

# Rentokil Initial

2011 Preliminary Results

2 March 2012

# Rentokil Initial

## Introduction

John McAdam  
Chairman

# Rentokil Initial

## Highlights

Alan Brown

Chief Executive Officer

# 2011 Highlights

- Revenue & profit growth in Pest, Hygiene, Textiles and Facilities categories, despite markets
  - Increasing rates of revenue growth: current trend 5% + (excluding City Link)
  - Acquisitions performing well; contributing net £41m of revenue increase
  - Textiles & Hygiene Benelux turnaround delivered; strong profit growth in Q4 2011
- Despite progress on customer care and capability, City Link financial performance disappointing: £31.3m loss reflecting reduced revenue and poor productivity
- Resumption of dividend; proposed final dividend of 1.33p per share reflecting progress in Pest, Hygiene, Textiles, Facilities Services and strong cash flow

**“The benefits of our Operational Excellence agenda are becoming apparent with revenue & profit growth achieved in our key business categories.”**

# Rentokil Initial

## Operating & Financial Review

Jeremy Townsend  
Chief Financial Officer

# Financial Highlights

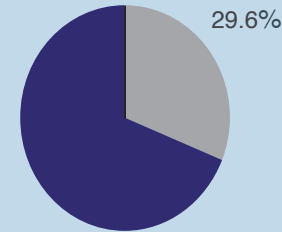
	Q4			FY		
	2011 £m	2010 £m	△	2011 £m	2010 £m	△
Revenue at CER	658.4	641.7	2.6%	2,525.5	2,496.5	1.2%
Adjusted PBITA at CER	67.9	67.0	1.3%	221.0	239.3	(7.6%)
Adjusted PBTA at CER	58.0	58.2	(0.3%)	180.5	192.3	(6.1%)
Adjusted PBTA at AER	57.8	58.5	(1.2%)	184.4	192.3	(4.1%)
Operating Cash Flow at AER	73.7	86.2	(14.5%)	154.7	222.7	(30.5%)
Adjusted EPS at AER				7.48p	7.81p	(4.2%)

# Key Financials

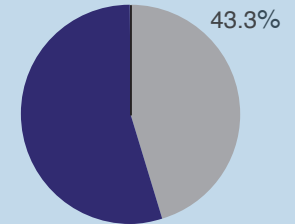
- Revenue +1.2%:
  - Initial Facilities +7%, AsiaPac +4%, Pest Control (excl. Libya) +3%, Textiles & Hygiene +3%
  - Organic growth +0.9% excluding City Link & Libya
  - Acquisitions performing well, contributing £41m of revenue growth
  - City Link revenue down by 9%, reflecting lower volumes in H1 and reduced RPC
- Adjusted operating profit down 7.6%:
  - Profit growth delivered in Initial Facilities +13.1%, Asia Pacific +7.1 %, Textiles & Hygiene +4.5% and Pest Control +3.5%
  - City Link losses increased by £21.7m to £31.3m, reflecting reduced revenue & poor productivity
  - Central costs increased by £10.7m, reflecting investment in Programme Olympic and higher insurance cost provisions than in 2010
- £44m cost savings; £50m target for 2012
- Operating cash flow £155m; capex £20m higher

- Revenue +2.7% (+1.4% organic), reflecting strong performances in Germany, France and Benelux, but held back by weaker performance in Italy and UK Specialist Hygiene business
- Profit +4.5% (+3.8% organic), again aided by strong performances from Germany, France & Benelux
- Benelux turnaround delivered: sales and profit in line with plan
- Cost savings mitigated impact on margins of cotton and fuel inflation

% Group Revenue



% Adj. PBITA<sup>2</sup>



	Q4 2011	FY 2011	△ Q4	△ FY
<b>Revenue</b>	195.7	771.3	2.7%	2.7%
<b>Adj. PBITA<sup>1</sup></b>	33.5	115.0	25.0%	4.5%

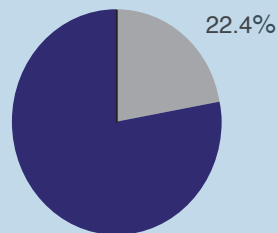
<sup>1</sup> before amortisation and impairment of intangible assets, reorganisation costs and one-off items

