FINAL TRANSCRIPT

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PRESENTATION

Alan Brown - *Rentokil Initial plc - CEO*

Morning, everyone, and welcome to the review of Rentokil Initial's first half-year results. I'm Alan Brown. I'm joined here by Jeremy and Katharine just at the door. I'm not sure if she's coming in or out. She's coming in. Good, okay.

Half 1 highlights; revenue growth from our contract businesses is a little earlier than anticipated accelerating, so I'm pleased about that. Really pleased with the performance of our small acquisitions, which are making a significant contribution to our business. I'm improved with the increase in retention rates yet again, driven by our focus on service and increasingly on customer care. Very pleased with the turnaround in the Benelux; the business is trading very consistently month in, month out, which is always a very good sign. And as we said, later on, we would expect to see year-on-year profit growth in the second half from the Textiles & Hygiene Benelux business.

City Link is on track operationally, with many improvements coming through by October/November of this year. I'm not happy, of course, with the financial performance of the business, but I am encouraged by the strength of the new business pipeline, albeit it is difficult to predict exactly when the full benefits of that will come through.

Across the Group, we have continued to invest very strongly in capability, and I'll come back to that later on. We are continuing, obviously, to focus on cost and cash, though we are seeing more signs of inflationary pressures, particularly in Continental Europe.

And just to clarify, we are not declaring a dividend in respect of half 1 2011.

I think the bottom line to the first half is the Group is performing robustly, with the exception of City Link, but I remain confident that City Link is on the mend.

And with that, I'll hand over to Jeremy.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Thank you, Alan; and good morning, everyone. I'll now run through the key financial highlights for the first half. Unless I say to the contrary, all the numbers are at a constant rate of exchange.

Revenue in the half grew by 0.7%, with organic growth of 1%, excluding City Link and Libya.

Adjusted profit before interest was down 11.6% in the half, primarily due to declines in City Link and Textiles & Hygiene.

Lower interest costs and favorable exchange rate movements meant that adjusted profit after interest at actual exchange rates declined by GBP3 million, or 3.9%.

Operating cash flow of GBP24.5 million was GBP44.5 million below last year, in part due to cash outflows relating to one-off items, and in part due to increased CapEx levels.

Drilling into the Group financials in a bit more detail, excluding Libya, organic growth was achieved in Textiles & Hygiene, Pest Control, Asia Pacific, and Initial Facilities. As Alan said, acquisitions are performing well, and the net impact of acquisitions and disposals contributed 1.8% of revenue growth in the half.

City Link reduced Group revenue by 1.8%, with sales declines in both quarters stable at 13.5%.

Organic revenue growth has been driven in part by retention, which improved further in the half to 84.6%.

Adjusted profit was down GBP5.2 million to GBP70.9 million, primarily due to losses at City Link, which at GBP17.8 million, were GBP13.1 million higher than in the first half of 2010.

Cost savings of GBP24 million were achieved, primarily due to savings in Textiles & Hygiene and City Link, and we remain on track to achieve our targeted savings for the year of GBP60 million.

CapEx levels increased in the first half due to inflationary pressures, particularly in Textiles, and also due to [up-weighted] IT expenditure. Whilst these factors are anticipated to continue, cash flow performance is expected to be stronger in the second half, reflecting seasonality and the phasing of working capital.

Looking now at performance by division; revenue in Textiles & Hygiene was up 2.6% in the first half; 1.3% on an organic basis after adjusting for acquisitions. And retention levels improved further by 1% to 87.3%.

Profit performance was reasonably strong in most of the divisions' territories, and was at 1.1%, excluding Benelux and acquisitions.

In the Benelux, profits were down GBP4.4 million in the half, reflecting contract losses in 2010. Performance in this area has stabilized, and we expect that this part of the business will achieve profit growth in the second half.

The Pest Control division achieved 3.7% growth in profit in the half on revenue down 1.7%. Strong growth was achieved in North America, Germany and the Nordics, offset by weaker performance in the Southern European countries of Spain, Portugal and Greece.

UK Pest achieved growth of 7.2%, largely driven by the Santia acquisition. Revenue in the UK and Ireland Hygiene business continued to decline, albeit at a lower rate compared to the prior year of 6.4%. The profit growth in the division was driven by strong cost control, with back office rationalization and service productivity.

In Asia Pacific, revenue was up by 3.6% in the half-year, with the Asian region up 5.2%, and Pacific up 2.5%. Growth in Asia continued in the established markets of Indonesia and Malaysia, supported by strong growth in the emerging businesses in Vietnam and India.

The adverse weather conditions in Australia had a detrimental impact on the Hygiene business; however, the Pest business did benefit from the ensuing mouse plague. The sales growth in the region did not materialize into profit growth due to increased investment in management capability in China, and the impact of the Queensland floods on the Australian Hygiene business.

Revenue in Ambius was down 0.4% in the half, although growth of 1.1% was achieved in Q2. Profits were, however, down 30.4%, negatively impacted by fuel and plant cost inflation, as well as changes in business mix.

City Link generated losses of GBP17.8 million in the first half on revenue levels down GBP22 million, or 13.5%. The revenue reduction is driven by reduced volumes of 9.9%, primarily due to customer losses incurred in 2010. The market remains challenging and competitive, and the average price per consignment has continued to fall in the period by around 4%.

As Alan said, considerable progress has been made in operational capability in customer care, and we are on track to deliver substantial improvement by October. Service levels were in excess of 99% in the first half, and good progress has been made in improving productivity. The new business pipeline has increased since quarter 1, and continues to be promising.

And we look forward to welcoming a new MD and FD into the business in Q4, with David Smith and Robert Peto joining from Royal Mail Group.

Initial Facilities continued to trade strongly, despite continuing difficult trading conditions. Revenue was up by 11.1% in the first half, largely due to the Knightsbridge and Santia acquisitions. Excluding these, organic growth was 0.6%. Profits were up by 20.0% reflecting margin improvement, cost saving reductions, and the acquisitions noted above. On an organic basis, profits increased by 10.4%.

