

FINAL TRANSCRIPT

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RTOKY - Rentokil Initial plc Q1 Trading Update Conference Call

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CORPORATE PARTICIPANTS

Doug Flynn

Rentokil Initial plc - CEO

Andrew Macfarlane

Rentokil Initial plc - CFO

CONFERENCE CALL PARTICIPANTS

Mark Shepperd

UBS - Analyst

Andrew Ripper

Merrill Lynch - Analyst

PRESENTATION

Operator

Good day ladies and gentlemen and welcome to today's Rentokil Initial first quarter trading update conference call. For your information this conference is being recorded. At this time I would like to hand over to your hosts today, Mr. Doug Flynn and Mr. Andrew Macfarlane. Please go ahead gentlemen.

Doug Flynn - Rentokil Initial plc - CEO

Good morning and thank you for joining the call today. I will run through the first quarter financial and operational highlights and then we'll take any questions you may have.

The first quarter of 2007 has seen the Group perform in line with our expectations and as a consequence the Board's outlook for the year remains unchanged. All divisions increased their revenue. Organic revenue growth was 3.4% and if you include acquisitions we saw a growth of 23.9%. Our restructuring of the Group continues, including 21 acquisitions during the quarter completed for a total consideration of GBP66m. We've also announced the likely sale of Electronic Security business for GBP595m.

Profits are in line with our expectations and prior guidance. However I think some additional explanation is needed. Profits were lower in the first quarter versus the prior year for a number of reasons. As you'll see in today's trading update, the Group has become more seasonal following the extensive M&A activity. The organizational restructuring associated with two of the major change programs in the U.K. has held back the performance of those businesses. The set-up costs for the new shared service center began to be incurred in Q1, and finally the net interest charge in the first quarter is substantially higher than last year due to higher net debt and higher interest rates.

Now looking at the individual businesses, we continue to see progress and are very confident that we're doing the right things to deliver long-term sustainable profit growth. Our Parcels Delivery business saw strong organic revenue growth of 9.8% during the quarter and we also made good progress against our ongoing objective to integrate City Link and Target Express. Indeed, as of yesterday, the combined company began to operate as one brand, City Link. The business now has a single sales force, single sales proposition and a single brand supported by an integrated sales system. This is a major milestone and is completed ahead of schedule.

Asia Pacific is buoyant. For instance we have recently been awarded one of the world's largest pest control contracts in Hong Kong. We've also made 11 acquisitions in the period consistent with our stated strategy of building stronger positions in key growth markets. In Pest Control Continental Europe performed strongly with revenue up 6.6% and retention rates remaining at the very strong levels we saw at the end of 2006. In America JC Ehrlich is well-positioned for growth, although loss-making

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in Q1 due to the seasonal trends mentioned earlier. Meanwhile in the U.K. in January a new structure for the U.K. Pest Control business was launched, including for the first time a dedicated high-dependency team focused on meeting the needs of customers in the food and pharmaceutical industries. The U.K. declined in Q1 mainly as a result of the significant reorganization which caused some disruption. However performance did begin to improve as the quarter progressed.

In the Textiles and Washroom division we saw organic revenue growth of 1.6% in the first three months and some encouraging trends on the Continent. However the improvement program in the U.K. has further to go but the right structure for its future success is being created. Profits in the second quarter will show some improvement over the first quarter and are then expected to move strongly ahead of 2006 in the second half of the year. We're confident profits will increase in the remainder of 2007 as the second, third and fourth quarters are now seasonally stronger, particularly Ehrlich in the second and third quarters and City Link in the fourth quarter. We expect to begin to see the benefits of the major U.K. turnaround initiatives. Other businesses such as Textiles and Washroom Services in Continental Europe and Facility Services are showing a gradual trend of improving profits which is expected to continue through the year.

The acquisitions made during 2006 will be progressively integrated during the course of 2007, and finally net interest will reduce in the second half following the receipt of proceeds from the proposed sale of Electronic Security in June.

