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PRESENTATION

Alan Brown - *Rentokil Initial plc - CEO*

Good morning, everyone. Welcome to our Q1 results meeting and, indeed, our Textiles seminar. I really -- all I'm going to do is really walk down the front page of the interim management statement and show you one chart, and then Jeremy and I will be happy to take any questions you might have on the Q1 results. And then after, probably, a short break we'll plough into the Textile investor seminar.

So you've seen the note, I'm sure. I'm pleased with the continued progress on revenue growth in the quarter. The Asian businesses performed very consistently, has been hitting, actually, 10% growth the last month or two. Textiles & Hygiene has had a very strong start to the year and you'll hear more about the Textiles business as the morning progresses.

Pest has been more mixed; a really good performance in North America and again in the UK. Southern Europe is really tough. The Initial Facilities business had an okay first quarter, some good business coming upstream for Q2 in the rest of the year, so [they're a] reasonable shape. And City Link, after a truly dreadful January, has really got going in February/March. And, indeed, I know the April results and we are in increasingly good shape in City Link.

And I think we're now saying with -- I think that we would have -- we felt quite comfortable about predicting that we're going to get to, at least, break even in the second half of the year, but we're not for the uncertainty surrounding the Olympic Games, which is looking as if it's going to be quite a disruption for all of the parcel carriers in the south east of England. But we've got pretty strong momentum in that business coming through week by week.

So I think overall we are feeling pretty good at the end of the first quarter, certainly, in my view the strongest underlying performance in terms of improvement since some time in 2009. And here's the one chart that I really wanted to show you. It really is just an update on the chart that I focused on at the year end. I'm going to have to turn round and look at it here, because I don't have it in front of me.

And you can see on the left-hand side the bar chart we showed you, which showed the organic growth trend of the business over the last four half years. Now I've put on the Q1 organic revenue growth here rather than the half year, because I don't have that, obviously, but you can see that there has been a further acceleration in organic growth for the Group as a whole in Q1.

And subject to the world economy not falling over, which is not a foregone conclusion, of course, we would see that that trend is -- in terms of momentum is continuing. I'm not predicting that we're going to go to, say, 3.4% in Q2, don't get me wrong. Let's not get too excited, guys. But I can see that we are looking to maintain, if not, slightly improve on that rate as the year progresses.



In terms of the outlook we're really confirming the main points we made; continued momentum in Pest, Hygiene, Textiles in particular, and the FM categories. City Link we're one further quarter on. I think we've got a bit more confidence in what we committed to in -- at the year end. And the cost savings, I think that they are being revised upwards particularly in City Link, I have to say, which is really underscoring the momentum we now feel we're getting in that business in particular.

And the operational excellence agenda is rolling out pretty well. We've continued to see really good results in the UK Pest business, which, as you know, has been the core pilot market for the Olympic initiatives.

With that, I'm very happy to hand over for questions. One here in the front row straightaway. Okay.

QUESTIONS AND ANSWERS

Robert Plant - *JP Morgan Cazenove - Analyst*

Thanks, it's Rob Plant from JP Morgan. If I look at appendix two, where you put the terminations and business additions, if we -- which excludes City Link, you'll see that there's no volume increase at all in the core business. Four years on into the turnaround and with all the improvements in service etc., shouldn't the business be doing better volume?

Alan Brown - *Rentokil Initial plc - CEO*

What we are seeing is undoubtedly a move in a number of areas, particularly in the Pest business, of course, towards jobbing. Now this is the analysis which looks at the pure contract business, but our jobbing business has definitely improved. And I think that's an inevitable consequence of the degree of economic uncertainty we're going through at the moment, that we're finding it more difficult to for -- to get customers to take on longer-term commitment. So I think that, given that economic scenario this is, I think, a reasonable performance.

Andrew.

Andrew Ripper - *Bank of America Merrill Lynch - Analyst*

Yes, morning, it's Andrew Ripper from Merrill Lynch. I wonder if you can talk a bit more about what the new Parcels management team have been doing the last four months and, in particular, in terms of changing terms of payments with the sub-contractors to try to drive productivity up.