Interest costs were GBP6.5 million lower than the previous year driven mainly by movements on pension scheme interest and prior year ForEx movements. Adjusting for these items, underlying interest was slightly below the prior year, reflecting reduced debt levels and marginally lower interest rate levels.

Looking now at operating cash flow. Operating cash flow of GBP24.5 million in the first half was GBP44.5 million below the prior year. This was in part due to a GBP25.9 million reduction in EBITDA levels, but also due to a GBP18.3 million increase in CapEx.

CapEx levels were 103% of depreciation in the first half compared to 77% in the first half last year, reflecting inflationary pressures, particularly in Textiles, and an increase in IT investment to support program Olympic and customer care in City Link. But also, part of the reason was due to the phasing of CapEx spend in 2010.

Net debt increased to GBP1 billion and GBP24.6 million in the half. Cash interest was GBP4 million lower than last year due to the lower profit and loss charge already mentioned. Cash tax was GBP10.5 million higher in the first half, reflecting the phasing of payments of 2010 tax liabilities in 2011.

Net expenditure on acquisitions and disposals increased by GBP8.6 million in the half, and the stronger euro also contributed to a GBP16.3 million increase in net debt in the period compared to a GBP58.7 million reduction in the first half of 2010.

Before I hand back to Alan, just some numbers for your models in relation to the second half. As I said previously, given progress made year to date, we are on track to deliver our cost savings target of GBP60 million. Given that the majority of our debt has a fixed rate of interest, I'd expect the same interest rate in H2 as in H1.

Cash flow performance will improve in H2. However, given inflationary pressures in CapEx and continued investment in IT, I'd now expect our CapEx levels to be at or slightly above 100% of depreciation for the year, and consequently, cash conversion to be in the range of 90% to 95%.

The half-year adjusted tax rate of 24% is based on our estimated tax rate for the year as a whole, and hence at this stage, I wouldn't anticipate any change in half two. And as previously noted, the phasing of payments for 2010 tax liabilities in 2011 means that the 2011 cash tax rate is likely to be higher than last year and in line with the P&L tax rate for the year.

Thank you, and I'll pass back to Alan.

Alan Brown - *Rentokil Initial plc - CEO*

Thanks, Jeremy. So I'm going to do a review of operations. We outlined four key objectives at the beginning of this year. I'm going to run through each of these.

First, the turnaround in City Link and Textiles & Hygiene. As I've already said, City Link financial performance remains unsatisfactory, but the operational progress is looking encouraging, as is the pipeline; and I'll come back and tell you more about that.

Second, Textiles & Hygiene Benelux is progressing well, and we are pretty confident of seeing year-on-year profit improvement in the Benelux in the second half.

The second key objective was to ramp up our customer care agenda, and here we have really made very significant progress, and I'll outline that shortly.

Thirdly, to achieve consistent and profitable growth; I'll take you through some more of the detail of our progress in that area.

And then fourthly, cost savings; GBP24 million in half 1, as Jeremy said; on track to achieve the GBP60 million target. We've seen I think elsewhere, as I said earlier, inflationary pressures, but there has been some easing of the pricing environment in Continental Europe which has broadly offset those inflationary pressures.

So let's talk a bit more about City Link. I think you've seen these charts before. These are some updates on where we were. I'm not going to go through every bullet point, but if I talk first of all about operations. The Depot Blueprint exercise is rolling out across our depots. This will give us much more consistent operating practices as well as a good level of savings in our depots. And as I said, that should be really in place by the end of Q3.

Employed drivers, you may remember, was a significant target for us. We aim to get to 75% of our drivers being employed as opposed to subcontracted or owner driver. We're now up to 67% as of last week. The proportion of drivers who are owner drivers dedicated to City Link will remain pretty constant, around 18% to 20%. So by the time we get to the end of Q3, we'll probably be down to about 5%, or thereabouts reliance on the subcontractors, and this in my view, gives us much more predicable service as well as lower cost.

Third point I am going to make a point about, because it is important. The rollout of the Eclipse Pricing and Billing system will give us an effective pricing and billing operation and an effective customer master file for the first time in the four years since the merger of the Target Express and City Link businesses, so this is an important milestone for us.

And then the fourth bullet point here under operations is that following the closure of the Camberley Head Office, and very shortly the Newton Business Support Center, we will have no sites which are not primarily operational sites in the City Link business. So all the administration will be above the shop, so to speak, in various depots and hubs.

Contingency planning I'm not going to talk a lot about now. Just to say our plans continue at a pace, and particularly the establishment of regional SWAT teams to deal with particularly severe conditions, whether they be weather or otherwise. And a number of our really big customers have had a look at these and are pretty impressed with the plans we've put in place. So I'm pleased with the progress in that area.

Customer care. I'm going to show a chart later on in this area, because this is not only a City Link objective, but it's also a Group objective. So I'm not going to spend too much time on this at the moment. Maybe I'll just pause for a moment on the second bullet point, My City Link, which was launched in May, and gives our big customers pretty well real time information on where their parcels are, and also gives them real time information upon proof of delivery, which is market-leading.

Maybe the bottom part I also ought to just pause on for a moment. We do intend to launched estimated time of arrival information for consignees with a plus or minus 30 minutes timeframe. We hope that will be in place by October/November time, and that will be an important added value component to add to the City Link armory.

Sales and marketing; we are making some progress with our pipeline, primary by focusing on four major sectors. We are having particular success in the retail space. We have to date managed to convert about GBP20 million of that pipeline into new business, and that will come on stream in the second half of the year, the GBP20 million being a full-year effect I should say, not a 2011 effect. The pipeline has grown substantially. I think we said it was GBP50 million at the first quarter. It is now substantially larger than that.

What remains unpredictable, I have to say, is the rate at which that pipeline can be converted into new business, but so far, we have lost very, very few accounts on the pipeline, albeit it is taking time to convert into new business.

So I think that it's now becoming quite clear the full impact of our initiatives will not be felt this year, albeit that we expect to be in reasonably good shape by the time we get to Q4 for City Link.

