FINAL TRANSCRIPT

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PRESENTATION

Katharine Rycroft - *Rentokil Initial plc - Head of IR*

Morning, everybody. Just a few words before we start. We're very pleased to welcome you today to our first investor seminar, which focuses on our Pest Control division. May I draw your attention first to the safe harbor clause we have up on the screen in relation to forward-looking statements.

Let me please hand over to Alan now for a brief overview on Q3.

Alan Brown - *Rentokil Initial plc - CEO*

Thank you, Katharine, morning everyone. Pleased to invite you today to this rather different location, elevated to the seventh floor, and joined today by the senior members of staff of the Pest Division Rentokil Initial who are going to follow on after Jeremy and I have, hopefully, fairly swiftly dispatched with the Q3 results.

I'm just going to say a few words now. Jeremy will take you through the numbers, and then we'll have a Q&A session on the Q3 results, and then we'll get into the Pest seminar.

So Q3 highlights. Pleased that we've continued to drive modest revenue growth, despite very tough market conditions. Pleased that we are certainly delivering on the Textiles & Hygiene Benelux turnaround plan, which, as you know, was one of our two big objectives for this year. I'm not so pleased with City Link.

We have, I think, cracked the really difficult thing in the business, which is about revenue. I'm really delighted about that, and the revenue stream is looking really, really encouraging. It's absolutely there in the bag for Q4. I think we've indicated that we've got about GBP25 million of annualized business, which has started. And the volume on a day-by-day basis is tracking extremely consistently with our forecasts for the quarter as I speak.

The change in the marketplace is also driving an exceptional pipeline of new business toward us to start in the first half of 2012. The fly in the ointment is that the productivity agenda is not delivering as I would've hoped, and we'll come back, I'm sure, and talk about that in Q&A.

Cash flow is much better in Q3, GBP56.5 million, and we expect to have a reasonably good Q4 as well. GBP37 million cost savings to date. We have reduced our expectations to GBP50 million to GBP55 million, re-reflecting the shortfalls in City Link productivity.

So overall, very tough market conditions; we're trading robustly, which I'm pleased about, in the great majority of our business. More work to do in City Link.

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 financial highlights for the third quarter. Unless I state to the contrary, all numbers are at a constant rate of exchange.

Revenue in the quarter grew by 0.6%, with organic growth of 0.9% excluding City Link and Libya. Acquisitions are continuing to perform well, and the net impact of acquisitions and disposals contributed 0.9% of revenue growth in the quarter. This growth was, however, offset by City Link performance which reduced Group revenue by 1%.

Adjusted profit before interest was down 11%, or GBP6.4 million in the quarter, primarily due to City Link. And as Alan said, while we've made significant operational improvements, and are encouraged by the delivery of the new business pipeline, we have been disappointed with progress on productivity in City Link. And consequently, we've reduced our Group cost saving expectations for the year in the region of GBP50 million to GBP55 million.

Textiles & Hygiene Benelux had a good quarter, and its profit performance is ahead of plan year to date. Lower interest costs and favorable exchange rate movements meant that adjusted profit, after interest, at actual exchange rates, declined by GBP4.2 million or 7.3% in the quarter.

And as Alan said again, operating cash flow at actual exchange rates of GBP56.5 million was GBP10 million below last year, due to lower profitability and increased net CapEx levels, offset by stronger working capital inflows.

CapEx levels continue to run slightly ahead of depreciation, due to inflationary pressures, and also due to up-weighted IT investment. Whilst these factors are expected to continue, cash flow is anticipated to improve further in Q4, nevertheless.

Looking now at performance by division, in Textiles & Hygiene revenue in the division was up 2.9% in the third quarter, 1.8% on an organic basis. Performance was strong in Germany, France and the Benelux, offset by weaker performance in Italy and eastern Europe. Retention levels continue to be strong, up 0.8% to 87.1%. And profit was up by GBP1.1 million in the quarter, driven primarily by improved performance in the Benelux.

The Pest Control division achieved 1.5% growth in profit in the third quarter on revenue up 0.7%. Strong growth was achieved in North America, and most northern European countries, offset by weaker performance in the southern European countries of Spain, Portugal and Greece.

