Company: **Rentokil Initial**

Conference Title: **Q1 2011 Trading Update**

Presenters: **Alan Brown, Jeremy Townsend**

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Operator: Good day and welcome to the Rentokil Initial Q1 Trading Update Conference Call. Today's conference is being recorded. At this time I'd like to turn the conference over to your host today, Mr. Alan Brown. Please go ahead Mr. Brown.

Alan Brown: Good morning everyone thanks for joining the call, Alan Brown speaking. I'm here with Jeremy Townsend, the CFO of Rentokil Initial. I'll begin by running through the main points from our first quarter results, then Jeremy and I will be delighted to take any questions you might have.

It has been a tough first quarter, tough trading conditions and I'm particularly disappointed that we had to suspend our operations in Libya and we've taken as you will see in the accounts a 5 billion provision in exceptional items to reflect the monies outstanding from the Libyan authorities plus some costs of getting out of our operations there. We will obviously pursue that money in due course but at the moment there's not much we can do.

Underlying business however has been more encouraging. Pest Control, Textiles & Hygiene businesses have delivered pretty solid performances and the bottom line on City Link is that despite a very challenging UK parcels market and per revenue performance we've made a lot of progress during the quarter and I remain pretty confident that by October City Link will be running very well and there has been some I think upside in terms of the new business pipeline that I'll come back to later on. Revenue for the quarter was up 0.7% to 607 million at constant exchange rates. Adjusted profits were down 10% to 26.6 million. The dropped profits of about £3 million year on year is attributable to losses compared to last year of £9 million on City Link and Textiles & Hygiene Benelux partly offset by gains of £6 million in the other underlying businesses. Cash flow was negatively impacted in Q1 by a very strong performance in Q4 2010 and some slight delayed payments at the end of the quarter. We expect cash flow to improve notably in the second half.

Now a quick comment on each of the divisions. Pest Control division revenue fell by 2.6% in Q1. This was due to declines in the UK and Spanish washroom businesses and also of course the loss of revenue from Libya in the quarter. Excluding Libyan washroom businesses in Spain and UK Pest Control underlying revenue was up about 2.3% and the highlight was the performance of the UK business which grew 5% year on year. I should maybe perhaps just to mention that the rate of decline of the UK Washrooms business has had year on year so we are making progress and that makes me actually quite happy with the rate of progress we're now seeing in the UK Washrooms business. It's certainly on the mend.

The European Textiles & Hygiene division grew by 2% of which 1.5% was organic growth, a small contribution from an acquisition in Sweden. We have seen further improvements in retention rates and portfolio net gain. The Benelux business has now stabilised and is performing in line with our turnaround plan. The business declined around about 3% in terms of revenue but excluding Benelux the Textiles & Hygiene division's first quarter revenue was up about 3.5%.

Asia Pacific grew 3%, portfolio growth of 8% in the Asia portion of the business year on year. Strong performances in emerging markets: Vietnam, India, China and Brunei and I was particularly pleased with the performance in Indonesia which is benefiting very rapidly indeed from the integration from the Pest and Washroom businesses in what is a reasonably sized business for us, particularly encouraging I must say Indonesia. The Australian business also performed pretty well.

IFS, probably the star performer this quarter, revenue up 13%, profit up 38%, a combination of the acquisitions of Knightsbridge and in part from Santia as well but also good underlying progress in the organic business. The manned guarding growth in particular is very encouraging.

Then now to City Link, the revenue obviously was poor in the quarter but volumes over the last few weeks have been encouraging. I would nevertheless expect to see also continued losses year on year in Q2 but then I would be very hopeful obviously of significant improvement in Q3 and certainly Q4. We are absolutely on track to deliver all the operational improvements that we intended to by October, if anything we're slightly ahead of plan and the information technology improvements in the business in particular have been quite startling. We're also delighted with the progress on the customer care agenda. The summation of these improvements is really starting to drive quite a differentiated position for City Link in the UK market, in particular in the growing B2C space whereas I've indicated before one of the major players is really starting to struggle. The culmination of this is a promising new business pipeline which we anticipate to come onstream late Q2 and early Q3. So overall I really am most encouraged about the outlook for City Link once we get into the second half of this year.

For the group as a whole we are clearly experiencing tough market conditions but I think that the underlying Pest and Textiles & Hygiene businesses have put in solid performances and I think as you detect we're optimistic about the progress and the turnaround plans in City Link and in the Benelux than I was able to demonstrate at the year end.

So with that I think I'll hand the call back to the operator and as I said Jeremy and I will be delighted to take any questions you might have.