Alan Brown - *Rentokil Initial plc - CEO*

Yes. The core initiative is to move the owner/driver and sub-contractor community to a pay-per-drop basis rather than a pay per day. We were paying about GBP160 a day for the van and the driver and we're now moving that to a drop rate so they get paid, say, typically, GBP1.50 a drop or something like that. It varies depending on what part of the country you're in. There are different economic conditions, really, depending on the density of the route, wherever it might be.

And we have now rolled this out to 18 depots of our 66,67 depots. The Devon numbers have come down a few in the first quarter, although we're taking out two or three depots, so that is also helping us. And the results have been pretty dramatic in the depots where we've implemented the scheme. It takes three or four weeks to settle down, but we are seeing really substantial productivity increases. And that's really -- what it's doing is effectively taking out routes.

So I was at the Heathrow depot yesterday where they have not yet implemented, but on the basis of the calculations they've done they'll take the number of routes run out of that depot from about 56 routes down to about 48 routes. So you're getting some pretty substantial productivity increases as a result of moving to pay-per-drop rather than for time delivered.



It has I think -- in the period when you're trying to sort things out has some minor knock-ons in service, but we don't think that those are a sustainable problem. It's just about getting through the period when you're trying to adjust the number of routes you need to run, given the increased levels of productivity you're going to get.

There clearly is an opportunity in our view to start to move the employed drivers onto a similar scheme, though that's not currently in our plans at the moment. The plans that we've put together for this year really just assume rolling out the new employment terms to the sub-contractors and the owner/drivers. So that's been a big initiative. That seems, as I said, to be working extremely well for us.

We have, then, a whole series of other initiatives which are ongoing, particularly, the depot blueprint which we started last year, we're now rolling out across the depots. Again, at Heathrow yesterday we're seeing substantial increases in productivity. We're seeing the number of parcels handled per warehouse operative per hour has jumped quite dramatically, by over 50% in that particular depot, so the productivity agenda is going extremely well.

Moving on from that, the pricing, of course, was a big concern for us when we were last speaking to you at the end of February, beginning of March. And, indeed, we have seen a significant price reduction in terms of revenue per consignment in the first quarter, down by about 12%. However, a lot of that knock really came in January where there were some very unusual trading conditions.

February and March have absolutely stabilized, still not what where we'd like them to be, but at a better level. And I think what, encouragingly, we now see, of course, is that the big B2C players are absolutely going for price increases across the marketplace. I think it has now clearly sunk home to the B2C market that you cannot continue to trade at current price levels in the marketplace.

So there is a concerted effort from the players, particularly, those who are making significant losses to redress the market pricing. We have taken pricing initiatives and so far we have been, I think, pleasantly surprised at our ability to make reasonably modest price increases stick. So I think that is another reasonably encouraging outlook for us.

I would say the only thing which is worrying me at the moment substantially is these bank holiday weekends and the potential disruption of the Olympics are quite difficult. If you go from a five-day week to a four-day week, basically, it's costing us the best part of three-quarters of a million pounds for every week we have a bank holiday week. And that really is a real problem for us. We may be able to manage that better going forward, but a GBP750,000 thump to the bottom line in a bank holiday week is really difficult.

Andrew Ripper - Bank of America Merrill Lynch - Analyst

Can you just say, just briefly on a follow up, in terms of the productivity agenda I know you were down at about 70 parcels per driver per day, where you've made the changes to subcontractor terms what's been the magnitude of the improvement?

And then, just briefly on pricing, do you think the pricing initiative is enough to get RPC stabilized ex mix issue later on this financial year?

Alan Brown - Rentokil Initial plc - CEO

I think on the latter point the answer is, yes, the pricing I think is absolutely stabilizing ex mix. That, I think, we're reasonably confident about. There's certainly, as far as I'm aware, really no discussions going on anywhere across the business about price reductions. The discussions are all about price increases and that's across the piece, to be honest with you.

And another area where we're making, I think, particular inroads in pricing is that we -- through now being able to get some decent information out of the business almost for the first time, we're now seeing those customers that are really very, very expensive to service and we're having discussions with a number of customers, more in the industrial category, I'd say, rather than the retail category, where the profitability is most unsatisfactory. And we're making some progress. We're going to lose some, but I think that the ones we retain will be at a higher level of profitability.