Now much more briefly on Benelux, because we've been able to rectify that business pretty quickly. I think you are aware that we put a new management team in place in January, largely an internal team from other parts of the Group. That's gone very well. We've done a lot of work on pricing. We did take some big price adjustments in 2010, and we've not had to take any further pricing adjustments. In fact, we've had some price increases this year, so we're in good shape.

We're winning business. We've won a number of new contracts with the Government, both in Amsterdam and the Hague, which we're well pleased with. The Belgium hospitals operation needs some specific attention on that and is being turned around. And I think, as I said earlier, the most encouraging thing is the business is now performing consistently in line with plan month on month. We should see some pretty good year-on-year improvement in the second half of 2011.

Now on to the second big objective, the customer care. It's a complicated chart, but it's a very complicated area. We've got about eight work streams, and this is really focused on City Link, but it's all very relevant to the rest of the Group. We've invested north of GBP3 million in capital alone in Q2/Q3 in new hardware which, as I say, will support much more than City Link once we roll this out.

I'm just going to pause really on the first three columns here, because I do want to give you a sense of the fact that this will not only be class-leading within the parcels industry, I think it will be up with the best in the UK in terms of customer care once it's all up and working, which as I say, we're on track to deliver in October/November time.

The first one is about multi-channel contact routing. We are going to be able to bring all sources of information together and to be able to record in one place all of our contact with customers, whether it comes through voice, email, Twitter, text; you name it, we can do it. The second column really shows that based around the salesforce.com technology, we'll be able to record all of this in one place and to give access to call agents, whether they be in depots, whether they be in the central call centers, full access to all of the correspondence with a customer.

And thirdly then, we are introducing the latest technology in terms of voice recognition, which is now very sophisticated indeed, so that you'll be able to interrogate on the phone exactly where your parcel is, or whatever question you might have of us.

So I'm very excited about the combination of those initiatives, which as I say, we are quite convinced will be market-leading in the UK by the time they go active in October/November time.

Overall, the customer care and service agenda is delivering results for us across the Group. As we said on the front page of the announcement, retention rates on our contracted customer business have improved yet again, up from 83.6% in 2010 to 84.6% in the first half of 2011, with progress across most divisions.

Now on to the third initiative, consistent and profitable growth. I think you may remember again that we structured this around initiatives focusing on existing customers, on new customers and on new service lines. And what I'm going to do is to really show you in some detail some of the results so far.

On the left hand side of this chart, you can see the trend in terms of overall constant exchange rates over the last four years with, I think, a pretty clear trend developing over 2009, '10 and '11. And on the right hand side, we've split out organic growth, i.e., excluding acquisitions and disposals for each of our businesses.

And here, you can see progress across most divisions with the exception of City Link. And I think even at Ambius, we have seen progress in Q2, albeit Q1 was held back by portfolio adjustments in 2010. So we're pretty pleased that we're at least heading in the right direction in the first half of 2011.

The area where we have to do more work is clearly in winning new business. This chart you will have seen before. It is less clear that we're moving in the right direction compared to retention rates in very tough economic markets.

Perhaps a word on the yellow line, which is IFS, of course. We had a big spike up with the winning of the London Underground contract in March 2010, and the full-year effect of that has now really come off in March 2011.

So clearly more work to do in terms of new business, but I'm pretty pleased with some of the pilots that are going on in the market. Just one particular example from the Textiles & Hygiene Washrooms business.

We have spent some time developing value propositions to target particular customer savings, and these are being rolled out on some pilot markets, and the early results are looking pretty good. In Germany and Italy, we are seeing not only an increase in revenue per sales person, we're also encouragingly seeing that the number of services that customers are taking are also increasing; because of the really obvious opportunities for us, particularly in the Washrooms area, is to increase the number of services per customer. Typically, they are taking 1.8/1.9 services per customer, and we really should be able to get that up quite substantially with better selling of the whole range, rather than just selling elements of the existing range.

More broadly, those of you who follow us will be aware that under Program Olympic, we have a number of initiatives under the Prospect 2 Cash stream. We've got seven growth pilots. I'm not going to run through them in detail. Four of them are already listed on this page.

We are piloting all of them in the UK Pest and Washrooms business. The first two are the most complex of the pilots, and they're now under full trial. The rest of the pilots have all been proven to be pretty successful, and here the three more over this page. And we're now really planning to roll out the other pilots, all seven of them, so some work going on on pilots 1 and 2 across the Group during 2012 and 2013.

And the earliest wins we're getting really are from these pilots, the account management and the complaint pilots. And even in one of our most difficult businesses, which is the UK Hygiene business, which is still declining, albeit the decline is slowing, we are seeing really significant benefits from these pilots.

You may be familiar with the Net Promoter Score methodology, which is a standard industry where research in customer satisfaction. We've branded that internally as Customer Voice Counts. It's the same thing really. And what one does is to research one's customer base and determine which of your customers are detractors, those who don't like you; those which are -- [we've chosen] those which are promoters; and from that, you get a Net Promoter Score, which is shown here in the blue bar.

And you can see here that that Net Promoter Score has gone up from 26% to 35%, to 40%, to 44%. And 44% in absolute terms is a very high number for this industry indeed. This we believe will be close to best in class, which shows the progress, the really strong progress we've made in turning round this UK Hygiene business.

On the right hand side, one of the reasons for this is that we have driven down the number of complaints that we've been receiving quite dramatically; so really assiduous attention to complaint management and then determining and resolving the root causes that have led to complaints. So we think there's a very strong correlation between these two items. And all of this work has come out of the growth pilots and is proving, as I say, very effective indeed.

On growth, of course, acquisitions have been a component. In addition to the underlying growth we're getting, we've added about 1.8% to the top line through acquisitions over the last 12 months, and they're all going very well. Knightsbridge Guarding I've talked about before and the strong growth coming out of the business.

The three smaller businesses we bought from the [Connaught] business have been fully integrated; Pest business into UK Pest; the fire and water businesses into our Facilities Management business, all are performing ahead of our expectations, I'm pleased to say.