Operator: Thank you. If you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question. We'll pause for a moment to allow everyone to signal.

We'll take our first question from Robert Plant from JP Morgan. Please go ahead sir.

Robert Plant: Good morning Alan. I sense more optimism about City Link than at the Q4. I just wondered how that squares with what has been quite a difficult retail backdrop, I think John Lewis, Laura Ashley are customers of Rentokil. Do you think that you're performing better than the market in the last couple of weeks and who do you think you're taking market share off of? Thanks.

Alan Brown: Robert, I think that though it's a very crowded market in the UK parcels market, in the B2C space the numbers of credible players is much more – largely for strategic reasons a number of our competitors have really preferred to stay primarily in the B2B space. So in B2C there are ourselves, there is DPD and then there is of course Yodel. Now Yodel have announced to their workforce, it has certainly been reported in the transport press that they intend to close 60 of their 120 depots over the next 19 months by the end of 2012 and that I think is leading to significant uncertainty amongst customers as to where they should look to for logistic support in what is a very challenging B2C marketplace. There's no doubt whatsoever that we are benefiting from that coupled with some very strong operational improvements that are becoming apparent in the business.

Robert Plant: Alan, when you look at the depots that you've got, do you foresee any need to close depots and also related to that can you tell us how it's going in terms of the discussions you're having with your subcontractors, bringing them more within the Rentokil fold?

Alan Brown: The number of depots we now have in City Link has dropped from 75 down to about 72 I think and one or two more will close over the next few weeks as we establish a new significant depot in Hatfield. I think where we'll go beyond that will be really ones and twos. There are a number of towns such as Chelmsford and Maidstone where for historic reasons we still have two depots very close to each other and really the only constraint in merging these has been a suitable new location big enough to take the two existing depots' traffic into one location. So I think we'll be closing down one or two depots per quarter perhaps but I think that the right place to be probably is somewhere in the low to mid-60s in terms of depot numbers, so there's not very much more to go. As I say the really good thing is that it's pretty easy to merge two depots in one town into another one. It's much more complicated if you've got a bigger, multi-town depot restructuring to do, so we're pretty happy with that. Sorry, what was your second question?

Robert Plant: About the subcontractors and franchisees?

Alan Brown: Yes. That is going smoothly but we lost a month at the beginning of the year dealing with the consequences of the extremely difficult weather over Christmas. We really didn't get started until February and we're now making smooth, consistent progress. We've had some success in attracting some subcontractor drivers to join our business as employee drivers and the recruitment has been going pretty well. I'm actually very pleased to see that the recruitment line capability that we've built for our IFS business has been very effective in recruiting for City Link as well, so we're seeing some nice initiatives coming through there. So I think we're on track to get up towards the 75% level for employee drovers by the time we get into Q3.

Robert Plant: Thanks Alan.

Operator: We'll take our next question from Jaime Brandwood from UBS. Please go ahead.

Jaime Brandwood: Good morning Alan, a couple of questions if I may. Just firstly on the City Link contract pipeline which you seem to be reasonably excited about, could you size that for us in terms of annual revenue and sort of give us a sense of the portion of that that you feel very certain about and perhaps the portion that you feel is a bit more speculative?

Jeremy Townsend: Hi Jaime, Jeremy speaking. In terms of pipeline it's in the region of 50 million, maybe a little bit more but it's that kind of order of magnitude. This is just in term of what we're talking about here, this is where we're having pretty down the road one to one discussions with customers around potential new business, so this isn't kind of top end of the pipeline where we're tendering the business with competitors. This is discussions where we're reasonably well down the line and as we said in the statement where we're looking to bring the business on board in the current quarter or into Q3.

Jaime Brandwood: So you wouldn't say there's too much of a spread of different stages of negotiation within that 50?

Jeremy Townsend: No, there's lots of potential new business but the 50 is pretty much stuff that we'd like to think is close to coming on board.

Alan Brown: The 50 I think would be certainly down to no more than the last three, maybe even the last two in terms of people who are pitching for the business. I have to say there are a number of cases where it's quite possible that the client would end up going with two partners rather than one.

Jaime Brandwood: Is that all Yodel defectors?

Alan Brown: It's not all but there certainly would be at least half of that which would be potential Yodel defectors.

Jaime Brandwood: Ok. Then just on Textile and Washroom or Textile and Hygiene and Pest Control. If you ex out Benelux Textile and Washroom still saw no profit growth. I just wondered if you could give us a bit of colour as to whether France did see profit growth, Germany didn't or just some colour on why there was no profit growth? Then Pest Control, you did flag that the Pest Control piece did see profit growth whereas the Washroom piece within Pest Control was the reason why you didn't overall have profit growth. I'm just wondering if you could give us some sense of the orders of magnitude, so Pest Control ex Washroom profit was up x and the Washroom piece of Pest Control profit was down x if you could.