<sup>2</sup> % excludes central costs

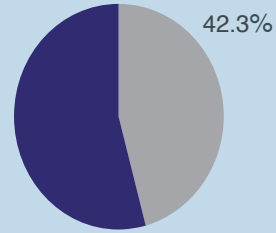


- Revenue +0.3% (+3.1% excluding disposals and Libya):
  - Strong performance in North America and most European markets offset by Portugal, Spain & Greece
  - UK Pest +11.3%, of which Santia +6.7%
  - UK & Ireland Hygiene rate of decline -5.7% (2010: -9.7%)
- Profit +3.5% reflecting good cost control
- Entry into high-growth Turkish and Mexican markets through NB Britannia and Tetengo

% Group Revenue



% Adj. PBITA<sup>2</sup>



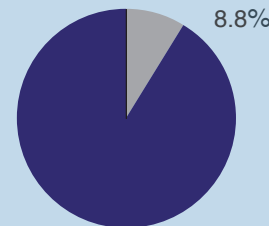
	Q4 2011	FY 2011	△ Q4	△ FY
<b>Revenue</b>	143.8	581.3	4.1%	0.3%
<b>Adj. PBITA<sup>1</sup></b>	27.9	112.4	5.7%	3.5%

<sup>1</sup> before amortisation and impairment of intangible assets, reorganisation costs and one-off items

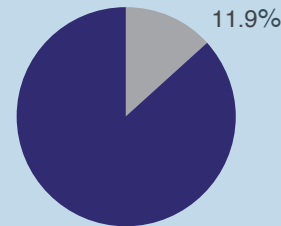
<sup>2</sup> % excludes central costs

- Revenue +4.1%
  - Asia +5.9%:
    - Momentum in key established markets (Indonesia, Malaysia) reflecting traction in sales & marketing and growth initiatives
    - Further progress in emerging businesses (Vietnam, India)
  - Pacific +3.0%:
    - +6.8% growth in Australia Pest from contract growth and rodent plague
    - Hygiene business +1.6%, reversing negative trend of recent years
- Profit +7.1%:
  - Price increases, cost savings offsetting inflationary pressures

% Group Revenue



% Adj. PBITA<sup>2</sup>



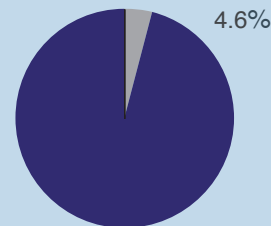
	Q4 2011	FY 2011	△ Q4	△ FY
Revenue	58.3	227.3	4.9%	4.1%
Adj. PBITA <sup>1</sup>	10.0	31.7	26.6%	7.1%

<sup>1</sup> before amortisation and impairment of intangible assets, reorganisation costs and one-off items

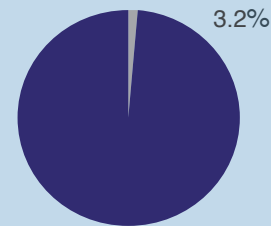
<sup>2</sup> % excludes central costs

- Revenue +1.1% (-0.9% organic), reflecting Westplant acquisition:
  - In a challenging economy, Christmas sales strong in Q4 and ahead of prior year, but overall gross sales down -0.8%
  - Acquisition of interior plants business Westplant cements Ambius' market position in the Netherlands
- Profit largely unchanged year on year:
  - Cost savings mitigating cost inflation on plants and fuel and changes in business mix

% Group Revenue



% Adj. PBITA<sup>2</sup>



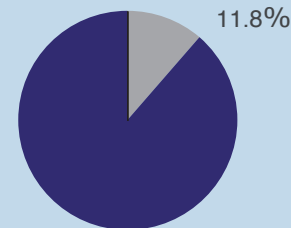
	Q4 2011	FY 2011	△ Q4	△ FY
<b>Revenue</b>	37.3	118.5	2.5%	1.1%
<b>Adj. PBITA<sup>1</sup></b>	5.6	8.5	16.7%	(1.2%)

<sup>1</sup> before amortisation and impairment of intangible assets, reorganisation costs and one-off items

<sup>2</sup> % excludes central costs

- Operating loss of £31.3m on revenue -8.5%
- Revenue down by £29m reflecting 3.5% decline in volumes and RPC decline of 5%
- Strong improvement in service quality in 2011, particularly high in peak Christmas trading period
- Disappointing progress on cost reduction - strong plan to improve productivity being implemented by new management
- Financial performance not expected to improve until H2 2012

% Group Revenue

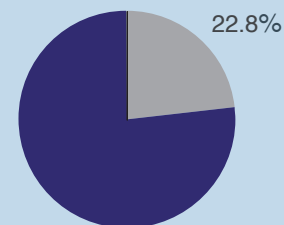


	Q4 2011	FY 2011	△ Q4	△ FY
<b>Revenue</b>	88.0	306.9	0.5%	(8.5%)
<b>Adj. PBITA<sup>1</sup></b>	(6.7)	(31.3)	(86.1%)	(226.0%)