As you can see, there's a lot of activity going on across the business. We are confident that we're doing the right things and continuing to make progress. There remains much to do but we're in a much stronger position than we were 12 months ago.

Thank you. We'll now take any questions you may have.

QUESTIONS AND ANSWERS

Operator

Thank you. [OPERATOR INSTRUCTIONS]. Our first question comes from Mark Shepperd of UBS. Please go ahead.

Mark Shepperd - UBS - Analyst

Morning gentlemen and congratulations on the figures and your confidence on the outlook. I'd like just to ask a question on the financials please. Can you first of all give us any indication on your views on cash flow for the year? You certainly started off on an encouraging start in terms of cash flow for the first quarter and I wonder if you think that's the trend that you expect to continue for the year as a whole?

And secondly, I think you made a comment on the interest charge being reduced for the year. Clearly I know you've got some long-term debt in place and you've now got a lot of cash on the balance sheet as well. Can you just give us some help in terms of forecasting the interest charge for the year as a whole?

Andrew Macfarlane - Rentokil Initial plc - CFO

Yes. Talking about cash flow, obviously we are focused on trying to improve the Group's cash flow. It's hard really to annualize out from just the first quarter. As Doug has mentioned, the business is becoming increasingly seasonal and obviously just in a 12-week period it's quite sensitive to the timing. So I would expect at the moment that cash flow will be fairly similar or perhaps a little bit ahead of last year.

In terms of the interest rate it's good that you raised that because we've noticed that a number of analysts I think are underestimating the interest for the year. At the prelims we indicated that the average interest rate for the year is likely to be

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between 6.1 and 6.2%. And obviously we started the year with just under 1.2b of net debt. On top of that of course there's the normal IFRS type things to do with pension interest and there will be a reduction in interest in the second half following the receipt of the Electronic Security proceeds. But for the analysts listening in, perhaps should just have a look at their interest calculations.

Operator

Thank you. [OPERATOR INSTRUCTIONS]. Our next question comes from Andrew Ripper of Merrill Lynch. Please go ahead.

Andrew Ripper - Merrill Lynch - Analyst

Yes, morning everybody. I've got a couple of questions, first of all on Textile and Washroom please. For the final results you have very kindly given us some guidance on pricing and cost trends for the major business units within the division and I appreciate you won't want to give that detail every quarter but I wonder if you could just give us a sense of the momentum that you're seeing this year? You do mention in the statement that you have had some price growth in Q1, I wonder if you can give us a sense of the absolute price increase and a sense of what your expectation is for cost inflation please for European Textile and Washroom? Thanks.

Doug Flynn - Rentokil Initial plc - CEO

I think we -- I'm not sure we can say too much more than we've said in the statement. We've had some price increases through in the first quarter. I think the other thing that we could add to that is we have seen some improvement in the major markets and we're talking about Continental Europe here, we're not talking about the U.K. Two things have occurred. One is that we've had some overall portfolio growth has continued into this quarter. From Q4 last year, where we saw some reasonable portfolio growth. The second thing is that the as-used volume within that, so in other words within the individual contracts the as-used volume has in the main risen a bit. And that is, I think that is more an economic factor than anything else. And you could, if you're looking for a single source, it is probably the improved resilience of the German economy impacting its own market and markets around it.

Andrew Ripper - Merrill Lynch - Analyst

Yes, yes. Last year, talking about things for the year, you talked about price growth in France of 0.8%. Is your expectation for this year to do the same or better?

Doug Flynn - Rentokil Initial plc - CEO

I would certainly hope to do better.