With regard to the cons per vehicle, you're absolutely right, that was hitting about 70, 71 last year. Across the network as a whole, with about one-third of the depots implemented, we are running between the high 70s and low 80s of cons per driver per day. I'm loathed to quote numbers in any more detail than that, Andrew, because it does depend on the patch. In the north of Scotland if you get 50 or 60 you're doing well. Around central London you can be getting 130. It just really depends on what the density of the spot. But we have seen very substantial increases indeed as a result of this move.

Andrew Ripper - Bank of America Merrill Lynch - Analyst

Thank you.

Unidentified Audience Member

Morning. Just on the Pest Control business in terms of your comments on southern Europe, can you talk about what exactly the issue is there? Are you losing customers? Is it pricing pressure, or cost issues? What's the driver there?

Unidentified Company Representative

Do you want to take that one, Jeremy?

Jeremy Townsend - Rentokil Initial plc - CFO

Yes, sure. So there is some customer loss and retention issue, but it's more around margin impact, [Himee], and the challenges around keeping contracts when they come up for re-tender. So revenue has been less impacted than margin, but it's not pretty and there is some revenue impact as well.

Unidentified Audience Member

And then on the cost side it sounds like you're feeling more optimistic about total cost savings in the Parcels division this year. I think your overall guidance at Group was GBP50m for this year. What's the number now [overall]?

Jeremy Townsend - Rentokil Initial plc - CFO

Between GBP55m -- GBP55m and we'd hope to beat GBP55m.

Unidentified Audience Member

And is that revision purely Parcels or (multiple speakers)?

Jeremy Townsend - Rentokil Initial plc - CFO

It's substantially Parcels. The Textiles & Hygiene team are doing a good job as well, but that revision is really around what we're seeing coming through on -- because we put some contingency against our expectations for City Link at the beginning of the year. It looks, given the run rate and the progress made to date, we can be more optimistic on that, so it's pretty much City Link driving that, Himee, yes.



Unidentified Audience Member

Okay. And then finally, on cash flow I realize there's working capital phasing issues and what have you, but in terms of, again, guidance for the year and some of the main moving parts like working capital, CapEx and so forth, can you give us an update on how you're feeling on cash flow?

Jeremy Townsend - Rentokil Initial plc - CFO

Sure. So I wouldn't -- I think the quarter-on-quarter movements are driven by the CapEx increases I guided to at the prelims and some working capital phasing. I wouldn't change my guidance for the year. So I'd still expect working capital outflow to be better for the year than they were last year. And I'd still be guiding to the CapEx level I guided to at the prelims of -- at the 220 to 240 level.

We'll give a fuller update at the half year when -- because part -- and, again, as you'll see in the Textiles seminar a part of the CapEx spend depends on growth within the Textiles business. So I think we'll give a firmer number on CapEx guidance when we get to the half year and we've got a better feel for how the business is growing through the year. But for the moment I'd stick to the guidance, that that first quarter was in line with what we were expecting.

Unidentified Audience Member

Okay, thanks.

Tom Sykes - Deutsche Bank - Analyst

Thank you, Tom Sykes at Deutsche Bank. I just wondered on the cost per drop have you signed people up to contracts -- on that basis that take you into Q4 and beyond Q4. Or can that vary according to the amount of drops that they do? Because obviously you get a better productivity benefit and probably a lower cost per drop when they're not making --

Alan Brown - Rentokil Initial plc - CEO

Yes.

Tom Sykes - Deutsche Bank - Analyst

-- many at the low point of the year.

Alan Brown - Rentokil Initial plc - CEO

I did look at the contract yesterday, it's a one page of A4 paper, and I didn't get to that part, I have to say, Tom. But the relationship with contractors and sub-contractors tends to be pretty short term. If the driver doesn't turn up there's not a lot you can do about getting him back, so these are short-term contracts which you can adjust.