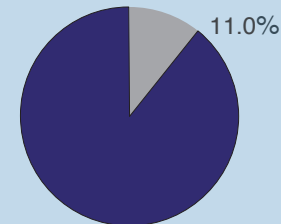
<sup>1</sup> before amortisation and impairment of intangible assets, reorganisation costs and one-off items

- Robust revenue and profit performance in difficult conditions
- Revenue +6.9% (-1.0% organic), assisted by Santia acquisition
- Profit +13.1% (+4.1% organic), reflecting margin improvement, operational efficiency and cost reductions
- Divisional restructuring to improve efficiency and drive growth progressing well

% Group Revenue



% Adj. PBITA<sup>2</sup>



	Q4 2011	FY 2011	△ Q4	△ FY
Revenue	151.8	592.4	2.5%	6.9%
Adj. PBITA <sup>1</sup>	10.3	29.3	12.0%	13.1%

<sup>1</sup> before amortisation and impairment of intangible assets, reorganisation costs and one-off items

<sup>2</sup> % excludes central costs

	£ million	
	FY 2011	FY 2010
Net interest on bank/bond/finance lease debt	(47.0)	(50.4)
Other	(1.6)	(0.8)
<b>Underlying Interest</b>	<b>(48.6)</b>	<b>(51.2)</b>
Net return on pension scheme	3.2	0.1
Mark-to-market/forex adjustments	0.8	-
Per income statement	(44.6)	(51.1)
<b>Average net debt</b>	<b>£982m</b>	<b>£1,038m</b>
Average interest rate on bank/bond/ finance/lease debt	4.8%	4.9%

# Operating Cash Flow

At actual exchange rates

	£ million	
	FY 2011	FY 2010
<b>Adjusted PBITA</b>	224.7	239.3
Reorganisation costs and one-off items	(38.2)	(25.1)
Depreciation	204.2	212.9
Non-cash items <sup>1</sup>	7.0	13.1
<b>EBITDA</b>	397.7	440.2
Working capital	(32.1)	(32.8)
Capex	(216.4)	(197.7)
Fixed asset disposal proceeds <sup>2</sup>	5.5	13.0
<b>Operating cash flow</b>	154.7	222.7

# Free Cash Flow and Movement in Net Debt

At actual exchange rates

	£ million	
	FY 2011	FY 2010
<b>Operating cash flow</b>	154.7	222.7
Cash interest	(44.4)	(43.9)
Cash tax	(44.5)	(35.0)
Disposal of AFS investments	0.1	-
<b>Free cash flow</b>	65.9	143.8
Acquisitions & Disposals	(32.0)	(7.9)
FX and other	0.7	18.6
<b>Decrease in net debt</b>	34.6	154.5
<b>Opening net debt</b>	(953.6)	(1,108.1)
<b>Closing net debt</b>	(919.0)	(953.6)



# Guidance for 2012

- Group savings of £50m
- Slight increase year on year in average cash interest rate
- Pension interest benefit c.£7m
- Forex risk given Euro depreciation c.£6m at €1.20/£
- Capex £220m to £240m - investment in T&H plant, EFR and Olympic roll out
- Payments to pension scheme of £12m
- Recommencement of dividend payments
- Adjusted effective tax rate c.24%
- Cash tax rate in line with effective tax rate

# Rentokil Initial

## Strategic Review

Alan Brown

Chief Executive Officer
















# Strategic Update

**1. Progress against Strategic Thrusts**

**2. Building on Divisional Momentum**

**3. 2012 Outlook**

# Progress Against Strategic Thrusts

	2009 Progress	2010 Progress	2011 Progress
1. Customer Service/Care			
2. Developing Capability			
3. Delivering Operational Excellence			
4. Lowest Cost and Maximum Cash			
5. Profitable Growth – existing/new			



# Progress Against Strategic Thrusts

## 1. Customer Service/Care

## 2. Developing Capability

## 3. Delivering Operational Excellence

## 4. Lowest Cost and Maximum Cash

## 5. Profitable Growth – existing/new



### Progress in 2011

- 98% service achieved
- Retention unchanged at 83.9%
- State of Art investment in Care technology, reducing City Link abandoned calls from over 30% to under 5%

### Building momentum in 2012

- Roll out of Care technology
- Roll out Olympic proactive account management
- Colleague incentives linked to customer satisfaction