UK Pest achieved strong growth of 14.6%, of which 7.3% was driven by the Santia acquisition. Revenue in the UK & Ireland Hygiene business continued to decline, albeit at a lower rate, compared to the previous quarter, at 5.7%.

Profit growth in the division was achieved through continued strong cost control, driven by back office rationalization and service productivity. And we have recently established a Pest Control presence in the attractive Mexican market through the acquisition of Tetengo. Andy Ransom, and his management team, will talk in more detail about the Pest Control business later this morning.

In Asia Pacific revenue was up 4.4% in the quarter, with the Asian region up 5.5%, and the Pacific region up 3.4%. Growth in Asia continued in established markets such as Indonesia and Malaysia, as well as the strong growth in some of our emerging businesses such as Vietnam and India.

Pacific growth was primarily driven by strong Pest Control performance, but growth was also achieved by the Hygiene business. Profits in the division increased by 3%, driven by price inflation and cost savings, partially offset by inflationary cost pressures which are particularly strong in the Asia Pac economies.

Revenue in Ambius was up 2.3% in the quarter. However, profits were down 13.3%, with the business continuing to be negatively impacted by fuel and plant cost inflation, as well as changes in business mix.

City Link had an operating loss of GBP6.8 million in the quarter on revenue levels down GBP6.4 million, or 8%. The fall in revenue was driven by a 5% reduction in volumes, albeit at a lower rate than the 10% experienced in the first half.

As we've said already, considerable progress has been made in operational capability and customer care, and service levels were in excess of 99% in the quarter. The new business pipeline has delivered strongly for Q4, and is very encouraging for 2012. However, we are disappointed with the progress we've made on productivity. The division now has a new FD, and we look forward to welcoming the new MD in December.

Initial Facilities continues to trade strongly, despite continuing difficult market conditions. Revenue was up by 3.7% in Q3, due to the Knightsbridge and Santia acquisitions. Excluding these, organic growth was down 1.4%, in part due to the loss of a major contract. Profits were up by 4.5% in the quarter, reflecting cost savings and the acquisitions noted.

Looking forward to the end of 2011 and into 2012, revenue projections for City Link have improved significantly, and we expect improved financial performance in Q4. The business pipeline remains very strong and encouraging for 2012. Operational excellence initiatives are in place for the key Christmas trading period but, clearly, we need to make greater progress on productivity.

Elsewhere, we're very happy with the progress being made in Textiles & Hygiene Benelux, and we expect year-on-year profit growth in Q4. And the remaining parts of the business, we anticipate continued solid performance.

Okay, Alan and I would like to now take Q&A on the Q3 results before we hand over to the Pest division and the investor seminar.

QUESTIONS AND ANSWERS

Rob Plant - *JPMorgan - Analyst*

It's Rob Plant from JPMorgan. What are the productivity problems at City Link, and what are your projections now for when City Link might break even? Thank you.

Alan Brown - *Rentokil Initial plc - CEO*

The insight we've gained from the new FD, Rob Peto, have been really quite clear, and he's been in the business now three or four weeks.

The background is that the volume has increased very significantly over recent weeks, in line with expectations. We're up 15%, 20% over where we were in September and that is running very, very consistently, as I said before. And what is not happening, however, is we're not getting the increase that I had anticipated we would get in terms of consignments delivered per driver per day.

We're running at about 70 consignments per driver per day at the moment, which is pretty well what it's been for most of the year; in fact actually it was even a bit higher earlier on. Now there are a few reasons for that, I think which are legitimate and some which are not. I think one is, we've certainly taken a lot of new drivers; as you know, we've continued to increase our employed driver workforce and there, clearly, is a bedding in period.

And in addition to that, we have been really forcing very, very strongly on preparations for Q4, given the great issues the industry had last year. And we've brought on more drivers earlier to make sure that they get familiar with the routes, and with the business.

So I think those are sort of legitimate reasons. But having said that, it's clear from the insight we're getting from the ex Parcel Force CFO that there were three things about City Link. One, our service levels are really superb, terrific, he says, compared to the industry. Two, our information technology is significantly ahead of most of the rest of the industry. But three, our productivity is significantly behind.