More recently, we've bought out the minority holding held in our Catering business. We've acquired a further small pest control business in Australia. And we've made an entry, our first entry, into Turkey. We've bought NB Turkey. It was actually called National Britannia Turkey; in short, NB Turkey. And I would be pretty confident we'll be making further bolt-on acquisitions during Q3 and Q4, given the pipeline of negotiations that we are currently pursuing.

As I said, point of emphasis here; these are all going very well, very pleased with the performance of acquisitions.

Objective 4 is costs savings. We're on track to meet the GBP60 million by the year end, which we certainly need, because as you are all aware, we have certainly suffered inflationary pressure during the first half of the year.

On City Link, we will start to benefit then from the recruitment of the full-time employee drivers which really came on stream during Q2. We'll get the full-year effect of that as we move forward, and the full-year effect of many of the other initiatives that have taken place.

And we're making strong progress on procurement. I should say that we're piloting the introduction of the Ariba procurement system, which will give us much better compliance to our procurement agenda in the UK. And that goes live I think next month in terms of the UK pilot.

On Textiles & Hygiene, we have made some good steps forward on the procurement agenda, in particular in the Textiles business, where we have now a very clear plan on to how to drive the Textiles procurement; and we'll update you on that as we move forward during this year and next year.

And you can see again here, procurement comes through again and again and again. We're making a lot of progress in terms of driving procurement savings across through various initiatives; so quite a lot going on in that space.

Then finally, outlook for the second half of the year. City Link, just to emphasize, I'm very encouraged by the operational improvements we're making. The Depot Blueprint, the customer care agenda, the driver mix, the launch of the estimated time of arrival program, and the very good prospects we have in terms of the new business pipeline, particularly in the retail space, all is moving very well, albeit I caution that the full impact of these initiatives will not all accrue in Q4 or the second half of the year.

Textiles & Hygiene Benelux is in a good place. We would expect to see the other businesses in the Group making solid progress during the second half of the year. And the resumption of the dividend remains under review pending the turnaround of City Link. I think it's fair to say that we're pretty confident the Textiles & Hygiene Benelux business has indeed turned around. So it's really now all depending on City Link, and we'll see where we get to during Q4 and make a call when we get to the finals next year about whether we're able to issue the dividend or not.

And maybe finally, I should just pause to say that we are planning to introduce a series of investor seminars. I think this is what I have to use, Katherine, and we're going to have the first one probably the second week of November, which will focus almost certainly on Pest division. That will be the first of a series of four to five seminars that we were intending to run with about approximately three-monthly intervals over the next 15 months. And we'll probably focus on a division at the time. But the first one, as I say, will be around about the second week of November focusing on the Pest Control division.

So with that, Jeremy and I, and various other colleagues in the audience, will be very happy to take any questions you might have. Please.

QUESTIONS AND ANSWERS

Rob Plant - *JPMorgan - Analyst*

At the Q1 results, you said that City Link would break even in Q3. It sounds as though this is now going to be in Q4. Why the difference?

And probably related to that, the organic performance actually deteriorated slightly in Q2; minus 13.6% at City Link. It's a very tough trading environment out there on the high street. Does your turnaround assume any improvement in the economy?

Jeremy Townsend - *Rentokil Initial plc - CFO*

So, yes, you're right. I think at Q1, we were hoping that some of the pipeline would flow through sooner than it has. So I think where we are at the moment is looking at a small single-digit millions loss in the third quarter, but some profitability in the fourth quarter.

Alan Brown - *Rentokil Initial plc - CEO*

In terms of the new business pipeline, I think that it's proven to be bigger than I'd anticipated, but the delivery of that pipeline remains uncertain. That's just a feature of the marketplace and the economic conditions. So it's not something that one can certainly bet one's life on, but I have to say compared to where we've been in the past, it looks much more promising.

And there are good reasons for that. I think I've talked before about there being fundamental changes in the UK marketplace in the competitor environment, and that is looking for us, as I say, quite promising.

But our strategy has been very much to -- different from some other players in the market. I think the players in the market are increasingly differentiating their offer. Some players in the market are tending to go for smaller customers. I think that our strength, particularly given the investment we're making in customer care and the investment we're making in our cage delivery service, which offers very high levels of protection and security, is much more with the larger customers. And they take longer to land I think than the smaller customers that some of our competitors are pursuing.

Other side of the aisle here.

Charles Wilson - *Goldman Sachs & Co. - Analyst*

Could you give us a flavor on what you think your fixed cost base is in City Link and where it might be towards the end of the year?

Alan Brown - *Rentokil Initial plc - CEO*

I'll do better than that. I think that we will be comfortably into profit at GBP340 million of revenue. I think it's a better way to respond to your question rather than saying what our fixed cost base is, because there are elements of the base which are fixed and there are other elements which are partly fixed. But I think if we got GBP340 million, we'd be comfortably into profit.

Charles Wilson - *Goldman Sachs & Co. - Analyst*

And my final question; on the acquisitions, you mentioned you're doing better than you thought you were going to do. Is there a theme running through that that you're better at integrating, or there's more cost synergies, more revenue synergies? Is that --?

Alan Brown - *Rentokil Initial plc - CEO*

I think there are two things. I think we've bought well. I think we've really bought well. And that's partly about being very focused on what we buy and selective on what we buy. And we've also bought at pretty reasonable prices, I have to say in some cases; particularly obviously the Santia acquisitions were bought at a good price.

And to state the obvious, an acquisition tends to go well when you've got a -- let's say a strong mother ship into which to integrate them. And in particular, as we make these big strides forward in capability, with introducing really robust financial systems and robust operating systems, it is so much more straightforward to integrate a business into robust financial and operating systems.

The Pest acquisition, for example, from the Comet Group, was really integrated in a relatively short period of time because it was absolutely clear what the go-to position was.

The contrast being, for example, to state the obvious, is when the business bought Target Express, it was really trying to integrate one shambles with another shambles, and that was not a recipe for happiness.

Unidentified Audience Member

Could you please just give us the contribution from cost savings, the formal cost savings, to the first half, from those made in 2010 and those made in the year in 2011?