# Progress Against Strategic Thrusts

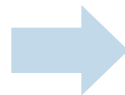
1. Customer Service/Care

2. Developing Capability

3. Delivering Operational Excellence

4. Lowest Cost and Maximum Cash

5. Profitable Growth – existing/new



## Progress in 2011

- Good progress on Olympic pilots
  - Prospect to Cash
  - People Services
- Further strengthening of management team
  - City Link MD & FD
- Good progress in building Textiles technical & procurement capability

## Building momentum in 2012

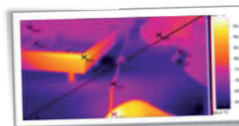
- Marketing & Innovation team established for Pest & Hygiene
- Rollout of Olympic initiatives
- Launch of group wide 'U+' training modules
- Group adoption of one project management tool

# Growth through Marketing & Innovation

## Organisation changes to drive pace of growth & innovation

- Marketing & Innovation for Pest & Hygiene managed through one central team
- Xuemei appointed Group Marketing & Innovation Director
- Strong team formed to focus on both Product & Service innovation
- 8 priorities established for delivery in next 12 months
- Development of medium-term innovation agenda

**Rentokil**  
The Experts in Pest Control



Entotherm heat cannons and infra red picture of heated room



Connect technology

**Initial**



UltraProtect Range



Signature Range

# Progress Against Strategic Thrusts

1. Customer Service/Care

2. Developing Capability

3. Delivering Operational Excellence

4. Lowest Cost and Maximum Cash

5. Profitable Growth – existing/new



## Progress in 2011

- Benelux returned to growth
- City Link improvements in contingency planning, customer care & information systems
- All businesses focusing on scheduling and route and round optimisation

## Building momentum in 2012

- Rollout of route & round optimisation
- More front line colleague training
- Major improvement in City Link Operational controls & systems



# Progress Against Strategic Thrusts

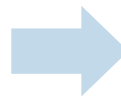
**1. Customer Service/Care**

**2. Developing Capability**

**3. Delivering Operational Excellence**

**4. Lowest Cost and Maximum Cash**

**5. Profitable Growth – existing/new**



## **Progress in 2011**

- £44m cost savings
- Savings through service productivity procurement and reduction in overheads
- DSO reduced by 2 days to 45 days

## **Building momentum in 2012**

- £50m cost savings, of which £20m City Link
- Procurement:
  - Indirects through rollout of ARIBA
  - Textiles through supply chain initiatives
- Back office rationalisation through gradual move to Finance & HR shared service centres

# Progress Against Strategic Thrusts

1. Customer Service/Care

2. Developing Capability

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4. Lowest Cost and Maximum Cash

5. Profitable Growth – existing/new



## Progress in 2011

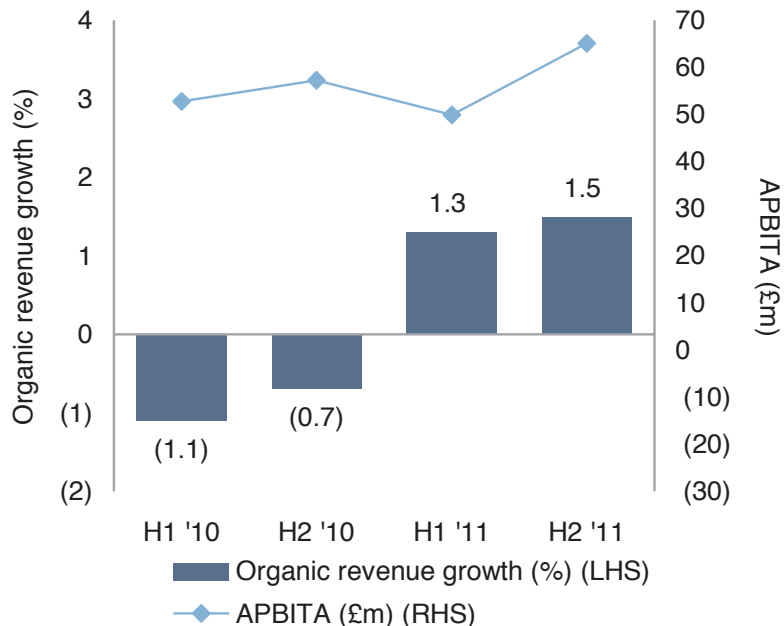
- Traction from growth pilots
  - UK Pest +8% organic growth H2 2011
- Improving momentum in Textiles
- Bolt on acquisitions:
  - Knightsbridge (mid 2010)
  - Santia
  - MSS