So compared to, say, 70 consignments per day per driver, the industry is at least 80, at least 80, and some businesses are rather higher than that. And I think that the key reason for this is that, for historic reasons, and also because of historically weak systems which no longer applies, City Link tended to pay by the hour. And we would pay our subcontractors, indeed all our owner-drivers, on a daily rate, regardless of productivity.

The rest of the industry has moved to paying by consignment delivered, by parcel delivered, by stop, whatever it might be, and clearly, we need to do that. We now have the systems in place that would enable us to do that.

So we are moving certainly on an incentive scheme basis for November, December onto that basis, and next year we will certainly look at introducing a more fundamental change in our remuneration policy which will enable us to drive productivity.

Now in addition to that, we have been piloting now, for about six months, route optimization software. It has proven to be a complicated journey, but we are getting there, and we're beginning to get some quite exciting results from the optimization software. But we've got another few months' work to do.

We are focusing in the Midlands area to make sure we get it absolutely right in one of our depots. And that should also, I think, deliver significant productivity when we get it up and running. It's also the tool which delivers the estimated times of arrival, which is really very important with regard to our B2C market.

So I think, as ever with City Link, the frustration, of course, is it's always jam tomorrow; I fully accept that. We can see the issue; we know where the industry is; we know where the gap is with the industry; and we've now got to move pretty quickly to try and fix it.

But as I say, the most encouraging thing is I think we've fixed the most difficult problem, which is we've found our place in the marketplace, and the revenue is now looking very promising, both for Q4 and into next year.

Rob Plant - *JPMorgan - Analyst*

You probably won't be breaking even in Q4?

Alan Brown - *Rentokil Initial plc - CEO*

I think that is unlikely that we will break even in Q4. And I think that, however, we are hopeful that, for 2012 as a whole, we will get to break even. We will know more when we get to the prelims; we'll give more guidance on that.

Rob Plant - *JPMorgan - Analyst*

But it might be that you don't break even in the first half?

Alan Brown - *Rentokil Initial plc - CEO*

Well, the seasonality of the industry would generally mean that we would not generally break even in Q1, albeit, given the change in mix in our business, I would expect that revenue would be significantly higher in Q1 than it has been historically.

Andrew Grobler - *Credit Suisse - Analyst*

Andrew Grobler from Credit Suisse. Just one follow-on question on City Link, if you change the way that people are paid, so they're paid per consignment, or at least part of the bonus is, how do you maintain service levels? Isn't part of the reason your service levels are better is because people aren't in a rush to deliver as many consignments as possible?

Alan Brown - *Rentokil Initial plc - CEO*

The information systems which we now have in place are really terrific, and we're able to monitor, on a real time basis, exactly what the drivers are doing.

And the schemes we're introducing have a number of parameters which they have to comply with before any productivity bonus kicks in. So for example, let me use something which really drives consignees up the wall, no false carding.

One of the difficult things in this industry is that, if you're at home and a driver turns up and you're not there, consumers get very irate about this, particularly if they can't find the card. And this then leads to the most vociferous types of consumer complaints.

With our technology which we now have in place, we are able to really track exactly where the driver is, GPS coordinates, and the driver now has to indicate when he's been to a house, the consignee is not there, and we will know exactly where he was through his GPS coordinates when he arrived at that home.

So it's extremely unlikely now that what has historically been an issue of a driver saying he went to a house but maybe never did, will ever happen. So I think that the information technology we have, which gives us tremendous access to what the driver is doing at all times, will ensure that all quality measures are made, and are met, before any productivity kicks in. So I'm pretty confident that we will not see a deterioration in quality.

Andrew Grobler - *Credit Suisse - Analyst*

Just on the same theme of within those parameters which are set up and are pretty strict, what do you think your drivers are going to do differently to get your consignment per driver per day up from 70 to 80?

Alan Brown - *Rentokil Initial plc - CEO*

What we have seen as we were rolling out the route optimization technology is that drivers have had slack periods during the day, because a driver typically has a series of deliveries to do, and then later on in the day he has to do collections.