Jeremy Townsend - *Rentokil Initial plc - CFO*

So about GBP15 million of the GBP60 million we delivered last year flows into 2011. So roughly half of that is -- roughly GBP7 million of the GBP24 million is flowing through from 2010.

Unidentified Audience Member

Right, okay, but the GBP24 million is an in-the-half contribution?

Jeremy Townsend - *Rentokil Initial plc - CFO*

It's in-the-half contribution, of which GBP7 million was from last year, and -- whatever; about GBP17 million is from savings in the [next year].

Unidentified Audience Member

And can you split that between City Link and non-City Link?

Jeremy Townsend - *Rentokil Initial plc - CFO*

The majority -- the bigger chunk is actually from Textiles & Hygiene. City Link would be around about one-third of the GBP24 million, so just under one-third.

Unidentified Audience Member

Okay, thank you.

Jeremy Townsend - *Rentokil Initial plc - CFO*

City Link phasing, what we were doing to recover from the Christmas trading, most of the City Link we were really kicking in quarter 2; so we'd expect a bigger delivery in the second half, and that's part of the reason for the GBP24 million versus the GBP36 million.

Unidentified Audience Member

Okay, thank you. And just regarding the importance of the Q4 performance of City Link to maybe the conversion of the bid pipeline, is there anybody who's standing by to see how you perform in Q4 to see whether they're actually going to sign up with you? And if they are, is there a risk that you might actually need to over-cost Q4 because you can't afford another year of what happened last year.

Alan Brown - *Rentokil Initial plc - CEO*

I think that the customer's criteria for whether they stay with an existing carrier or whether they move to City Link is really all about service and price, of course. Those are really the key issues. And our service has been consistently good, and obviously what we have to be able to assure customers is their service is going to get even better and can be sustained through the Christmas period. And, well, we've made our case, both to the investment community and to the customers. And by and large, that seems to be going pretty well.

Pricing of course is always an issue. It's such a highly competitive marketplace. So those are the dominant issues.

I don't think that there are many customers who are waiting and seeing about how City Link fares overall; they're much more interested in what it means for them in terms of service and price. That's the real driver.

Now is it possible that the pipeline, that elements of the pipeline will remain unconverted this year? Absolutely. That's absolutely possible. But that's more I'd have thought due to internal issues within customers; for some reason that they may have other priorities. I went to see a very large customer on Monday and they, I think, are well disposed towards us. But in some cases, these customers have bigger fish to fry; they have other transformation programs they have underway. And changing carriers is not an easy thing to do, and it may well be that they decide to put off any change until January. But that's much more driven by internal issues rather than their view of City Link.

Unidentified Audience Member

And just a couple of follow-ups on City Link. In terms of when the new management join and what their operational responsibilities will be in the Q4 period, can you just speak about them? You mentioned the SWAT team, so can you just mention what role they're actually going to be playing in Q4? Because they're obviously quite new to the business at that point in time. Maybe, if you could also just say what's the pricing like on the bid pipeline that you're looking at.

Alan Brown - *Rentokil Initial plc - CEO*

Yes. Well, David is obviously very experienced in the industry. He will join the business, I think it's on December 4, so clearly he's going to be full on in the thick of it, so to speak, about trying to assure himself of our performance day by day during that key period.

But obviously, all the preparation work is having to be done by the current management team, but they've been bloodied with a very, very difficult Christmas last year and they've learnt a lot from that. And I think that what I've been able to do is obviously look at what resources we can support City Link with from the Group, which is looking quite promising, I must say, during Q4.

When it comes down to the real crunch days, it's -- to make a very good analogy with the American electoral system, you have the thing called the Super Tuesday; and Tuesdays are a nightmare in December, because you get the full weight of the Internet shopping [bonsai] on the Sundays coming through on the Tuesday, plus you get Christmas. So you've got three Super Tuesdays in December, and you can really focus it down to that. And if you can crack those, then you should be in pretty good shape, setting aside of course issues to do with the weather.

So we're very focused on what we can do, and we think there are certain things within the Group we can do to support the City Link Group during that period. So I think we're in pretty good shape.

Unidentified Audience Member

Okay. And sorry, just the pricing on --?

Alan Brown - *Rentokil Initial plc - CEO*

Yes, the pricing. City Link is clearly very much focused; you can see from the sectors; very much focused on the more premium end of the market. We're not going to be able to compete with what used to be called the home delivery network, now called Yodel, in delivering tee-shirts. It's just not our marketplace.

We are, however, really competitive when it comes to transporting high value, more fragile goods. So we're doing extremely well, for example, in the wine market; we're doing very well in the flower market; and we've always done well in the high tech market, delivering PCs, computers, all the rest of it.

So the pricing, I think, reflects where we have or do not have a competitive advantage. We've only walked away from one bit of business in the new business pipeline; only one bit we've walked away from; and that was because that was for a retailer for -- part of the portfolio was low margin, low value goods, and the pricing that they wanted was just not something we'd contemplate.

But for those higher value goods for which the market is looking attractive, I must say, the pricing is at a level where I would be quite happy with the profitability, assuming we get the City Link revenue up to and beyond that break-even point.

Unidentified Audience Member

Okay. Thank you.

Alan Brown - *Rentokil Initial plc - CEO*

Yes, Andrew first, and we'll come back to you. Sorry.

Unidentified Audience Member

Thanks. Yes, I don't want to bore you with City Link, but just to--

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Alan Brown - *Rentokil Initial plc - CEO*

City Link, I can talk about it all day.

Unidentified Audience Member

Just to finish off on it, where do you feel --? I was going to ask where you felt the break-even sales point was now. Can you give us a view on that, please?

Alan Brown - *Rentokil Initial plc - CEO*

GBP340 million. Well, sorry. We'll be in profit at GBP340 million. Is that what you meant?

Unidentified Audience Member

No; because, obviously, you'd already said that. But just in terms of where you feel the break-even would be in terms of revenue. What sort of revenue --?

