019: 1,849,332,965)	18.5	18.5

## 16. Reconciliation of net change in cash and cash equivalents to net debt

	Opening 2020 £m	Cash flows £m	Non-cash (fair value changes) £m	Non-cash (foreign exchange and other) £m	Closing 2020 £m
Cash and cash equivalents in the consolidated balance sheet <sup>1</sup>	1,169.2	1,058.9	-	(2.5)	2,225.6
Other investments – loans and receivables	1.8	170.5	-	(0.1)	172.2
Fair value of debt-related derivatives	(23.8)	30.3	(39.7)	39.8	6.6
Bank and other short-term borrowings <sup>1</sup>	(944.2)	(565.3)	(21.1)	(316.0)	(1,846.6)
Bank and other long-term borrowings	(1,059.3)	(537.7)	(1.3)	260.7	(1,337.6)
Leases	(216.7)	92.3	-	(90.1)	(214.5)
	(1,073.0)	249.0	(62.1)	(108.2)	(994.3)

1. Both cash and cash equivalents in the consolidated balance sheet and bank and other short-term borrowings have been restated in 2019 to gross up the effect of overdrafts (£859.6m), cash (£859.6m) (Note 11).

## 17. Operating cash and Free Cash Flow

	2020 £m	2019 <sup>1</sup> £m
Operating profit	293.7	369.4
Adjustments for:		
– Depreciation and impairment of property, plant and equipment	132.3	127.3
– Depreciation of leased assets	78.0	78.9
– Amortisation and impairment of intangible assets (excluding computer software)	82.5	85.2
– Amortisation and impairment of computer software	18.5	13.6
– Other non-cash items	(0.5)	(4.3)
– Net profit on sale of businesses	-	(103.8)
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
– Inventories	(23.3)	(3.6)
– Contract costs	(1.9)	(6.3)
– Trade and other receivables	(22.5)	(32.4)
– Contract assets	2.4	(5.8)
– Trade and other payables and provisions	78.2	20.2
– Contract liabilities	12.7	16.9
Cash generated from operating activities before special pension contributions	650.1	555.3
Special pension contributions	(0.5)	(1.1)
Cash generated from operating activities	649.6	554.2
Add back: special pension contributions	0.5	1.1
Purchase of property, plant and equipment	(129.9)	(140.1)
Purchase of intangible fixed assets	(22.6)	(30.8)
Additions of ROU assets	(75.4)	(74.9)
Disposals of ROU assets	2.5	-
Proceeds from sale of property, plant and equipment	6.3	3.2
Dividends received from associates	11.7	30.4
	442.7	343.1
Interest received	7.6	10.8
Interest paid	(48.6)	(58.9)
Income tax paid	(64.4)	(43.2)
Special pension contributions	(0.5)	(1.1)
Free Cash Flow from continuing operations	336.8	250.7



## 18. Business combinations

During the year the Group purchased 100% of the share capital or trade and assets of 23 companies and businesses. The total consideration in respect of these acquisitions was £367.3m and the cash outflow from current and past period acquisitions, net of cash acquired, was £194.7m.

Details of goodwill and the fair value of net assets acquired are as follows:

	2020 £m	2019 £m
Purchase consideration:		
– Cash paid	156.9	290.3
– Deferred and contingent consideration	210.4	38.3
Total purchase consideration	367.3	328.6
Fair value of net assets acquired	(49.9)	(62.8)
Goodwill from current year acquisitions	317.4	265.8

Goodwill represents the synergies, workforce and other benefits expected as a result of combining the respective businesses.

Deferred consideration of £192.3m and contingent consideration of £18.1m is payable in respect of the above acquisitions. Contingent consideration is payable based on a variety of conditions including revenue and profit targets being met. Both deferred and contingent consideration are payable over the next five years. The Group has recognised the contingent and deferred consideration based on the fair value of the consideration at the acquisition date. A range of outcomes for contingent consideration payments cannot be estimated due to the variety of performance conditions and the volume of businesses the Group acquires. During the year there were releases of deferred consideration liabilities not paid of £1.6m (2019: £1.1m).