But you have to generally do the collections later because they tend to be much larger in volume, and you have to, therefore, run down the deliveries in the van to make room to do the collections.

And what we have seen is that there is a slack time during the early afternoon, typically, when he's done his deliveries, and he's still waiting for the collections, which generally cannot be done until, say, 1500 hours, 1600 hours when the manufacturer is ready to dispatch the goods.

So we think we'll be able to reduce the amount of slack time that is currently being hidden, if you like, in the drivers' itineraries.

The other issue is that we don't get them out the door quick enough, to be frank with you, in the morning. And there's too much hanging around in the morning to get them moving.

Andrew Grobler - *Credit Suisse - Analyst*

Okay. Thank you.

Jaime Brandwood - *UBS - Analyst*

Jaime Brandwood from UBS. Just on the Textiles & Hygiene division, you mentioned Benelux was the main reason for the improvement in Q3, could you actually break out for us the year-on-year profit delta in Benelux in Q3?

Your expectation for Q4, where I think you have a very easy comp, and then more generally, as you've been starting the budgeting process and looking ahead to 2012, what you're hearing from your Textiles & Hygiene managers about the 2012 outlook, given the eurozone situation.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Benelux delivered just under GBP8 million in Q3, which was profit growth of round about GBP2 million, that was offset by some weakness in Italy and eastern Europe, as we said in the presentation.

We estimate for Q4 roughly a similar level of profitability, but given the weak level of profitability last year, which was round about GBP3 million, that gives you a delta of round about GBP5 million for the fourth quarter.

Jaime Brandwood - *UBS - Analyst*

And vis-a-vis 2012 and the initial sort of budgeting discussions that you're having with managers and -- ?

Jeremy Townsend - *Rentokil Initial plc - CFO*

Probably a bit early to get into that. But I think in terms of Benelux, the numbers are sustainable. We're looking at some challenging economic environments, but currently, the businesses are holding up pretty well and, certainly, we've not seen any downgrades in current year forecasts in terms of revenue growth. So the businesses continue to perform pretty solidly.

Jaime Brandwood - *UBS - Analyst*

Okay, and then just a final question. The IFS business you mentioned is obviously being held back by a major contract loss, as you look at your contract pipeline and any renewals that may be or may not be coming up, how do you feel about that revenue growth outlook in IFS? Are there any other potential contract losses coming, or do you feel fairly relaxed about that?

Jeremy Townsend - *Rentokil Initial plc - CFO*

The contract loss was actually a client, Gala Coral, who took the business in-house. So it was less of a lost contract and more of an economic environment.

It's clearly a challenging economic environment out there. But there's nothing in particular that's coming up that would give us any particular concern. It was just really a one off in some respects.

Alan Brown - *Rentokil Initial plc - CEO*

And in fact there's a bit more detail on that. We really lost it because of the increase in VAT. Because Gala Coral, being a betting business, could not offset the VAT we were charging on the contract, so that's why they took it back in-house. It was the VAT increase from 17.5% to 20%, just put them over the edge, to be honest with you.

Jeremy Townsend - *Rentokil Initial plc - CFO*

(multiple speakers) comes back, yes.

Jaime Brandwood - *UBS - Analyst*

And conversely, in terms of contract pipeline on new contracts, is there anything that gets you excited on IFS, or is it looking fairly quiet on that front?

Alan Brown - *Rentokil Initial plc - CEO*

I think it's steady as we go. The business is trading pretty steadily. I think we're more excited about the opportunity to build out our M&E business, our Mechanical Engineering business, which we've long indicated is a strategic priority for us.

And I'll be hopeful that we're able to make some announcement in the next week or two which would indicate that we've managed to start, at least in a small way, building out that M&E business.

Jaime Brandwood - *UBS - Analyst*

Thank you.

David Hancock - *Morgan Stanley - Analyst*

David Hancock. Just one quick first one, to follow up on IFS, can you say when in the quarter you lost that contract, so we can work out the implications for Q4? Because as I look at your portfolio numbers at the back of the release, it's quite a big number that you lost in portfolio terms in the quarter.

Alan Brown - *Rentokil Initial plc - CEO*

I think it was the beginning of the quarter.