## Building momentum in 2012

- Roll out Olympic Growth pilots
- Implement Marketing & Innovation structure
- Bolt on acquisitions, primarily Pest
- Strong Divisional action plans

# Building Divisional Momentum – Textiles and Hygiene

## Recent trading momentum



## Continuing progress in 2012

### Market drivers

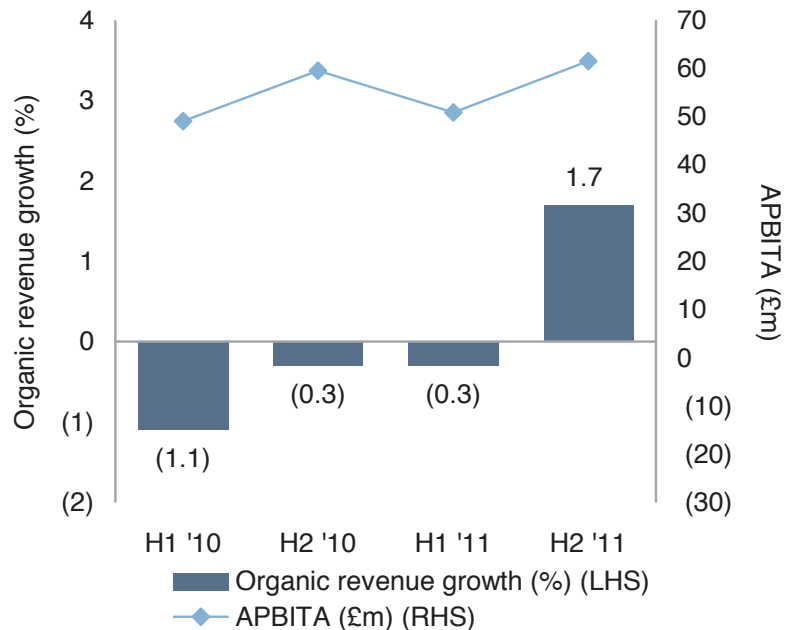
- Uncertain economic outlook in Europe
- But recent reductions in cotton prices

### 2012 performance drivers

- Cost saving programmes ongoing in all countries - procurement, range rationalisation
- Consistent logistics tool to be implemented across all countries to give full visibility of supply & demand
- Full Year benefit of Benelux turnaround
- Continued refinement of pricing policy
- Product innovation in both Textiles & Hygiene
- Increased capex reflecting sales growth and investment in infrastructure

# Building Divisional Momentum – Pest Control

## Recent trading momentum



## Continuing progress in 2012

### Market drivers

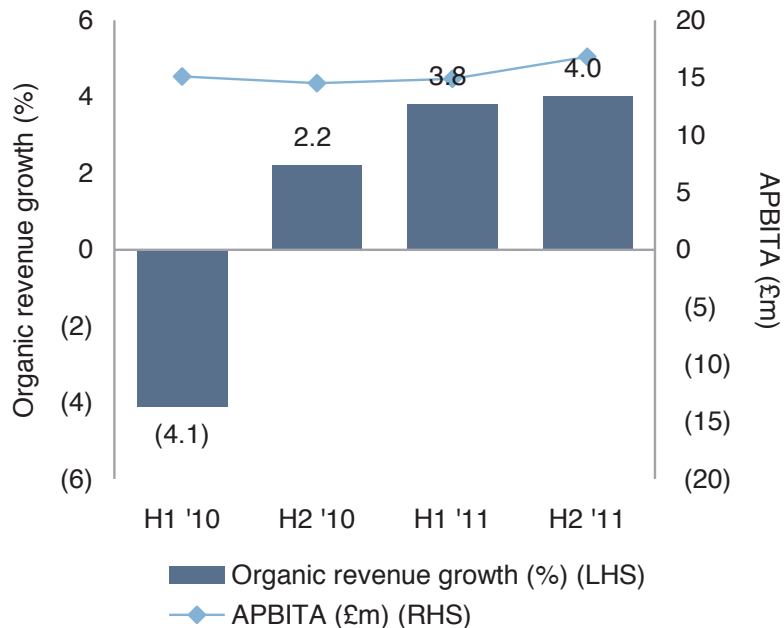
- Uncertain economic outlook in Europe
- Hygiene businesses exposed to tough competition

### 2012 performance drivers

- Programme Olympic initiatives to drive organic growth
- Continued focus on cost saving in service productivity and back office administration
- Further bolt-on acquisitions in Middle East & the Americas