For the owner/drivers, of course, we want to have a longer-term relationship. They commit to branding their vehicles in the City Link color, so we're looking for a longer-term relationship. But, yes, it goes without saying that we can vary the rates over time and we would certainly have the capacity to do that.

Tom Sykes - Deutsche Bank - Analyst

One assumes you're going to have to raise those at the turn of the year, because if you've got -- as some of your competitors have said, they've got contracts where you've got an 11-fold increase in volume in Q4 or at the Christmas period. Presumably the cost per drop for you is going to have to go up, then, at that point in time.

Alan Brown - Rentokil Initial plc - CEO

The drivers' costs are relatively fixed, --

Tom Sykes - Deutsche Bank - Analyst

Okay.

Alan Brown - Rentokil Initial plc - CEO

-- obviously. So the -- they get a big incremental gain from laying down more parcels in any one day. And during the Christmas period what happens is the density of drop increases dramatically. So rather than doing two drops in a street, they can do three drops or four drops in a street and the amount of incremental time needed to do four drops is relatively small compared to doing two drops. So they're making hay over the Christmas period. So I don't see that there's a need to increase the drop rate over that period.

Jeremy Townsend - Rentokil Initial plc - CFO

It should also reduce our reliance on the higher-cost incremental sub-contractors that we bring in, the agency spend. If we're using our own drivers and using them more efficiently that marginal rate for the very peak weeks should reduce. So I think, if anything, the marginal rate per drop actually should reduce in the fourth quarter, not increase.

Tom Sykes - Deutsche Bank - Analyst

Okay, great. Thank you. And just in terms of the pipeline for new contract wins in City Link and what business you have won, could you say how healthy is that? What areas have you actually been winning new business in? B2B? B2C? And how does that change the profile of your business for the crucial end-of-the-year period?

Alan Brown - Rentokil Initial plc - CEO

Well, it has changed a bit. The first thing is the volume has been strong. We have seen about 14% increase in volume the first quarter, quarter on quarter, and March was higher than the first quarter average. We have seen some weaknesses in the mix. Some are higher added-value like the international traffic. It's not what where we'd like it to be, I have to say. But in terms of the domestic volume it's been very strong.

In terms of the -- and where is that coming from? It's actually coming a lot from further growth of the existing customer base, particularly, the customers that we won last year. We're seeing the quality end of our customer base has put more volume through than we anticipated.

Going forward we have given more priority to the tier-two and tier-three segment, where the margin of business is better. And we have decided not to progress with some of the larger accounts that we had in the pipeline last year on the basis of price. So we, I think, feel in a position now to be a bit more selective about the business we're trying to win. But it's a mixed picture. As I say, the business we did win last year has been good and the trading with those customers has been greater than expected.



Tom Sykes - Deutsche Bank - Analyst

Okay, thank you and, sorry, just a final question on the organic growth rate. How much was the Facilities business in Spain? How much did that affect the organic growth rate?

Jeremy Townsend - Rentokil Initial plc - CFO

0.6%, sorry, Alan. It's 0.6%. You can see it between the table in the appendix which shows overall Group organic growth as 1.1% and the 1.7% we quote at the (multiple speakers).

Tom Sykes - Deutsche Bank - Analyst

Right, okay, sorry. And what was that, sorry, in Q4 as a (multiple speakers)?

Alan Brown - Rentokil Initial plc - CEO

We really turned it from January. We took a decision late December to make this change.

Tom Sykes - Deutsche Bank - Analyst

Okay.

Alan Brown - Rentokil Initial plc - CEO

So --

Tom Sykes - Deutsche Bank - Analyst

But this is a positive contributor, so --

Alan Brown - Rentokil Initial plc - CEO

-- the Spanish business was not negative --

Tom Sykes - Deutsche Bank - Analyst

Right, okay.

Alan Brown - Rentokil Initial plc - CEO

-- in 2011 or Q4. It's a purely Q1 effect.



Tom Sykes - Deutsche Bank - Analyst

Okay, great. Thanks very much.

David Hancock - Morgan Stanley - Analyst

Thanks, it's David Hancock from Morgan Stanley. Firstly, to follow up on that last one about IF Spain, do you intend to reduce that business to zero, or is it just to scale it down but not all the way?