Alan Brown: Jaime, you want the spreadsheet, don't you? I'll give you some vague responses and Jeremy might be able to give you some more detail. As we say excluding Benelux Textiles & Hygiene grew about 3.5% but there wasn't much profit growth. I think we are seeing inflationary pressure coming through, no doubt about that. The cotton price thing has got worse rather than better though there has been some change in direction of the index for the last few weeks and I think pricing is starting to follow. I think the really good news is that the severe pricing pressure that existing last year has dissipated and that pricing is absolutely coming back into the marketplace. There has been quite a big turnaround there, but nevertheless there has been a lag in our ability to execute, to take account of what undoubtedly is becoming quite an inflationary environment in Europe.

Jaime Brandwood: That's wages as well as things like cotton prices I presume too, right?

Alan Brown: Wages yes but we've given pretty clear guidance on wages though for around about 2% which is what we expect it to be. It has been and worse than we thought or any better. We've been pretty well where we thought we would be in terms of wages. You're right to say that wages was a bigger factor for us, that was planned in. It's more the raw material side which has been unexpected I think.

Jeremy Townsend: In terms of the specifics there Jamie, you're right, Germany has had a strong quarter in terms of profit growth with some good margin movement and France has been more disappointing, flat revenues but some margin decline there which I think to a large extent in some of the pricing pressure that we were seeing early last year from a lease flowing through in the portfolio. What was your question on Pest?

Jaime Brandwood: Pest Control, you mentioned that the Pest piece saw growth and you gave us the figures at the revenue level but you didn't give us the figures for Pest profit growth ex-Washroom?

Jeremy Townsend: You can probably work it out. We've done within the Pest business we've grown about 4% in terms of profit in the core Pest business and that cash number has basically been offset by the Libyan profit, the small amount of Libyan profit of the Washroom businesses to end up basically flat.

Jaime Brandwood: Just very lastly, so Textile and Washroom excluding Benelux with the flat profit growth year on year in Q1, what's your kind of view on outlook for that profitability ex-Benelux for the remainder of the year? Are these cost inflationary pressures building to the extent that we might see profit declines there in Q2-Q3 or more the reverse, that you feel pricing is coming through sufficiently that you might be able to eke out some profit growth ex-Benelux?

Jeremy Townsend: I think I'd expect Q2 to be similar to Q1 but I think our expectations are for better performance in Q3-Q4. We had a weak Q4 across the division but particularly Benelux last year but I think there's some upside opportunity as the productivity improvements and the procurement savings flow through and we get some opportunity to price out some of the inflation we're currently experiencing, so I think there's some opportunity both in the core business and in the Benelux businesses for some profit improvement in the second half.

Jaime Brandwood: Thanks very much.

Alan Brown: We would expect Q3-Q4 in Benelux in particular to perform better year on year.

Jaime Brandwood: Yes, thank you.

Operator: We'll take our next question from Tom Sykes from Deutsche Bank. Please go ahead.

Tom Sykes: Good morning everybody. I just wondered, could you give the acquisition effect at revenue and EBIT please just in these numbers?

Jeremy Townsend: In the statement Tom we've got the organic impact of the revenue. It's set out in Appendix 2 where you can see that the total growth is 0.7%, on an organic basis it's -1%.

Tom Sykes: Right, then just what's the EBIT contribution from acquisitions?

Jeremy Townsend: It's not particularly material. The Santia Connaught business that we took on board hasn't contributed a lot of profit. There has been some marginal increase in Textiles & Hygiene from the Swedish medical business that we've flagged, but it's not particularly material there from a profit point of view in the first quarter.

Alan Brown: It's less than £1 million.

Tom Sykes: Ok. In terms of the new business that you're bidding on in City Link, what's the sort of revenue per consignment outlook on that business because it would seem despite the fact you're annualising through some declines in the RPC that that's still going down?

Alan Brown: If I give you a feel for the nature of what's happening we certainly have attracted a really interesting set of blue chip customers and the revenue per consignment because of the nature of that business which is potentially quite high volume would be lower than average, but we're also making good progress with the smaller accounts where the revenue per consignment is obviously at a higher level. I think overall the effect will be to reduce revenue per consignment but that is not a concern to us given the high fixed cost element of the business. There will be a good profit contribution and every single piece of business we would take on we would be making an absolute profit even on a net basis, otherwise we wouldn't be doing it. I think we're very sufficiently confident in as I say our increasingly differentiated position in the marketplace particularly in the growing area of B2C where there are not many people who can do the job well. We're sufficiently confident of our ability to price at an economic level.