# Building Divisional Momentum – Asia Pacific

## Recent trading momentum



## Continuing progress in 2012

### Market drivers

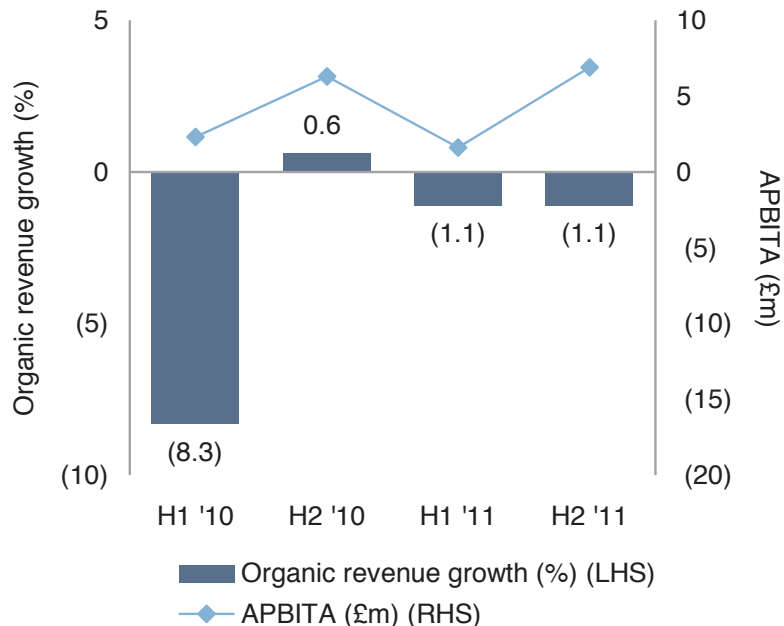
- Conditions for 2012 remain favourable
- Pacific region solid, reflecting a robust Australian economy

### 2012 performance drivers

- Establishing a strong management team in China
- Building on strong growth momentum in Indonesia, Malaysia, India & Vietnam
- Continued integration of Pest & Hygiene under single country management teams

# Building Divisional Momentum – Ambius

## Recent trading momentum



## Continuing progress in 2012

### Market drivers

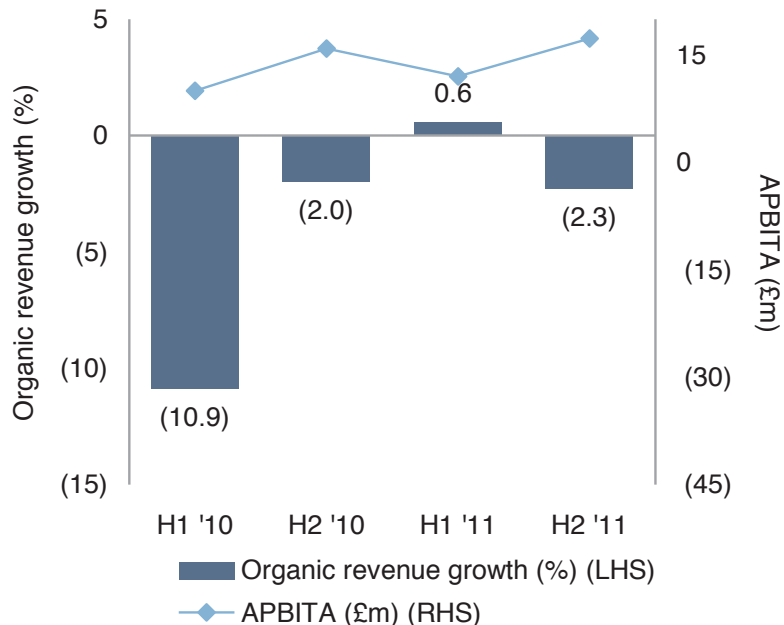
- Some improvements over 2011 anticipated
- Retention trends to remain either static or show modest improvements

### 2012 performance drivers

- Full benefit of 2011 cost saving initiatives to support profitability in 2012
- Continue to develop service and product extensions to support core offer
- Drive cost savings through service productivity and back office rationalisation