The provisional fair value<sup>1</sup> of assets and liabilities arising from acquisitions in the year are as follows:

	2020 £m	2019 £m
Non-current assets		
– Intangible assets <sup>2</sup>	56.9	70.5
– Property, plant and equipment <sup>3</sup>	9.9	17.0
Current assets <sup>4</sup>	20.4	14.3
Current liabilities	(20.0)	(20.8)
Non-current liabilities <sup>5</sup>	(17.3)	(18.2)
Net assets acquired	49.9	62.8

1. The provisional fair values will be finalised in the 2021 financial statements. The fair values are provisional since the acquisition accounting has not yet been finalised, primarily due to the proximity of many acquisitions to the year end.

2. Includes £56.8m (2019: £67.9m) of customer lists and relationships and £0.1m (2019: £2.6m) of other intangibles.

3. Includes £4.2m (2019: £0.7m) of right-of-use assets.

3. Includes trade and other receivables of £11.2m (2019: £5.9m) which represents the gross and fair value of the assets acquired.

4. Includes £(5.1)m of deferred tax relating to acquired intangibles (2019: £(4.2)m).

The cash outflow from current and past acquisitions are as follows:

	2020 £m	2019 £m
Total purchase consideration	367.3	328.6
Consideration payable in future periods	(210.4)	(38.3)
Purchase consideration paid in cash	156.9	290.3
Cash and cash equivalents in acquired companies and businesses	(6.1)	(6.0)
Cash outflow on current period acquisitions	150.8	284.3
Deferred consideration paid	43.9	31.4
Cash outflow on current and past acquisitions	194.7	315.7

From the dates of acquisition to 31 December 2020, these acquisitions contributed £22.2m to revenue and £2.3m to operating profit.

If the acquisitions had occurred on 1 January 2020 the estimated revenue and operating profit of the Group would have amounted to £2,961.6m and £303.1m respectively.

## **19. Related party transactions**

The Group operates in a number of joint ventures which the Group controls and includes in its Consolidated Financial Statements. All transactions between these entities and the Group were transacted at arm's length during the ordinary course of business and have been eliminated on consolidation. Nippon Calmic Ltd (49%) was an associate during 2019 and 2020. There are no significant transactions between Nippon Calmic Ltd and other Group companies.

The Group bears the costs of administration and independent pension advice of the Rentokil Initial 2015 Pension Scheme. The total amount of costs in the year ended 31 December 2020 was £0.2m (2019: £0.3m) of which £0.2m (2019: £0.3m) was recharged to the Scheme. At 31 December 2020, £nil (2019: £0.1m) remained outstanding.

## **20. Events occurring after the balance sheet date**

There were no significant post balance sheet events affecting the Group since 31 December 2020.

## 21. Alternative performance measures

### Definitions and reconciliation of non-GAAP measures to GAAP measures

The Group uses a number of measures to present the financial performance of the business which are not GAAP measures as defined under IFRS. Management believes these measures provide valuable additional information for users of the financial statements in order to understand the underlying trading performance. The Group's internal strategic planning process is also based on these measures and they are used for incentive purposes. They should be viewed as complements to, and not replacements for, the comparable GAAP measures.

#### Constant exchange rates (CER)

Given the international nature of the Group's operations, foreign exchange movements can have a significant impact on the reported results of the Group when they are translated into sterling (the functional reporting currency of the Group). In order to help understand the underlying trading performance of the business, revenue and profit measures are often presented at CER. CER is calculated by retranslating current year reported numbers at the full year average exchange rates for the prior year, in order to give management and other users of the accounts better visibility of underlying trading performance against the prior period. The major exchange rates used are £/\$ FY 2020 1.2951 (FY 2019 1.2790) and £/€ FY 2020 1.1315 (FY 2019 1.1419). Comparisons are to the year ended 31 December 2019 unless otherwise stated.

#### Ongoing Revenue and Ongoing Operating Profit

Ongoing Revenue and Ongoing Operating Profit represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. Ongoing Operating Profit is an adjusted measure and is presented before amortisation and impairment of intangible assets (excluding computer software), one-off items and net profit on disposal of businesses (see below).

Ongoing measures enable the users of the accounts to focus on the performance of the businesses retained by the Group and that will therefore contribute to future performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. A reconciliation of Ongoing Revenue and Ongoing Operating Profit measures to the equivalent GAAP measure is provided in the table below and in the segmental analysis in Note 2.