Alan Brown - *Rentokil Initial plc - CEO*

Well, less than GBP340 million.

Unidentified Audience Member

It looks like --

Alan Brown - *Rentokil Initial plc - CEO*

GBP330 million-ish; there or thereabouts.

Unidentified Audience Member

It looks like this year you're heading for something around GBP305 million, and it looks like you're going to lose something in the teens; I don't know, GBP14 million/GBP15 million, something like that. So GBP325 million, something like that, to get to break even?

Alan Brown - *Rentokil Initial plc - CEO*

Could be. GBP325 million/GBP330 million, of that order. Yes, I wouldn't disagree with that.

Unidentified Audience Member

Okay. And in terms of the new business that you mentioned in your comments, I think you said about GBP20 million, is that more at the B2C end? And if so, is the price per consignment likely to be lower than the average?

Alan Brown - *Rentokil Initial plc - CEO*

I think I'm allowed to mention one of them, certainly. Yes. Well, Direct Wines would be, what? About GBP8 million, thereabouts; GBP8 million to GBP10 million of that; and that is B2C, obviously. And the others, which I really shouldn't mention, would also be B2C; a lot of flowers, wines, all that type of stuff. Now it's not all that, but it just so happens that those particular ones are in that area.

Unidentified Audience Member

Yes. Are you in happy in terms of that? Because one of the reasons why the revenue consignment's been going down is because the mix has been shifting toward B2C. Are you happy that the cost per consignment is lower on B2C, so you're shifting -- revenue consignment going down but cost per consignment is lower as well?

Alan Brown - *Rentokil Initial plc - CEO*

I think the market is changing, no doubt about that; that obviously B2B is important, but the pricing pressures on B2B are significant. There's a lot of competition in B2B. So I think the old premise that B2B was where you made your money is -- it's still the case, but there's much more transparency now in the B2B market. Most people are really looking for competitive quotes, etc.

The reason I'm keen on B2C is that there are far fewer people who can do it, and we are equipping ourselves to do it. And what we are seeing, my strong belief is that we're seeing then a divergence in the B2C market; we're seeing those people who just are looking for price and (expletive deleted) the service, to be honest with you. And we're seeing those people that we're talking to who see the delivery as an extension of their brand and believe that the customer experience when they are receiving the goods is really important to their brand image.

And that's the area where the UK parcels market as an industry has not done a good job, and we're investing quite strongly to be able to deliver a really good experience to that end of the market, Andrew.

Unidentified Audience Member

Okay, thank you. And then second question from me; just coming back to new business and the growth pilots. You've done a pretty good job on improving retention and, as your chart showed, you haven't done so well in terms of new business. So I wonder if you could perhaps go back to the first two or three growth pilots which are more orientated towards driving up the new business, and give us a flavor of how significant you think they might be as you roll them out across the Group?

Alan Brown - *Rentokil Initial plc - CEO*

Yes. I think that the first one, which is about indoor sales support, is potentially very significant, particularly for those businesses which are very much focused on having to create the business as opposed to respond to enquiries. So that indoor sales is really important for the Washrooms business and for the smaller City Link customers. Less important for Pest, because Pest is still over 75% or thereabouts driven by enquiries coming through to us.

And what we've seen in the early pilots in Washrooms is that 25% of the new business is coming through assisted indoor sales representation, which I think is very significant indeed. And when I say indoor sales, one shouldn't get the impression that we've got a team of people sitting in a chicken hutch somewhere who are working completely independent of the rest of the business. That's not the model at all.

The model is that the indoor salesperson works with the field sales people, and they work as a team. And the indoor salesperson really tries to open up the doors that the outdoor person can't get to; for example, getting into the middle of a big corporation. And the indoor salesperson will pre-qualify and make appointments so the outdoor salesperson's not wasting his time going to four or five doors and getting the door slammed in his face. So that's the model we're working on.

We absolutely believe it's the right way to go, particularly for the Washrooms business. But I think there's a lot of capability development to do to get it right. We've got the systems correct. We've really spent a lot of time and effort, and money I have to say, in getting our systems organized while this is fully integrating. So for example, the indoor salesperson who makes an appointment, goes straight through to the diary of the outdoor salesperson with all the details. All that stuff's absolutely uniform. But in terms of getting the skills of the people right and the team working right, that's going to take some time.

The second one really is high tech. That's about effectively an iPad, or something equivalent to it, which the outdoor salesperson will take with him when he goes to visit the customer; and this is particularly relevant for selling to small commercial customers or to residential customers. And the iPad basically is the selling tool you use with the customer. It gives graphic details, more than you'd like to see sometimes, in terms of what pests can do, what they can't do and how we can deal with them. And it's proving particularly successful in ensuring that we cover all the pests or all of the washrooms issues with the customer, not just focusing on, say, rodents.

And it has a pricing model built into it, which then will generate the price, which has given us much more consistent pricing. And it's got completely straight through processing, so it's connected to our administrative system. So if we're able to get the customer to sign on screen electronically, that immediately goes through to our invoicing systems and everything else. So it's really high tech stuff.

We're in pilot. The thing which I think we've got to satisfy ourselves that we resolve is that experience between the sales person and the customer in using the tool, and that I think will still take some time, particularly for some of our, let's say, longer in the tooth salespeople to adapt to. But overall, we're very determined to make this work, and I think it's relevant then to the vast majority of our sales force across the country.

So we're in now full pilot. We've launched into one of our UK areas over the last month after doing some minor pilots, and we're really quite excited to see how that goes. But I don't have any data that I can really share with you at this stage.

Unidentified Audience Member

Is it fair to say on the pilots that the customer care related pilots and retention related pilots are easier to roll out, so they will go out internationally first for '12, and then the more new business orientated pilots will follow later? Because it sounds to me as though you've got more work to do.

Alan Brown - *Rentokil Initial plc - CEO*

I think there are two criteria, Andrew. I think that's broadly right what you say, but the other criteria is do you have the systems, do you have the infrastructure systems in place. And, broadly speaking, in our Pest and Washrooms business, the infrastructure is well developed and very consistent, based on the iPads pretty well I've talked about.