Tom Sykes: Ok. So in terms of the run rate of pricing pressure that you're seeing on your own renewals now compared to six months ago, what's happening to your renewal pricing?

Alan Brown: By and large the decline in pricing that I've indicated for some time on a like for like basis has been reducing. The impact we see on pricing now in the 3.5% in the quarter is more mix than it is absolute reduction in pricing.

Tom Sykes: Ok. Then maybe could you just give a view on what the level of cost savings has been in the quarter for you just in relation to the planned full year cost savings please and just where you are on that sort of programme?

Jeremy Townsend: We get the natural flow-through from 2010 coming through into the quarter. The 2011 savings tend to be more back-end loaded as they flow through but I think we're making good progress on the cost saving front and we would stick at this stage with our target of £60 million. We'll flesh that out more at the half year in terms of where that's going but at the moment we're making good progress and the £60 million target we've set before stands.

Tom Sykes: Right, but can you give a sort of year on year benefit? I accept the fact there's a lot of moving parts and things but is it possible to give a sort of quarter number?

Alan Brown: No, I don't think we've done this before. I'm really inclined to stay focused on the full year outlook and we'll give you some more details on how we've got on at the half year Tom.

Tom Sykes: Perfect. Thank you.

Operator: We'll take our next question from Andrew Ripper from Merrill Lynch. Please go ahead.

Andrew Ripper: Hi, morning chaps. I just wonder maybe going back to the cash flow, there obviously is quite a big increase in the cash outflow and you mentioned some timing differences Alan in your comments. Are you still comfortable with your full year targets of 45 DSOs and a cash conversion rate of 100%?

Alan Brown: I think I'm reasonably confident with the DSO number Andrew. I think we are a little bit concerned about the stock costs because of the increasing cost of cotton and of materials in the Textiles business and that could have a more adverse impact on our cash flow than we anticipated. It could be of the order of…

Jeremy Townsend: I think that is £3-4 million, so in general the 100% is a target but I think versus where we were at the prelims there's some pressure on that, but as Alan said we still stick with the 4-5 days of DSO and we'll be doing everything we can to hit the 100%. We are under some pressure at the moment in terms of the cotton prices. They have moved since the prelims so the capex cost has moved from about £4 million to about £8 million is the current estimate, but the prices are moving around quite significantly. I think in general we'd stick with the targets. There's clearly a lot of the year to go and the major part of the variance in the first quarter was around phasing of IFS receipts and a little bit about capex being higher this quarter than last quarter with last year's first quarter being a relatively low quarter. The capex spend in the first quarter was in line with a spend at around 95% of depreciation, so pretty much the targets we set we'd look to stick to by the time we get to the year end, obviously the phasing in the first quarter given the fourth quarter performance last year.

Alan Brown: I guess Andrew that the bottom line is that the 100% target sticks pre-restructuring and there could be a £5-10 million risk on that because of the inflation costs we're seeing coming through.

Andrew Ripper: Ok. On the contract pool, if you look at the numbers for the first quarter I think you grew the pool by about £16 million organically which was equivalent to pretty much the number you did for the whole of last year, so should we take some encouragement from that in terms of prospects for continued steady improvement in organic growth in the contract businesses or is there any sort of seasonality to things like price increases?

Alan Brown: Certainly we're delighted with the continued progress in retention and we know why it's happening, so many of our initiatives are really supporting improved retention so I think that that will continue. Yes, there's a little seasonality in pricing. I think the one I'd really like to emphasise a bit more on is what the London Underground impact is on the phasing Andrew. I don't know the answer to that but I'm just conscious that the London Underground really started around about April time last year…

Jeremy Townsend: Yes, and IFS had a very weak first quarter last year as well in terms of termination, so there's IFS had a relatively good, strong impact on this quarter relative to the rest of the year.

Andrew Ripper: Sorry, just to pick you up on that, I'm looking at the contract pool from the end of December last year to the end of March this year and it's up £16 million organically which is equivalent to the growth for the whole of last year, so I'm looking at sequential development, not year on year.

Alan Brown: Overall I'm really happy with the improvements in retention and I think we'll see that consistent improving coming through. Of course by the time it got to Q3-Q4 last year it was also pretty good Andrew. I think the area that I'm still not entirely happy with other than City Link I have to say is the progress on gross sales on new business creation. There's still some work to be done but I think directionally we are seeing continued improvement in the underlying growth, but the same primarily through retention there's still more work to do in terms of gross sales other than City Link and other than some parts of Asia.