#### Adjusted profit and earnings per share measures

Adjusted profit measures are used to give management and other users of the accounts a clear understanding of the underlying profitability of the business over time. Adjusted profit measures are calculated by adding the following items back to the equivalent GAAP profit measure:

- Amortisation and impairment of intangible assets (excluding computer software);
- One-off items (operating and associates); and
- Net interest adjustments

Intangible assets (excluding computer software) are recognised on acquisition of businesses which, by their nature, can vary by size and amount each year. As a result, amortisation of intangibles is added back to assist with understanding the underlying trading performance of the business and to allow comparability across regions and categories.

One-off items are significant expenses or income that will have a distortive impact on the underlying profitability of the Group. Typical examples are costs related to the acquisition of businesses (including aborted acquisitions), gain or loss on disposal or closure of a business, material gains or losses on disposal of fixed assets, adjustments to legacy property-related provisions (environmental liabilities), and payments or receipts as a result of legal disputes.

Other non-cash gains and losses that can cause material fluctuations and distort understanding of the performance of the business are net interest on pension schemes, interest fair value adjustments and the excess IFRS 16 interest above the operating profit benefit reported in the year. These adjustments are made to aid year on year comparability.

Adjusted earnings per share is calculated by dividing adjusted profit from continuing operations attributable to equity holders of the Company by the weighted average number of ordinary shares in issue. Note 6 shows the adjustments made in arriving at adjusted profit from continuing operations attributable to equity holders of the Company.

## 21. Alternative performance measures (continued)

A reconciliation of non-GAAP measures to the comparable GAAP equivalents is provided below at both AER and CER:

	2020 AER	2020 CER	2019	% change	
	£m	£m	£m	AER	CER
Ongoing Revenue	2,809.6	2,845.6	2,676.2	5.0%	6.3%
Revenue - disposed and closed businesses <sup>1</sup>	13.9	13.9	38.2	(63.5%)	(63.7%)
<b>Revenue</b>	<b>2,823.5</b>	<b>2,859.5</b>	<b>2,714.4</b>	<b>4.0%</b>	<b>5.3%</b>
Ongoing Operating Profit	383.8	388.1	368.1	4.3%	5.4%
Operating Profit – disposed and closed businesses	0.2	0.2	(2.7)	107.1%	106.9%
<b>Adjusted Operating Profit</b>	<b>384.0</b>	<b>388.3</b>	<b>365.4</b>	<b>5.1%</b>	<b>6.3%</b>
One-off items – Operating	(7.7)	(7.7)	(14.6)	47.5%	47.5%
Amortisation and impairment of intangible assets <sup>2</sup>	(82.5)	(85.3)	(85.2)	3.2%	0.0%
<b>Operating profit</b>	<b>293.8</b>	<b>295.3</b>	<b>265.6</b>	<b>10.6%</b>	<b>11.2%</b>
Net gain on disposals	-	-	103.8	(100.0%)	(100.0%)
Share of profit from associates (net of tax)	8.3	8.2	15.2	(45.6%)	(46.2%)
Net interest payable (excluding pensions/IFRS 16)	(37.1)	(37.3)	(42.1)	11.9%	11.4%
Net interest adjustments	(35.2)	(35.6)	(4.0)	(785.5%)	(795.2%)
<b>Profit before tax</b>	<b>229.8</b>	<b>230.6</b>	<b>338.5</b>	<b>(32.1%)</b>	<b>(31.9%)</b>
Net interest adjustments	35.2	35.6	4.0	785.5%	795.2%
Net gain on disposals	-	-	(103.8)	100.0%	100.0%
One-off items – operating	7.7	7.7	14.6	(47.5%)	(47.5%)
One-off items – associates <sup>3</sup>	-	-	2.4	(100.0%)	(100.0%)
Amortisation and impairment of intangible assets <sup>2</sup>	82.5	85.3	85.2	(3.2%)	(0.0%)
<b>Adjusted profit before tax</b>	<b>355.2</b>	<b>359.2</b>	<b>340.9</b>	<b>4.2%</b>	<b>5.3%</b>
Basic earnings per share	10.03p	10.07p	15.33p	(34.6%)	(34.3%)
Basic adjusted earnings per share	15.37p	15.56p	14.43p	6.5%	7.8%

1. Includes revenue of £7.1m (2019: £10.7m) from product sales by the Group to CWS-boco International GmbH. Prior to 30th June 2017, this revenue was classified as intergroup revenue and eliminated on consolidation.

