

FINAL TRANSCRIPT

Thomson StreetEventsSM

RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Event Date/Time: Jul. 31. 2009 / 8:15AM GMT



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

CORPORATE PARTICIPANTS

Alan Brown

Rentokil Initial Plc - CEO

Michael Murray

Rentokil Initial Plc - CFO

CONFERENCE CALL PARTICIPANTS

Andrew Ripper

Merrill Lynch - Analyst

David Hancock

Morgan Stanley - Analyst

Craig Fraser

Libernum Capital - Analyst

Mike Murphy

Numis Securities - Analyst

Hector Forsythe

Oriel Securities - Analyst

PRESENTATION

Alan Brown - Rentokil Initial Plc - CEO

Morning everyone, and welcome to our interim results presentation, Rentokil Initial. I am going to give a short overview and then hand over to Michael, then I'll come back and talk about some of the progress we're making against our strategic thrust.

So here is the overview for half one. Continued difficult economic environment, particularly in the UK, Spain, lesser extent in Germany as far as we are concerned. Although we've had a 7% increase in revenue at actual rates, we've seen a 2% decline in constant rates.

We've had good progress in cost savings, however we've increased our full year estimate of savings to GBP70 million; previous guidance was GBP50 million. And that we think should be able to offset any disappointment in the top line.

City Link in particular has been a big contributor to the increased cost saving. We reckon City Link will deliver at least GBP40 million of the GBP70 million for the Group as a whole, and that's enabled us to revise our view of the loss in City Link from GBP20 million guidance given earlier in the year to GBP12 million now. And that of course compares with a loss of GBP43.5 million in 2008.

Textiles and Washrooms, steady as we go in terms of performance in the first half. But the interesting thing is that we've taken a GBP10 million exceptional item provision in quarter two, signaling the commencement of the processing plant restructuring which will deliver in 2010, and certainly 2011.

UK Pest, which as you know was one of our five turnaround businesses, has shown improvement in Q2, I'm pleased to say. I'm particularly pleased that business has actually been on internal budget in terms of profitability for the last two months; the first two months in 36 where it's actually been on target. I attribute that to the leadership of Phil Wood who's now running that business, and I think we've also benefited a bit from favorable weather as far as pests are concerned, and June in particular with a lot of jobbing work kept us very, very busy.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Perhaps the most outstanding feature of the first half is the operating cash flow, GBP117 million compared to GBP38 million same period last year. That represents 140% of adjusted profit, and that is, I think, an impressive number by any standards. So it's come just at the right time, of course, because coupled with our decision not to pay an interim dividend, I think this now puts us really firmly in the position of being able to retire GBP125 million of our debt later on this year. And that puts us in a very nice position of having GBP200 million headroom within our long dated facilities, the first of which matures late 2012.

So, overall, good progress in half one in terms of the essentials. We remain at an early stage of recovery and in particular, with a lot to the growth agenda which I will come on to talk about later. But for the moment, over to Michael.

Michael Murray - *Rentokil Initial Plc - CFO*

Thanks, Alan, and good morning everyone. As expected, the Company continued to face tough trading conditions in quarter two with overall revenues for the first half down by 2.2% at constant exchange rates. To counter this anticipated revenue decline, the Company has made greater progress than expected. In managing costs we have a number of initiatives across the business resulting in an estimated reduction in costs of GBP35 million in the first half.

Resultant profit before interest, tax, amortization of intangibles and one-off costs, or in other words adjusted PBITA, was GBP1.8 million behind last year. This excluded total one-off costs of GBP13.1 million. As already mentioned by Alan, this includes a charge of some GBP10 million taken to the P&L in quarter two, mostly relating to the restructuring of the Textiles and Washrooms operations in Belgium, which is due to commence in November, this year.

After adjusting for interest and associates, adjusted profit before tax and amortization at actual exchange rates was GBP55.1 million in the first half, an increase of GBP7 million in 2008, and marginally ahead of market expectations.

In addition, we have committed to make strong progress in cash generation, continued with an operating cash flow of GBP116.7 million in the first half compared to GBP38.3 million in the first half of 2008, a convert from adjusted PBITA of 140%.

Moving on to our divisions; our Textiles and Washrooms division generated revenue growth of 3.7% in the first half, despite strong pricing competition in certain key markets. This was supported in particular by strong performances in France and Germany, and also by the Ray Werk acquisition in Austria at the start of 2009.

Revenues from our Spanish business fell short, as a result of the continued downturn in the hospitality industry, which continues to impact our Linens business. Resultant first half reported growth for the division of 3.1% (sic - see presentation) was satisfying given the tough economic environment, and was supported by service performance which remained consistently high at 98% during the period.

Despite growth in revenue, adjusted operating profit for the first half decreased by GBP9 million. This was due to our inability in certain geographies to match inflation in wages, and cost increases on longer term energy contracts with price increases. This decrease in profit was also impacted by unusual items in 2009 amounting to GBP5.4 million, mainly related to management reorganization costs.

Operating cash flow has been strong with good progress in accounts receivable and capital expenditure. Focus is now on pursuing the division's processing footprint and procurement strategies which are estimated to result in annualized cost savings of EUR30 million by 2011, 2012. Alan will say a little bit more about this later on in the presentation.

On to Facilities Services. Overall market conditions remain challenging for the Facilities Services division with revenues down 4.8% in the first half. We are facing particularly strong pressure in the top line in the retail sector, principally the result of pricing competition and customer down-trading. Similarly, market conditions remain very challenging in the UK Washrooms business with customers economizing and [retaining] only essential services and products.



Jul. 31. 2009 / 8:15AM, RTOXY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Resultant first half revenues were down [8.7%] largely due to a folio loss in the second half of 2008. However, as a result of cost initiatives in the first half, the business is now comfortably in profit and continued cost reductions will improve the overall position for the year.