# Building Divisional Momentum – Initial Facilities

## Recent trading momentum



## Continuing progress in 2012

### Market drivers

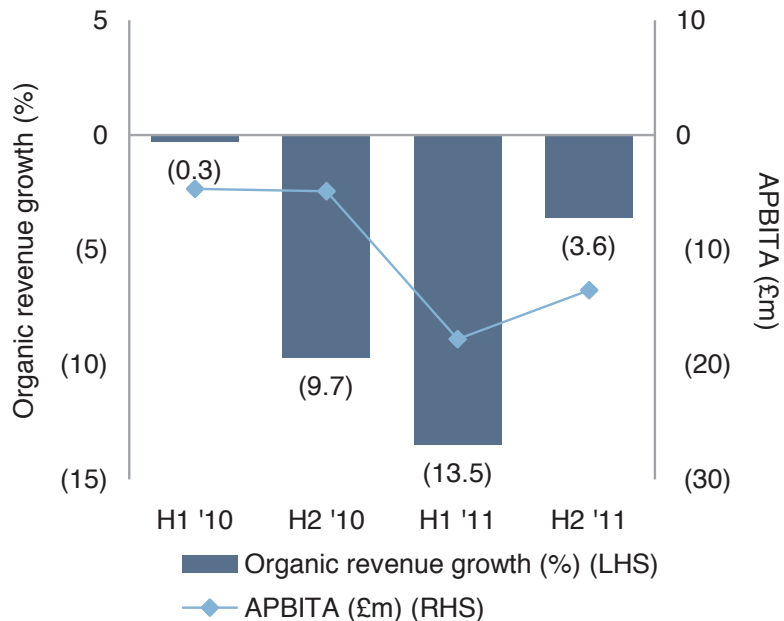
- Consumer confidence expected to remain weak
- On-going spending austerity

### 2012 performance drivers

- Acquisition of MSS has broadened FM capability and led to immediate new business wins; encouraging new wins in Health sector
- Drive top line growth through increased new contract win rate
- Improve gross margins through applying LEAN principles to service delivery
- Drive net margin improvement through move to harmonised systems & processes

# Building Divisional Momentum – City Link

## Recent trading momentum



## Challenges in 2012

### Market drivers

- Continued growth in B2C
- Strong pricing pressures



# City Link – Re-visiting the 7-Point Plan from 2008

## **1. Re-instituting a service orientated culture by ensuring customer services are in close proximity to our customers:**

- + Customer Service - 99.4% in recent weeks
- + Customer Care – state of the art technology; abandoned calls >20 seconds now under 5% - was over 30%
- Colleague Engagement – much to be done – front line training in early stages of rollout

## **2. Establishing operating systems that enable information to be shared across the combined network, reliably & securely:**

- + Single IT system, reliable & secure, migration close to completion
- Unsatisfactory compliance levels on standard operating procedures

## **3. Establishing control systems and processes to manage 94 depots:**

- Very poor operational cost management, control & planning

# City Link – Re-visiting the 7-Point Plan from 2008

## 4. Reviewing the size, number and location of hubs and depots:

- + Reduced to 1 central hub and 69 depots with further reduction to 65 during 2012
- + Significant increase in quality and size of facilities and continued investment in fleet

## 5. Right-sizing resources to match the cost base to current levels of revenue:

- Very poor management of sub contractors and of productivity generally

## 6. Capitalising on growth opportunities in the parcels market; in particular the growth of B to C:

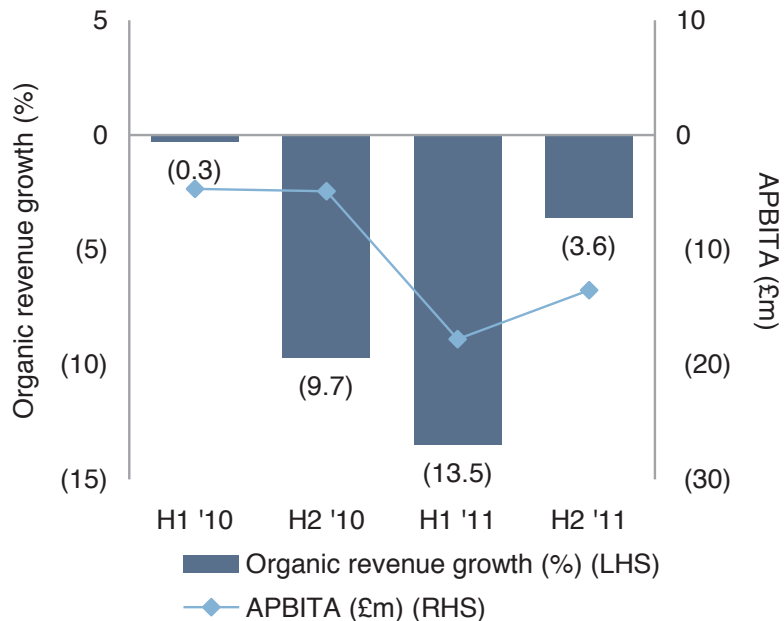
- + Strong offering in B2C market
- Poor account management and historically inconsistent service led to loss of over 20,000 small customers 2008 – Q1 2011
- Very challenging market conditions