Andrew Ripper: Ok. Just to go back to Textiles, it sound as though you're saying first half is going to be down, second half is going to be up. You say that Benelux is performing in line with plan. What have you changed on the Benelux? Why should profits go up in the second half? I appreciate Q4 there was maybe a one-off last year but can you talk us through that? I know the focus of the sort of turnaround has tended to be City Link but Benelux was quite a big hit for you last year. Can you say what you've changed there to give you some confidence around the second half outlook for Textiles please?

Alan Brown: I think in the second half last year we kept having unexpected costs and hits coming through to the P&L. Some have come from previous years, some were just really poor management and some were just a new management team going in and getting to the bottom of various issues, so we had a lot of unexpected costs coming through the second half of 2010. The business now would appear to be performing predictably both in March and indeed in April and it is performing in line with the targets we have in place. Encouragingly in the Netherlands business which has been a bigger concern for me we're now seeing some portfolio growth again with fairly modest extrapolations from where they are that portfolio growth will drive improved profitability and we see a lot of operational improvement which will come through during the course of the next nine months Andrew. I think it's just a pretty basic operational turnaround. It's not likely to have the same gearing impact on the business as City Link as in City Link there are some really exceptional things happening in the marketplace, so I think it's much more a sort of steady return back towards where it was rather than something we just want to turn around very, very quickly, but the business should not be a volatile business, so I think it's a pretty predictable business, much easier to predict than City Link and therefore just by extrapolating the solid initiatives that have been put in place by a management team that now has the business under control gives us I think reasonable optimism for good second half performance against 2010 where we had a number of unexpected costs coming through in the second half of the year.

Andrew Ripper: Ok. Yes, that's fine, thank you.

Operator: We'll take our next question now from Austin Earl from Aldersgate.. Please go ahead.

Austin Earl: Hi, good morning everyone. I just wanted to return to the issue of the portfolio. The front page of the release has a net portfolio +1.7% and I just wondered if you can break down how much of that is organic and then into price and volume? You do have the detail and I've got my own guess as to what it is but I just wondered if you could explain those.

Alan Brown: We'll have to come back to you separately on that Austin. We'll come back to you after the meeting.

Austin Earl: That would be great, thank you very much.

Operator: We'll take our next question now from Steve Woolf from Numis Securities. Please go ahead.

Steve Woolf: Good morning guys. Just to follow up on Tom's question at City Link, you've been flagging differentiated services in the B2C area, notwithstanding the competitive environment I was wondering could you outline what that differentiated service includes? I'm trying to marry that against prices being down 3.5%, how much of that is mix? How much of that is genuine price you can split out percentage-wise and how that then relates to where you're coming at from the differentiated services? Thanks.

Alan Brown: The key part of the B2C differentiated service is really about information technology. We have just launched something called My City Link which gives our customers really unparalleled access to the status of their parcels and I think we'll give a demonstration of this when we get to the Q2 results so you can see it. It really is very impressive and certainly wowing all of the customers who have seen it. Basically they can see real time where every parcel is in the country that they have out for delivery. That then will be supplemented when we get to Q3 by the provision of estimated times of arrival for the consignees, i.e. the person who is receiving the parcel, we will be able to give them an estimate of what time of the day their parcel is going to arrive. I think that coupled then with the underlying advantage of having a caged delivery system, we deliver our parcels between our depots and the central hub in cages gives a very high level of product protection and that we are intending to attract those customers who place particular importance in terms of product protection, for example the manufacturers or resellers of PCs, of phones and of goods such as flowers which can be easily damaged. So the differentiation is becoming I think pretty strong and pretty clear and as I said before a number of other players in the market have been reluctant to enter the B2C space in earnest so it would certainly seem that the opportunities for City Link in the B2C space are opening up.

Steve Woolf: Would you think then the additional services and the quality of that IT would help you hold onto more price going forward rather than it being an additional cost of doing business that others in the market will sort of then aim to replicate at all?

Alan Brown: I think it's part of an overall service provision that customers will look at. There are many reasons why the B2C market is more difficult than B2B and I think that our experience in that marketplace is also another factor, so I wouldn't want to pin it down to any one particular factor as to why we're being more competitive and at this stage I wouldn't want to stake our hat saying that we're going to command higher prices than the rest of the market. I think that what is more likely to happen is that we're going to command a bigger share of the market which will deliver us economies of scale which are very, very important in the parcels market.

Steve Woolf: Sure, thanks. Then just on that -3.5 on price, how much of that is mix and then how much of that is genuine price if that's possible?