In Textiles & Hygiene space, our infrastructure is more fragmented, and therefore will take longer to go into it. So really there are those two criteria. One and two need a bit more development, a bit more work, and then the second criteria is the infrastructure in place for the business to receive the pilots. And that will be faster in Pest/Washrooms Asia Pacific than it will be in Textiles.

Unidentified Audience Member

Just very, very briefly, in terms of looking forward for next year and going into the planning process, are you expecting to make much incremental investment in sales related headcount going into 2012?

Alan Brown - *Rentokil Initial plc - CEO*

The investment we're making I think will dramatically improve sales productivity, so I don't expect that we'll be seeing significant changes in sales headcount. Over time. I would expect us to be probably heading in the direction where we've got fewer sales, but better qualified sales people.

Unidentified Audience Member

Yes. Thank you.

Unidentified Audience Member

Sorry, just one question on parcels, and I'll ask a couple of other on other areas. But just I'm trying to understand -- I understand the bit about bids being delayed because maybe customers are preoccupied with other issues, but the GBP20 million that you've already won, what's the specific reason that that's taking three months to actually start that business?

Alan Brown - *Rentokil Initial plc - CEO*

Generally, systems. There's actually a stickiness in the parcels industry, because you really have to get the systems lined up. If I take -- well, I can talk about Direct Wines. We did the trial in June, I think it was, which went extremely well, and really, the rest of the time, it's been about making sure that the systems get in line.

But there is -- in the industry, there's a particular provider called MetaPack, who tend to sit in the interface in between the parcel company and the client, and they can be a bit of a constraint in terms of their speed of being able to move to manage the interface between the customer [and us].

Unidentified Audience Member

So just to understand --

Alan Brown - *Rentokil Initial plc - CEO*

That's -- once you've agreed in principle, that's the reason for the delay.

Unidentified Audience Member

So that sounds like a fairly standard issue that you'd face with any contract that you signed.

Alan Brown - *Rentokil Initial plc - CEO*

Yes, in a large contract.

Unidentified Audience Member

So when exactly did you sign those contracts? Because I guess what I'm trying to understand is if you sign some contracts, say in August or September, would they therefore not start until January/February?

Alan Brown - *Rentokil Initial plc - CEO*

There's a cut-off point really which is late October, beyond which very few people, including us, would want would want to make the change because of the Christmas peak. So there will be I think -- like the transfer season in the football market, where there will be a big dash for the line when you get into September, and then things will be quiet until -- then January, we'll be off again.

Unidentified Audience Member

But does that mean therefore that you pretty much have to sign contracts within the next few weeks in order to get that systems implementation done ready for --?

Alan Brown - *Rentokil Initial plc - CEO*

It depends. The customer I saw on Monday, for example, we worked -- we serviced their business three -- two years/three years ago. They then switched for corporate reasons, not because of us, to another supplier. So someone like that we'd probably get back into very quickly. But, if you're going to a customer you've never worked with before, it's going to take a bit longer. So I think, let's say, the transfer window is still open until late September.

Unidentified Audience Member

And then just on CapEx. I understand some of it's obviously inflation driven, or cost inflation driven on the Textile side. But in terms of the IT investment, can you roughly quantify for us the incremental IT investment that you're making this year, and whether that stays next year or drops next year as you ramp up?

Jeremy Townsend - *Rentokil Initial plc - CFO*

You can pick up in the accounts for the first half we've spent about GBP6 million in the first half this year compared to just over GBP2 million in the first half last year. And I would expect a similar run rate in terms of that spend in the second half of 2011.

We're still in the planning phase for 2012, but I think there will be further IT investment as we go into 2012 as we start to roll out the [growth] pilots and make sure in the areas that aren't yet platformed that they're platformed in areas such as Textiles & Hygiene, as Alan said already.

Unidentified Audience Member

And, Alan, this could be wrong, but I'm trying to recall now the previous interim stages whether you've been able to already give some kind of indication for the cost savings that you expected for the next year; i.e., to talk a little bit about whether there's another GBP50 million plus --

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Alan Brown - *Rentokil Initial plc - CEO*

At this stage, I would say, as we've said the last two or three years that at this stage we would be pretty confident we'd get GBP50 million. We'll update you with a more precise number when we get to the final results in February.

Unidentified Audience Member

And then very finally, the IFS division. So you showed those helpful charts on both retention and the contract win rate or level of new business wins; and you showed that step change in terms of London Underground now coming out. Does that therefore mean that, given that we've seen a return to negative organic sales growth in IFS in Q2, that that will remain that way until you get your next very big contract? Or is there work in the background to try and improve that organic growth rate in IFS?

Alan Brown - *Rentokil Initial plc - CEO*

Well, there's obviously worked in the background to try and retain it. Again, there's a pretty good new business pipeline in IFS. It's pretty good. And we certainly won't see the same rates of growth in IFS that we've seen over the last nine months, but I would certainly hope that we'll remain marginally positive.

And as I said, I think in terms of the bottom line, we are doing really well with the restructuring program, the Chablis program which I've talked about previously, together with the benefits of the acquisition integration. So I'd expect to see reasonable progress in IFS.

Unidentified Audience Member

I think you're just about to annualize, or have annualized the Knightsbridge acquisition. In terms of that bolt-on M&A pipeline that you spoke of, is any of that bolt-on M&A pipeline focused on IFS?

Alan Brown - *Rentokil Initial plc - CEO*

We are keen to try and develop our business in the M&E space, but it would I think be pushing the boat out too far to expect us to be able to deliver something in the next few months. But certainly, that's a particular area of focus for us.

Unidentified Audience Member

Thanks very much.

Unidentified Audience Member

Can I start by asking on the cash flow? You pointed to inflationary pressures and to one-offs and the CapEx investment. But working capital, you had an outflow in Q1, and you've had an outflow again in Q2. Can you just talk a bit about timing of payments, which is one of the things you pointed to, and how you see working capital in particular developing next year? Sorry, in the second half and into next year, please?