2. Excluding computer software.

3. Rentokil Initial Group's post tax share of one-off items and amortisation of intangibles of the CWS-boco International GmbH associated undertaking (disposed on 30<sup>th</sup> July 2019).

## 21. Alternative performance measures (continued)

### Regional Analysis

	Ongoing Revenue				Ongoing Operating Profit			
	2020		Change from FY 2019		2020		Change from FY 2019	
	AER £m	CER £m	AER %	CER %	AER £m	CER £m	AER %	CER %
France	303.2	300.4	(2.3)	(3.2)	33.7	33.4	(26.8)	(27.5)
Benelux	96.7	95.8	1.4	0.5	27.9	27.6	(0.2)	(1.1)
Germany	120.6	119.0	12.1	10.7	42.1	41.5	26.3	24.5
Southern Europe	143.0	141.7	6.3	5.3	21.8	21.6	(1.7)	(2.6)
Latin America	57.7	66.5	(0.1)	15.2	5.5	6.3	(16.8)	(4.2)
<b>Total Europe</b>	<b>721.2</b>	<b>723.4</b>	<b>2.2</b>	<b>2.5</b>	<b>131.0</b>	<b>130.4</b>	<b>(3.7)</b>	<b>(4.1)</b>
UK & Ireland	287.5	287.3	(5.9)	(6.0)	50.1	49.6	(23.7)	(24.5)
Rest of World	157.3	164.9	0.4	5.3	33.7	35.3	(5.4)	(1.0)
<b>UK &amp; Rest of World</b>	<b>444.8</b>	<b>452.2</b>	<b>(3.8)</b>	<b>(2.2)</b>	<b>83.8</b>	<b>84.9</b>	<b>(17.3)</b>	<b>(16.2)</b>
Asia	242.0	249.2	0.8	3.7	26.9	27.4	7.9	10.1
North America	1,224.1	1,239.8	13.1	14.5	211.9	214.6	38.1	39.9
Pacific	177.5	181.0	(4.5)	(2.6)	34.5	35.2	(10.5)	(8.7)
Central and regional overheads	-	-	-	-	(91.1)	(91.1)	(16.0)	(16.0)
Restructuring costs	-	-	-	-	(13.2)	(13.3)	(72.5)	(74.4)
<b>Ongoing operations</b>	<b>2,809.6</b>	<b>2,845.6</b>	<b>5.0</b>	<b>6.3</b>	<b>383.8</b>	<b>388.1</b>	<b>4.3</b>	<b>5.4</b>
Disposed businesses	13.9	13.9	(63.5)	(63.7)	0.2	0.2	107.1	106.9
<b>Continuing operations</b>	<b>2,823.5</b>	<b>2,859.5</b>	<b>4.0</b>	<b>5.3</b>	<b>384.0</b>	<b>388.3</b>	<b>5.1</b>	<b>6.3</b>