Alan Brown: My guidance would be that underlying price increase or reductions have fallen to less than 2%, 1.something.

Steve Woolf: That's great, thanks.

Operator: We'll take our next question from David Hancock from Morgan Stanley. Please go ahead.

David Hancock: Thank you, morning everyone. Just two or three from me please. Firstly can I ask about pricing and cost dynamics in Pest Control and the profitability trends there? I think in North America you've in the past mentioned scope for profitability improvements. Can you just talk about those pricing and cost dynamics across the Pest Control bit of the business please?

Alan Brown: Pest is not exposed to the same inflationary pressures as our other businesses, I guess the main input cost which is giving us a problem is fuel, but it's not a big percentage of the business. The cost saving opportunities in Pest are certainly two big areas, one is North America business structure where we think that we can operate it more efficiently. It's quite administratively intensive in North America as we bring in new systems and new methods of doing business, we're certainly hopeful that the administration costs there will come back more in line with the business we have elsewhere; and the second big area which I think has some substantial opportunity for us is in productivity of the frontline technicians. We are certainly aware that our current method of planning the technicians' work which is basically the technicians themselves is not efficient and some of the empirical work we've done in recent months would indicate that we've got a long way to go in terms of getting much better efficiency from our front line technicians, and the tools that we need to drive this efficiency are being specified. More generally across the group round and route optimisation are very high on our agenda and are likely to be a significant driver of cost savings into 2012 and beyond.

David Hancock: Thanks. Just specifically on contract profitability, correct me if I'm wrong but I thought that part of the issue in Textiles & Hygiene is in the Netherlands in which you had some quite healthy margin contracts that rolled off. Is there any risk of something similar in the rest of the

Textile and Hygiene business or for that matter in Pest Control or are you happy with the level of contract profitability relative to the peers?

Alan Brown: One of the key bits of analysis that we've done in Textiles & Hygiene Group is to examine the average pricing of existing contracts compared to the average price at which we were writing new contracts and the Benelux analysis did indicate that historically there had been really very big exposure because the pricing of the historic contracts was much higher than the pricing of the new contracts. We've done that analysis at each tier of customer: Tier 1, Tier 2, Tier 3; large, medium and small customers and in Benelux for example the reduction of profitability we've seen of course has been largely because of pricing erosion but certainly the Tier 1 customers, the big customers, the price at which they're writing new business is pretty well in line with the price of the existing portfolio. We've still got a slight premium with some of the smaller customers but that's not likely to erode. A similar analysis across the rest of the Textiles business would indicate that we're in a pretty stable position. So I would be I think in the position where I could say with a reasonable degree of conviction that the pricing exposures which were perceived to be in the business 2½-3 years ago have now pretty well dissipated across the group. We still do command a premium in some markets particularly in Pest but that really is driven by service differential and there's been no evidence of any erosion in the pricing differential that we've had in a number of markets in the Pest business.

David Hancock: Excellent, that's clear, thank you. Second topic was on acquisitions, can you talk a little bit about how you're feeling about the pipeline and in particular whether you think now having a more stable footing in City Link as you seem to be progressing through this quarter and into the second half of the year, do you think you have the capacity to do larger deals now or do you think you'd still like to see City Link improve further before you feel like you'd take something else on?

Alan Brown: The stream of bolt-on acquisitions is reasonably healthy though our hedge rates in terms of actually closing deals is not particularly high because we've been fairly tight on pricing. The number of large deals we can do of course is much more limited and I think that in terms of any inhibition on large deals I don't really feel that City Link is a big factor. I think that the recovery of Textiles & Hygiene in Benelux however is important because that is something we have to fix as part of that big, core business and I want to make sure that that business is running pretty well before we would target any more significant acquisitions. But City Link I feel is very much a standalone issue and the health otherwise of City Link should not materially affect whether we acquire in Pest or in the Textiles & Hygiene division.

David Hancock: Thanks, and last one perhaps for Jeremy just in terms of one-offs in the cash flow, I think you said you'd hope to be able to achieve 100% cash conversion before one-offs, before restructuring items. Can you just tell us how much those were in Q1 and what you'd expect that to be for the full year please?

Jeremy Townsend: Yes, the one-off cash-items in the first quarter was about £6 million because the Libyan provision is a provision rather than a cash item. I would expect from a cash point of view we're going to be running at around about £25 million for the year would be my current guidance. To some extent the projects come during the year but at the moment I'd guide to around about £25 million in terms of cash compared to the £52 million or so from last year.

David Hancock: Great, thank you very much.

Operator: We'll take our next question from Hector Forsythe from Oriel. Please go ahead.