Jeremy Townsend - *Rentokil Initial plc - CFO*

So now having lapped through a year, I can see there's a seasonality around working capital. So we had an outflow last year, and the outflow we've had in the first half this year is broadly in line with that outflow. We're anticipating a significant reversal of that in the second year.

I'd still expect working capital for the year to be negative, but much more in line with the year as a whole in 2010, if that makes sense. So a significant cash inflow in the second half.

Unidentified Audience Member

And of the pull-forward of payments I think into Q4 last year, that was something of the order of GBP19 million to GBP20 million, I think, if I remember correctly. So would you expect it to be broadly neutral ex that impact?

Jeremy Townsend - *Rentokil Initial plc - CFO*

I'd expect that will have an impact on the year, but I'll look to recover some of that back, David. So we'll probably split the difference in that kind of order of magnitude.

Unidentified Audience Member

Okay, great. Thanks.

Second one is on Textiles & Hygiene in Benelux. Obviously, you said you expect to have a better second half performance year on year, but obviously, Q4 was very weak last year. So can you just talk about how you expect sequentially the second half to look like compared to the first half, and where do you think that business can into 2012 start to deliver a bit of growth in profits?

Jeremy Townsend - *Rentokil Initial plc - CFO*

I think we clearly had a weak Q4 last year. I think we'll be looking, given the progress which was minus [GBP3 million] first half, minus [GBP1.5 million] second quarter -- sorry, first quarter, minus GBP1.5 million Q2; look to break even in Q3; return to profit growth in Q4. And I think internally what we target is for the business to be break even for the year; so to recapture that GBP4.5 million that we lost in the first half in Q4 in terms of profit growth. So that's roughly where we'd be. And clearly then we're moving in -- we should be moving into year-on-year profit growth as we get into 2012.

Unidentified Audience Member

Okay, great. Thanks. And then just a stepping back question. There are obviously still a lot of pilots going on; pilots on growth, pilots on Ariba procurement. When you came in, you set out a three to five-year turnaround horizon. Where do you think you stand now compared to that? With lots of things still in pilot, do you think you can still be -- have the business humming in year 5 compared to where you started?

Alan Brown - *Rentokil Initial plc - CEO*

I think it will be humming in year 5, but whether it's humming at the altitude I'd like it to is another issue. Would you like me to elaborate on that?

I think we've done a hell of a lot. We've -- speaking frankly, we've probably had more to do than we thought. City Link has been a pain in the butt. But I think it's -- previous experiences in this type of thing, I've never really felt that the top of a hill was any less exciting, I have to say, than the day I joined Rentokil Initial, and I'm still absolutely excited about what it might look like when I eventually get up there. But it's been quite an exciting climb, let's say, getting there, and it has taken I think frankly longer.

But again, in my previous experience, once you've got these capabilities in place, once you've got the right people and the right systems and the processes, and once you've got the right focus in place, then things can move really remarkably quickly.

So I've always said that the rate of progress would be the most difficult to predict. I didn't think the direction would be difficult to predict, but the rate of progress would be difficult to predict. So let's see.

I think that that acceleration could still come, but not in the next six months. I think it's going to be nearer year 5 than year 4 before we see that acceleration coming through.

Unidentified Audience Member

Great. Thank you.

Unidentified Audience Member

In terms of the sales process changes which you're doing, could you elaborate on what changes you've done to the costing process in Textiles and Washrooms? Also in terms of how you're going to incentivize the indoor sales compared with the outdoor sales; the relative incentive structures.

Alan Brown - *Rentokil Initial plc - CEO*

You can always be relied upon for a complicated question, can't you? I'm going to struggle I think to respond to that question directly, so let me just back off a bit.

In terms of the pricing of our business, I think absolutely the best way forward will be to introduce pilot 2 across the marketplace, which is the iPad-type tour, which is basically using a model to price business. It's a model which reflects different pricing levels clearly for a customer who takes one service as opposed to a customer who takes three services.

None of these things are precise, of course, but one can understand that a [route-based] business, the greater volume you're servicing in one particular location, the economies really change quite dramatically through all of that. So to have a model which is consistently applied and sophisticated I think will help us greatly in terms of the pricing of business.

I think the bigger challenge for us almost is to put together those marketing concepts which really facilitate our sales people in selling a broad base of services. And that's why I was particularly keen to show you the very early results from the impact of those market concepts in the Washrooms business in Germany and Italy. But let's not underestimate the challenge of rolling that out across the business.

I think that the costing side can be overstated in all of this. I think that what you see, and indeed what you see from our competitors' results, is that once you get a certain level of volume going through the network, then you absolutely make money, and you can make really substantial money.

So whether it be City Link, whether it be Washrooms, it's all about driving the network volume at current pricing, or even lower than current pricing, and then you make substantial money. I'm not worried about the profit margins, providing we are able to attract sufficient customers in sufficient densities. So I think the bigger issue is about the customer offering, which is what we've been really focusing on over the last six months/nine months/12 months in the business, both in Washrooms and City Link.

Does that partially answer your question?

Unidentified Audience Member

Yes. In terms of the incentive structure of the indoor sales versus the outdoor, do you have any plans around that?

Alan Brown - *Rentokil Initial plc - CEO*

That clearly is -- we're trying to work that out on a team-based approach so there is recognition for the success of the team as well as the individual. Obviously, the processes you go through are quite detailed in trying to get that working right. But what I'm very pleased about is that in the pilots we're doing in the UK running six months/nine months/12 months, the rate of attrition of the indoor sales people has been exceptionally low, exceptionally low. Our retention has been much better actually with the indoor sales people rather than the outdoor sales people.

And the rates of pay are not materially different; in fact, lower probably than the outdoor sales. So I think it does seem to be working for us. But it is team-based. We've done a lot of market study using the (inaudible) across the marketplace to evaluate what systems seem to be prevalent in other businesses, and I think we're getting pretty close. But the level of detail that goes into that is not something I can really share with you here.

Alan Brown - *Rentokil Initial plc - CEO*

Any last questions? Terrific. Thank you very much for your attention.