Jeremy Townsend - Rentokil Initial plc - CFO

It's really to scale down. When we reviewed it as part of the operating plan, as Alan said, in late 2011, what was obvious was there was about a quarter of the contracts where we were making low margin and, given the bad debt risk, we felt it was appropriate just to downsize our exposure. So we've pretty much put that plan in place. It's affected about a quarter of the business, David, so it's not taking it to zero.

David Hancock - Morgan Stanley - Analyst

Great, thanks. Second one, just a follow up on the Pest Control in southern Europe. Is it an issue like you had in Textiles & Hygiene in the Benelux, where you have a number of pieces of business at high margins that are normalized? Or is it a function of the economic weakness?

And, secondly, obviously Pest Control is not 100% pest control within the division, so is it Pest or is it the Hygiene part of that business, please?

Alan Brown - Rentokil Initial plc - CEO

It's absolutely not like the Benelux, let me just stress that point. It is -- these businesses I think are being run admirably in extremely tough circumstances. The Washroom businesses are I think suffering a little bit more than the Pest businesses, but it is clearly a country-economic issue rather than anything specific to us. Yes, simple as that.

David Hancock - Morgan Stanley - Analyst

Thanks, and then the last one. Can you just talk a bit about the trading environment in Textiles & Hygiene in continental Europe? So, particularly in France, whether [the] uncertainty around the election, or just the overall economic environment, how are you coping with that, particularly given the cost pressures that you have in the business as well?

Alan Brown - Rentokil Initial plc - CEO

Well, the buoyancy of our Textiles business really defies gravity or understanding, well, from my perspective.

Unidentified Speaker

You'd better explain (multiple speakers).

Alan Brown - Rentokil Initial plc - CEO

Peter, I'm sure will have a different view (inaudible) due to the brilliance of the people who are in this room at this very moment, at least with some credit, so Textiles is -- as you will see, is really going very strongly. The Hygiene business is having a tougher time in the marketplace generally.

Though the Hygiene business has exposure, of course, to southern Europe and our UK business is still very much in the turnaround phase, so that is dragging down the overall performance of the hygiene category.

The Textiles business, as you're well aware, is absolutely France, Benelux and the German-speaking world, which so far has held up quite well. And the buoyancy of our French business, I have to say, has been a very pleasant surprise to Jeremy and I, because we were concerned about the impacts of the -- of France on the business, but to date it's had a really excellent start to the year.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Yes.

David Hancock - *Morgan Stanley - Analyst*

Good, thank you.

Charles Wilson - *Goldman Sachs - Analyst*

Charles Wilson from Goldman Sachs. Could you just outline your medium-term thoughts for City Link in terms of what your options are and what type of hurdles and time rates you want to be at before you make [other] decisions on it?

Alan Brown - *Rentokil Initial plc - CEO*

Well, I think the options in the broadest sense are absolutely clear; fix it and keep it; fix it and sell it; don't fix it and sell it; or close it. And I'm very pleased to say that I think we're moving away from the bleaker end of the scale, much more towards the positive end of the scale. And I think that by fixing the business, if we're successful in that, and I have to say momentum is now really most encouraging, then I think that gives us much better options than we had before.

It's much easier to market a business which is performing and is on the right trajectory than it is to try and market a business which is not performing, because you obviously then have a much more attractive option, which is to retain the business longer term. So I think that we're very much focused on what we're going to deliver in the business over the next eight months to nine months, because I think that then is the fundamental platform for whatever decision we come to at a later point in time as to whether to retain the business or to sell the business.

Charles Wilson - *Goldman Sachs - Analyst*

And in eight months or nine months what do you define as fixing it? Where would you need to be to say you'd fixed it?

Alan Brown - *Rentokil Initial plc - CEO*

I think we've given as much guidance as we're really prepared to give at the moment, which is to say that we, subject to the unpredictability of the Olympics, would have expected to be in profit. And I think that one can read into that, that at the current rate of progress we would certainly expect the business to be profitable overall in 2013.

30 sharp with the Textiles Seminar. Thank you very much.

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