Hector Forsythe: Morning guys, a couple of questions. Just on management changes in the organisation, can you tell us where you've got to in terms of appointing a new managing director for City Link? Across the organisation have there been any significant changes in management over the course of the quarter or are you expecting anything in the near future?

Alan Brown: Hector, good morning to you. With regard to City Link it has taken me longer than I'd have hoped to get a shortlist of which I'm happy and I don't have that, so there are discussions going on with a couple of candidates that I would be delighted to have join the business. We just have to wait and see whether we are successful in attracting one of these candidates, but certainly my approach has been absolutely to take our time to make sure we get the right candidate because traction in the business is good and I'm perfectly happy to keep on running it for another period of time if necessary. I don't want to in any way prejudice the recovery of the business by going for someone who isn't absolutely right. With regard to other changes there have been no other significant changes in the senior management team since we last spoke.

Hector Forsythe: Ok, great. Final question just on the one-offs, Jeremy, could you give a little bit more flavour in terms of the one-off accounting costs that you're seeing for this year and the kind of nature of those?

Jeremy Townsend: The Libya cost aside, these will typically be restructuring costs associated with restructuring within the divisions; the most significant element of which is continuing restructuring of the Textiles & Hygiene business in Europe but there are similar restructuring projects going on in Pest Control and Asia Pacific as well and these are about restructuring the businesses, either closing down plants, bringing back offices together and fundamentally changing the way we're structuring the businesses to take the costs out.

Hector Forsythe: Ok, thanks very much.

Operator: We will take our next question from Mike Murphy from Numis Securities. Please go ahead.

Mike Murphy: Yes, good morning guys. Two questions please, first of all on City Link, the run rate of loss of turnover in the first quarter was about £1 million a week. Are you able to give us a flash figure for April to see if there has been some improvement there? Secondly on central costs maybe Jeremy you could actually just flesh out why that number keeps moving around so much? There seems to be a big element of incentives and clearly that's tied to profit performance. If you could just expand a little on that, that would be helpful.

Alan Brown: I'm not going to give you a number for April but I can certainly indicate that the rate of loss will reduce during the second quarter. I think the real turning point is likely to come at the beginning of Q3. The new business pipeline to which I've referred will really solidify end of

Q2/early Q3. It's the nature of the market that big customers want to settle where they are with the logistics providers before they get into the autumn, so I think we'll absolutely know where we are by the time we get to the announcement of the interim results in August, we really will know. This is not something which is going to drift on beyond that and I think then the revenue projection for the year that we'll make in August will be subject only to the vagaries of Christmas, but I think that the underlying account situation will be extremely clear and it's on that basis that we're indicating that Q2 will continue to be difficult though better than Q1. Q3 I think will see big changes and we're looking pretty optimistic for Q4.

Mike Murphy: If we go back a year Alan, at this stage last year first quarter, the expectation within the statement was that there would be growth for the year and clearly it was -5% and there has been as you appreciate yourself actually a lot of misses on City Link and clearly you are now spending an awful lot of time there but it has continued to disappoint for a long time.

Alan Brown: I'm not asking you to believe me Mike, I'm just conveying to you what I can see and I'm in the thick of it. I'm seeing a number of these customers myself so I'm pretty close to what's going on. But if you decided to wait to see the results coming through rather than take my word for it I would perfectly understand that. I think what I can indicate is that you won't have to wait too long to see whether I'm right or wrong.

Mike Murphy: Would it be fair to say actually that top of that list is winning business from Yodel at the end of the day?

Alan Brown: I think the rationale for why City Link looks to be in a much better place is very clear and you know the industry very well and you know exactly what's going on with the competition, so I think that that rationale is extremely clear.

Mike Murphy: Thank you.

Jeremy Townsend: On central costs, your point on the incentives is right, that was particularly relevant I think more around Q4 last year and I think we guided at the year end, at the prelims that certainly we shouldn't be extrapolating Q4 from last year through to this year and we expect some increase in central costs. I think Q1 is slightly better than we'd expected…

Mike Murphy: So expecting higher central costs…

Jeremy Townsend: We guided to £45 million, I think given the Q1 performance there may be a couple of million saving against that but what tends to happen during the year is we get a higher element of IT projects coming on board as the planning process kicks into gear, so particularly Q2 tends to be relatively high, so I think against the run rate or the £10 million in the first quarter I'd expect the run rate for the rest of the year to be slightly higher but there should be a couple of million saving against the £45 million we guided to at the prelims.

Mike Murphy: Alright, that's great. Thanks Jeremy.

Operator: We will now take a follow-up question from Andrew Ripper from Merrill Lynch. Please go ahead.