### Category Analysis

	Ongoing Revenue				Ongoing Operating Profit			
	2020		Change from FY 2019		2020		Change from FY 2019	
	AER £m	CER £m	AER %	CER %	AER £m	CER £m	AER %	CER %
<b>Pest Control</b>	<b>1,724.1</b>	<b>1,751.7</b>	<b>(0.6)</b>	<b>1.0</b>	<b>281.7</b>	<b>283.7</b>	<b>(9.2)</b>	<b>(8.5)</b>
- Growth	1,492.2	1,506.6	0.6	1.6	257.5	259.1	(6.6)	(6.0)
- Emerging	231.9	245.1	(7.6)	(2.4)	24.2	24.6	(29.5)	(28.4)
<b>Hygiene</b>	<b>735.0</b>	<b>743.8</b>	<b>35.2</b>	<b>36.8</b>	<b>172.8</b>	<b>175.5</b>	<b>78.5</b>	<b>81.4</b>
- Core Hygiene	513.6	518.7	(5.5)	(4.6)				
- Disinfection <sup>1</sup>	221.4	225.1	-	-				
<b>Protect &amp; Enhance</b>	<b>350.5</b>	<b>350.1</b>	<b>(11.9)</b>	<b>(12.0)</b>	<b>33.6</b>	<b>33.3</b>	<b>(29.1)</b>	<b>(29.7)</b>
Central and regional overheads	-	-	-	-	(91.1)	(91.1)	(16.0)	(16.0)
Restructuring costs	-	-	-	-	(13.2)	(13.3)	(72.5)	(74.4)
<b>Ongoing operations</b>	<b>2,809.6</b>	<b>2,845.6</b>	<b>5.0</b>	<b>6.3</b>	<b>383.8</b>	<b>388.1</b>	<b>4.3</b>	<b>5.4</b>
Disposed businesses	13.9	13.9	(63.5)	(63.7)	0.2	0.2	107.1	106.9
<b>Continuing operations</b>	<b>2,823.5</b>	<b>2,859.5</b>	<b>4.0</b>	<b>5.3</b>	<b>384.0</b>	<b>388.3</b>	<b>5.1</b>	<b>6.3</b>

1. Sales of disinfection services in 2019 were immaterial.

## 21. Alternative performance measures (continued)

### Operating Margin

Operating Margin is calculated by dividing Ongoing Operating Profit by Ongoing Revenue, expressed as a percentage. Net operating margin by region and category is shown in the tables below (on a trailing 12 month basis):

	2020 %	2019 %	Variance % points
France	11.1	14.8	(3.7)
Benelux	28.8	29.3	(0.5)
Germany	34.9	31.0	3.9
Southern Europe	15.3	16.5	(1.2)
Latin America	9.4	11.4	(2.0)
<b>Total Europe</b>	<b>18.0</b>	<b>19.3</b>	<b>(1.3)</b>
UK & Ireland	17.2	21.5	(4.3)
Rest of World	21.4	22.8	(1.4)
<b>UK &amp; Rest of World</b>	<b>18.8</b>	<b>21.9</b>	<b>(3.1)</b>
<b>Asia</b>	<b>11.0</b>	<b>10.4</b>	<b>0.6</b>
<b>North America</b>	<b>17.3</b>	<b>14.2</b>	<b>3.1</b>
<b>Pacific</b>	<b>19.5</b>	<b>20.8</b>	<b>(1.3)</b>
<b>Ongoing operations<sup>1</sup></b>	<b>13.6</b>	<b>13.8</b>	<b>(0.2)</b>
Disposed businesses	1.3	(7.0)	8.3
<b>Continuing operations<sup>1</sup></b>	<b>13.6</b>	<b>13.5</b>	<b>0.1</b>

	2020 %	2019 %	Variance % points
<b>Pest Control</b>	<b>16.2</b>	<b>17.9</b>	<b>(1.7)</b>
- Growth	17.2	18.6	(1.4)
- Emerging	10.0	13.7	(3.7)
<b>Hygiene</b>	<b>23.6</b>	<b>17.8</b>	<b>5.8</b>
<b>Protect &amp; Enhance</b>	<b>9.5</b>	<b>11.9</b>	<b>(2.4)</b>
<b>Ongoing operations<sup>1</sup></b>	<b>13.6</b>	<b>13.8</b>	<b>(0.2)</b>
Disposed businesses	1.3	(7.0)	8.3
<b>Continuing operations<sup>1</sup></b>	<b>13.6</b>	<b>13.5</b>	<b>0.1</b>

1. Operating Margin for ongoing operations and continuing operations is calculated after central and regional overheads and restructuring costs.