David Hancock - *Morgan Stanley - Analyst*

Yes, thanks. And then the more substantive one on costs. Clearly, you are seeing cost pressures in the business, they look most acute in Asia and in Ambius, but can you talk about what you're doing to mitigate cost pressures, in particular in terms with putting price increases through, and how successful you're being in doing that?

Alan Brown - *Rentokil Initial plc - CEO*

I think it's a really difficult balance at the moment, in terms of pricing. We have put price increases through in parts of the City Link business, but many other places price increases are really quite difficult.

And I think, furthermore, we are seeing a slight adverse impact of mix coming through. We are having, I think, rather more success in driving key account business, which is coming through in a number of businesses, City Link, pest business as well, and that is having a slight adverse effect on mix.

So, I think that we will continue to see quite a lot of price/inflationary pressures. My sense for next year, my guidance for next year is I think that we're likely to see at least 1% adverse from -- 1% margin adverse from our inability to recover inflationary pressures on pricing. But that is not very different from the guidance I have traditionally given you, David, in terms of cost savings. I think we've said in difficult economic environments we'd expect the first 1.5% of cost savings, as expressed in terms of revenue, to have to go back into the business. But I think we're probably in that type of environment where that's happening at the moment, it's likely to happen over next year.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Obviously in that environment what the focus is on in the current planning phase is to get as much as we can from cost savings, the initial look at the plans is that we're looking quiet confident in that area, we've guided to a target of around GBP50 million and that's looking reasonably robust at the moment in terms of opportunities for 2012.

David Hancock - *Morgan Stanley - Analyst*

Great, thanks. And just on procurement which is an area you've been doing quite a bit of work on this year. How has progress been on the procurement initiatives?

Alan Brown - *Rentokil Initial plc - CEO*

It's been pretty good, I think we're delivering about GBP17 million, is that right, GBP17 million savings on procurement. And as we continue to look we find more and more and I don't expect that the number for next year will be materially different -- of that order I would expect it to --

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David Hancock - *Morgan Stanley - Analyst*

Thank you.

Tom Sykes - *Deutsche Bank - Analyst*

Morning, Tom Sykes from Deutsche Bank. I just wondered if you could split out the Q3 cost savings year on year by City Link and non-City Link, please. Just trying to get a feeling for what's actually happened to underlying non-City Link business.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Annually we're projecting a number for City Link, just under GBP20 million and that number's going to be nearer GBP10 million, kind of low teens, GBP10 million, GBP11 million, GBP12 million rather than the GBP18 million, GBP19 million we were looking to deliver, of which probably GBP1 million to GBP2 million is in Q3 and the balance is in Q4. So that order of magnitude.

The productivity issues really have been impacting us late September, October, November, December as the volume -- we're not getting the savings we expected on the increased volume.

Tom Sykes - *Deutsche Bank - Analyst*

Yes, I have to say, it's not actually the City Link business profitability that the question is about, it's more what's happening to the non-City Link profits with cost savings and without cost savings.

Just trying to see in Q3 how much, is it GBP5 million, GBP10 million, year on year? And -- obviously ex -- it looks like your profits are around about flat, in constant currency, ex City Link. And so I'm just trying to work out, if you hadn't had the cost savings, what would have happened to the profitability?

Jeremy Townsend - *Rentokil Initial plc - CFO*

So the cost savings in the year, ex-City Link, are going to be in the region of GBP10 million or so. And that's the point Alan was making previously, around the cost inflation that we're suffering within the markets, in Textiles & Hygiene, and the cost pressures we're facing in terms of fuel and labor inflation.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, thank you. And just so we've got it, what was the actual EBIT contribution from acquisitions? It's presumably fairly small?

Alan Brown - *Rentokil Initial plc - CEO*

Yes, it is quite small. Knightsbridge will be the major contributor; it will be of the order of GBP2 million.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, great. Thank you.

Alan Brown - *Rentokil Initial plc - CEO*

Any other questions? Well, thank you very much. I'm now delighted to introduce Andy Ransom, who's the divisional Managing Director for the Pest team. Andy, I think, will introduce his own team, and we'll now branch off into the Pest seminar. Thank you very much.