Andrew Ripper: Hi, I just wanted to come back on parcels. What do you think the break-even sales run rate would be please?

Alan Brown: At the current cost base Andrew I think about £350 million. I think we can continue to get more costs out in 2012, pricing will probably go down slightly. I think we'll be able to reduce that a little bit but I think at current costs I would say £350 million.

Mike Murphy: You have almost anticipated the second question which was obviously we talked a lot about the service improvements in the pipeline but on the cost productivity side I think at the finals or last year you talked maybe about £20 million opportunity in the City which was largely around logistics and not just sub-route optimisation and getting benefits from moving to one network, is that still in the plan or have the dynamics shifted a bit more towards focusing on getting more volume in rather than delivering on the logistics or can you do both at the same time for the second half?

Alan Brown: You do both. The initiatives are all in place and I think you do both. The one slight caveat I have is I think we can get to the 75% mix of employed drivers. Obviously the volume comes through thick and fast and we then have to support with subcontractors getting into the fourth quarter and out of light, but we're working on that. I think the basic optimisation initiatives are really important actually. That will also help us I think to be much better predicting the resources needed to cope with volumes. So all the stuff we're doing is absolutely supportive of both volume growth and cost efficiency.

Mike Murphy: Ok, thank you.

Alan Brown: Maybe we will have one last question operator?

Operator: Yes, we have a final question from Iain Amstrong from Brewin Dolphin. Please go ahead sir.

Iain Amstrong: Good morning gentlemen. I just had a couple of questions with regards to…let's start off with Libya. You talk about the one-off, the £4.8 million charge. Is there ongoing charges now for example? Is the contract just dead in the water at the moment or are you starting to pay the people involved, that sort of thing?

Alan Brown: If I can answer that question, we've declared force majeure in the contract and that will then I think effectively mean the contract will expire at the end of May, so we do have costs of paying the local workforce up to the end of May. Beyond that then there are no costs being incurred at all. We have obviously a substantial claim on the Libyan authorities but we have taken a full provision for that claim in our results given the uncertainty of the political situation in Libya.

Iain Amstrong: I presume there weren't costs in the first quarter numbers but there will be costs in the second quarter number?

Jeremy Townsend: The costs of paying the remaining staff are covered within the provision and are relatively immaterial compared to the costs of the debt write-off.

Iain Amstrong: Alright, ok. Going back to City Link, it seems a fairly obvious question but I'll ask it anyway, clearly January was weather impacted. If you were to take out the January effect, was perhaps March of even February in profit versus last year?

Alan Brown: No they're not and we won't get to profit in a monthly basis unless until the revenue line improves. That is really the issue for City Link and that's why you're giving very strong guidance that the business will not see material financial improvement until Q3. So it needs a combination of both revenue improvement and cost improvement before we'll start to see the business making strong progress in the bottom line.

Iain Amstrong: You were talking about IT costs, IT costs go into the central costs rather than the operating cost part – is that correct?

Jeremy Townsend: There are IT costs in the division in the central but there's an element of the central costs that relate to IT.

Iain Amstrong: Right, so with regards to say launching your My City Link etc…

Jeremy Townsend: That would be within City Link.

Iain Amstrong: So most of that will be put in the first half of the year and there will be next to nothing in the second half of the year for that?

Alan Brown: These are small costs Iain. The total IT budget for City Link is about £8 million per annum. These are not big costs. We do most of the work with our in-house global team supported by the local City Link team.

Iain Amstrong: Ok. Just looking at the contract portfolio the price increase in Asia Pacific was only 0.5%, it looked quite low versus the other businesses. Was that a one-off effect there from last year or loss of contract or whatever?

Alan Brown: No. The Australian business is very important in Asia Pacific and the market pricing has been quite tight and we've been really pushing very hard to get our Washrooms business back to growth. I must say I'm absolutely delighted to say that our Washrooms business has shown some portfolio growth over the last few months for the first time in eight years so we have really been pushing to get volume growth there. That Washrooms business is a big driver of our Asia Pacific results and the emphasis has been on getting growth which we've been successful with.

Iain Amstrong: So the price has been down in Australia but up in the developing markets, is that what you're saying?

Alan Brown: It varies. Certainly the Australian pricing has been very marginal as we've been pushing for growth in the Washrooms business. Australia accounts for 50% of the revenue for the whole region so there's a big impact on that.

Iain Amstrong: Ok, thanks very much.

Alan Brown: Thank you very much everyone for your attention, Catherine in particular and Jeremy and indeed myself are here to take any follow-up questions you might have later in the day or next week. Thanks very much. Goodbye.

Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.