### Free Cash Flow

The Group aims to generate sustainable cash flow (Free Cash Flow) in order to support its acquisition programme and to fund dividend payments to shareholders. Free Cash Flow is measured as net cash from operating activities, adjusted for cash flows related to the purchase and sale of property, plant, equipment and intangible fixed assets, and dividends received from associates. These items are considered by management to be non-discretionary, as continued investment in these assets is required to support the day-to-day operations of the business. A reconciliation of Free Cash Flow from Net Cash from Operating Activities is provided in the table below:

	2020 AER £m	2019 AER £m
Net cash from operating activities	544.2	462.9
Purchase of property, plant, equipment and intangible fixed assets	(152.5)	(170.9)
Additions of ROU assets	(75.4)	(74.9)
Disposals of ROU assets	2.5	-
Proceeds from sale of property, plant, equipment and software	6.3	3.2
Dividends received from associates	11.7	30.4
<b>Free Cash Flow</b>	<b>336.8</b>	<b>250.7</b>

## 21. Alternative performance measures (continued)

### Free Cash Flow Conversion

Free Cash Flow Conversion is calculated by dividing Adjusted Profit from continuing operations attributable to equity holders of the Company (further adjusted for any post tax profits and one-offs from the CWS-boco International GmbH associate) by Adjusted Free Cash Flow, expressed as a percentage. Adjusted Free Cash Flow is measured as Free Cash Flow adjusted for one-off items - operating and product development additions.

	2020 AER £m	2019 AER £m
Adjusted profit after tax from continuing operations attributable to equity holders of the Company	284.9	266.8
Share of profit of CWS-boco International GmbH associate (net of tax)	-	(7.0)
One-off items - associates	-	(2.4)
	284.9	257.4
Free Cash Flow from continuing operations	336.8	250.7
Dividend received from CWS-boco International GmbH	-	(26.4)
One-off items – operating <sup>1</sup>	6.7	23.9
Product development additions	5.7	5.6
	349.2	253.8
<b>Free Cash Flow Conversion</b>	<b>122.6%</b>	<b>98.6%</b>

1. A breakdown of one-off items -operating can be seen in Note 1. Excludes £4.4m related to gain on sale and leaseback which is already included in Free Cash Flow from continuing operations.

### Effective Tax Rate

Effective Tax Rate is calculated by dividing adjusted income tax expense by adjusted profit before income tax, expressed as a percentage. The measure is used by management to assess the rate of tax applied to the Group's adjusted profit before tax from continuing operations.

	2020 AER £m	2020 CER £m	2019 £m
Unadjusted income tax expense	43.5	43.7	54.7
Tax adjustments on:			
Amortisation and impairment of intangible assets (excluding computer software)	17.5	17.9	19.6
One-off items - operating	2.4	2.2	(1.1)
Net interest adjustments	6.5	6.6	0.6
<b>Adjusted income tax expense (a)</b>	<b>69.9</b>	<b>70.4</b>	<b>73.8</b>
Adjusted profit before income tax (b)	355.2	359.2	340.9
<b>Adjusted Effective Tax Rate (a/b)</b>	<b>19.7%</b>	<b>19.6%</b>	<b>21.6%</b>

## 22. Legal statements

The financial information for the year ended 31 December 2020 contained in this preliminary announcement was approved by the Board on 3 March 2021.

The financial information in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2020 or 2019. The financial information for 2019 and 2020 is derived from the statutory accounts for 2019 (which have been delivered to the registrar of companies) and 2020 (which will be delivered to the registrar of companies following the AGM in May 2021). The auditors have reported on the 2019 and 2020 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The statutory accounts for 2020 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. The accounting policies (that comply with IFRS) used by Rentokil Initial plc ("the Group") are consistent with those set out in the 2019 Annual Report. A full list of policies will be presented in the 2020 Annual Report. For details of new policies applicable to the Group in 2020 and their impact please refer to Note 1.

### **23. 2020 Annual Report**

Copies of the 2020 Annual Report will be sent to shareholders who have elected to receive hard copies on 31 March 2021 and will also be available from the Company's registered office by contacting the Company Secretariat ([secretariat@rentokil-initial.com](mailto:secretariat@rentokil-initial.com)) and at [www.rentokil-initial.com](http://www.rentokil-initial.com) in PDF format.

### **24. Financial calendar**

The Company's Annual General Meeting will be held at, and be broadcast via live webcast from, the Company's offices at the Power Centre, A1 & A2, Link 10, Napier Way, Crawley, RH10 9RA from 2.00pm on 12 May 2021. Shareholders should refer to the Notice of Meeting and the Company's website at [www.rentokil-initial.com/agm](http://www.rentokil-initial.com/agm) for further information on the AGM, including restrictions on attendance in person.