Andrew Ripper - Merrill Lynch - Analyst

Yes. Okay. And then second question on that division. You talk about good momentum in Europe, I think you mentioned in the statement pool growth of 4%. But if you annualize the overall organic pool growth for the division it's only plus one. So that, with Europe being pretty much five times the size of the U.K. that indicates that the U.K. pool went backwards at a rate of knots in the quarter. And obviously just looking at the quarter there shouldn't really be any distortion from the exit of the textile business from last year which you would get obviously in the organic sales number. So I wonder, could you just explain to us why the pool figure in the U.K. is going backwards at such a rate of knots and whether, if it is impacted by the restructuring, when you'd expect the business to stabilize?

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Doug Flynn - *Rentokil Initial plc - CEO*

Andrew's going to comment on the first part of that. I'll comment on the second part.

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Andrew you need to be a bit careful when you annualize out because we're in the processing of exiting the German Hospital Services business which is too small for us to treat as discontinuing. So as we lose the portfolio side -- Hospital Services is being exited in four separate transactions over the course of the first half and as that happens obviously we lose portfolio. So that's why you can't really do the annualization that you're looking at.

Andrew Ripper - *Merrill Lynch - Analyst*

Okay.

Doug Flynn - *Rentokil Initial plc - CEO*

I think the second --

Andrew Ripper - *Merrill Lynch - Analyst*

Sorry Doug. So basically in the 4% you've put in the statement, presumably that excludes the distortion from German Hospital Services which is included in the overall pool analysis you've given at the back of the press release?

Doug Flynn - *Rentokil Initial plc - CEO*

That's correct. That's correct.

Andrew Ripper - *Merrill Lynch - Analyst*

Okay.

Doug Flynn - *Rentokil Initial plc - CEO*

So I think in the case of the U.K. certainly the final structural changes have been pretty much put in place. There's still a lot of work going on, on the ground but that has had the impact in the short term of increasing the service driver churn, which in fact that stabilized very, very quickly. But that is a short term impact and affected termination rate in the short term. But I'm very confident that the actions we're taking are going to fix that pretty rapidly.

Andrew Ripper - *Merrill Lynch - Analyst*

Yes. And do you see the sales for the U.K. business stabilizing?

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Doug Flynn - *Rentokil Initial plc - CEO*

Sales for the U.K. business have been pretty steady and improving. I think that there is a -- I think the issue that I have more concern about was the retention rate. But it is mostly driven by that. As we've changed the areas and moved people from one location to another, a lot of them -- quite a number have dropped out.

Andrew Ripper - *Merrill Lynch - Analyst*

Yes.

Doug Flynn - *Rentokil Initial plc - CEO*

So that's been the impact, but that can be corrected pretty quickly.

Andrew Ripper - *Merrill Lynch - Analyst*

But do you think overall sales for the U.K. will stabilize in the second half?

Doug Flynn - *Rentokil Initial plc - CEO*

I think we've got a good shot at that, yes.

Andrew Ripper - *Merrill Lynch - Analyst*

Yes. Okay. And then second question on Target. I appreciate it's a seasonal business. Can you give us a sense of what the profits were in Q1 please?

Doug Flynn - *Rentokil Initial plc - CEO*

No I don't think we're going to do that. We do a half-year report and this a trading update. They're doing very well. They're doing very well but I think we'd rather give you the half year performance.

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Yes, and increasingly as we try to merge these things, one of the reasons that we're pushing ahead with this absolutely as fast as we can, we've got one sales force now and we don't really care in which predecessor business we book revenue.

Andrew Ripper - *Merrill Lynch - Analyst*

Yes.

Andrew Macfarlane - *Rentokil Initial plc - CFO*

And we don't now care in which predecessor business we recognize any integration costs.

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Andrew Ripper - Merrill Lynch - Analyst

Yes. Okay. Alright guys, thanks for your answers.

Operator

Thank you. [OPERATOR INSTRUCTIONS]. Gentlemen, at this time we have no further questions.

Doug Flynn - Rentokil Initial plc - CEO

Okay. Thank you very much everybody for joining us. All the best. Bye now.

Operator

Thank you. Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation and you may now disconnect.

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