## 7. Ensuring that the organisation has the capability to drive this agenda efficiently and effectively:

- Historically weak management in depth

# Building Divisional Momentum – City Link

## Recent trading momentum



## Challenges in 2012

### Market drivers

- Continued growth in B2C
- Strong pricing pressures

### 2012 performance drivers

- Engage & Enable the front line
- Establish strong operational control processes
- Pay sub contractors for volume rather than time
- Implement depot blueprint
- Achieve industry productivity benchmarks
- Further streamline infrastructure
- Adjust pricing & ad hoc services to unprofitable customers
- Invest in Account Management
- Capitalise on strong new business pipeline

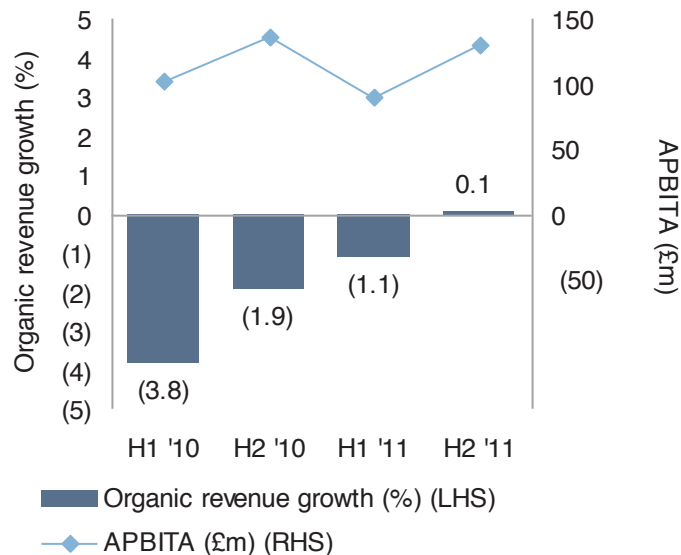
# Category Revenue 2011 (£'m)

	Pest Control	Hygiene	Textiles	Interior Plants	Facilities Services	Parcel Delivery	Other	Total
Textiles & Hygiene	6	257	438	-	-	-	70	771
Pest Control	435	128	-	5	-	-	13	581
Asia Pacific	100	111	-	15	-	-	2	228
Ambius	-	-	-	119	-	-	-	119
City Link	-	-	-	-	-	307	-	307
Initial Facilities	-	25	-	-	567	-	-	592
<b>Total</b>	<b>541</b>	<b>521</b>	<b>438</b>	<b>139</b>	<b>567</b>	<b>307</b>	<b>85</b>	<b>2,598*</b>
<b>Operating Margin %</b>	<b>19.0</b>	<b>20.7</b>	<b>14.2</b>	<b>7.6</b>	<b>4.4</b>	<b>(10.2)</b>		<b>8.5</b>

\*includes £54m of Inter-divisional revenue

# Outlook for 2012

## Recent trading momentum



## Outlook for 2012

- Continued momentum in Pest, Hygiene, Textile and Facilities Management categories
- Financial performance of City Link to remain poor in H1 – productivity agenda expected to drive significant improvement in H2
- Continued focus on cost savings – 2012 target £50m
- Operational excellence agenda, including Programme Olympic, to underpin further growth in key categories and mitigate against impact of challenging markets

# Rentokil Initial

2011 Preliminary Results

2 March 2012

# Net Debt

<u>Debt</u>	<u>Maturity</u>	<u>Net debt at 31/12/11<sup>1,2</sup> £m</u>
£270m RCF	→ 2016	(90)
£50m FRN	→ 2013	(50)
£75m Reset Bond	→ 2013-33	(75)
€500m Bond	→ 2014	(413)
£300m Bond	→ 2016	(317)
		<u>+ 26<sup>3</sup></u>
		<u>(919)</u>

**Profit before amortisation  
and impairment of Intangibles,  
reorganisation costs and one-off items**

Goodwill impairment

Amortisation of intangibles

Reorganisation costs and one-off items

(Loss)/Profit before tax

**Adjusted effective tax rate**

Cash tax paid

£ million			
FY 2011	Tax charge	FY 2010	Tax charge
184.4	46.0	192.3	48.1
(111.5)	-	(97.8)	-
(47.5)	(14.0)	(54.9)	(16.6)
(38.2)	(6.0)	(25.1)	3.3
(12.8)	26.0	14.5	34.8
	<b>24.9%</b>		<b>24.9%</b>
	44.5		35.0