Overall divisional profits were down 25.2%. However management has been extremely focused on cost savings initiatives to mitigate revenue decline and these will accelerate in the second half of the year. Solid progress has also been made in the area of cash collection with over 90 day debt in UK washrooms reduced by 38%, and DSO down by 20 days since December 2008.

We are now confident that the bad debt provision taken in quarter three 2008 by the Washrooms business is sufficient to cover our exposure and that the business will benefit year on year from the avoidance of further bad debt provisions.

City Link. City Link continues to operate in a highly competitive environment where a number of competitors are trading price for volume in order to fill spare network capacity caused by reduced customer demand. Year-on-year revenue comparatives are further impacted by the significant loss of customers by City Link during the first half of last year. City Link's customer base has remained fairly constant with recent quarters, although many are spending less than before.

As a result of these factors, half one revenue was down 12.6% on prior year, driven mainly by a volume shortfall of 10.2%. After adjusting for the Easter holiday phasing, year-on-year revenue decline in quarter two was lower than quarter one.

Despite the revenue shortfall, the business has managed to decrease losses by GBP20.9 million compared to last year, as a result of the cost reduction program. The business has made further reductions in fleet numbers, down 33% year-on-year and headcount down 22%. And the number of depots has fallen from 98 at December 2008 down to 90.

Customer service has also improved further during the first half and this has been aided by the role of the new hand-held scanners and upgraded route scheduling tool, and the launch of a new website. Service levels have remained consistently above 98.5% in the first half. Strong progress has also been made in cash collection, with DSO down to 40 days, and over 90-day debts almost extinguished.

Moving on to Pest Control, overall revenue growth for the division in the first half was 0.9%, with the decline in the UK being more than offset by revenues from the new contract with the Libyan government, which is proceeding well.

UK revenues fell by 10.2% in the first half, but new management put in place in quarter one has stabilized the business. Implementation of a six point recovery plan for UK Pest, outlined in Q1, is now underway, and again Alan will cover this in more detail later on.

Our US and European pest control businesses delivered resilient performances, growing revenues by 3.8% and 0.9% respectively. Adjusted profit, the Division declined by 7.3% in the first half, predominantly driven by the UK and Spain, which continues to be impacted by a severe economic downturn. However, progress has been made in Spain in rectifying control issues identified at the end of 2008.

State of services remained consistently high across the business, including the UK where it is at a record 98.5%, and a strong focus on cash has delivered good results across the division. DSO within the UK business has improved by 16 days since December 2008. As mentioned, the Division's three-year contract with the Libyan government is proceeding well, with UK service teams now fully operational in Tripoli, in Benghazi and Misratah.

On to Asia Pacific. Overall revenues declined year-on-year by 5.2%, the entire shortfall coming from Asia. This reduction was driven by a number of factors, including the downturn in the fumigation business, the discontinuation of the zero margin Hong Kong government contract, and the disposal of the Delcol water business in Malaysia. Despite this revenue shortfall, and bad debt issues communicated in quarter one, the Asia profit was broadly in line with last year, helped by strong costings initiatives, including reductions in head office structure.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Pacific revenues grew marginally in the first half As our Australia Pest and Washrooms businesses continued to improve after poor performances in 2008. Despite some pricing pressure, and investment required to improve service levels in the Washrooms business, profits were ahead of the prior year in the first half. Profits were also assisted by strong cost management initiatives.

Final division, Ambius, which has had a particularly tough first half in exceptionally difficult circumstances, as customers have received cost reductions in areas of discretionary spend. Revenue fell 7.4% as a result of increasing contract terminations and a 23% decline in job sales. Revenues from our largest Ambius business in the US declined year-on-year by 9.9%, with retention rates down to 75%.

While terminations were up to 60%, there have been signs of improvement in July. Whilst resultant profits for the division were down GBP1.2 million or 36.4%, the Ambius management team has focused on addressing the downturn by adjusting operations headcount in line with requirements, and also seeking other cost efficiencies. Despite extremely challenging operating conditions, cash flow has improved significantly over the prior year, driven by both working capital improvements and reductions in CapEx.

Now on to the central costs. Central costs were GBP6.8 million higher in the first half of 2009. This includes accruals related to short and long term management incentives, which will be paid dependent on the achievement of financial and non-financial targets. Related payments for 2008 were smaller as targets were not fully met. In addition, central provisions of GBP5 million have been made for potential Group-wide risks, and this includes GBP3 million for previous period control of issues in China uncovered by the new Asia Pacific CFO, which relate mainly to sales recognition and accounts receivables.

Looking now at the Group's debt. First, our GBP125 million RCF facility which matures in December 2009, but which is extendable at our option to September 2010. Headroom was GBP275 million at June 30. Our policy is to retain headroom of GBP200 million, therefore if by the year end we can increase headroom to GBP325 million, we will retire the GBP125 million facility.

Our other facilities are GBP500 million RCF and four capital market notes, having earliest maturity dates of late 2012. The Group's banking facilities are subject to single covenants, which requires EBITDA to be no less than 4 times interest. This covenant is tested semi-annually on a 12-month look back. At June 30 the ratio was 5.6 times.

Interest. Net interest payable of GBP30.1 million in the first half of 2009 was GBP5.5 million higher than the equivalent paid in 2008. Higher average net debt in 2009, mainly as a result of the devaluation of sterling in the second half of 2008, accounted for GBP7.2 million of increase and this was partially offset by lower interest rates in 2009 which amounted to GBP3.5 million.

Mark to market adjustments and derivatives were smaller in 2008, resulting in a year-on-year increase in net interest costs of [GBP1.6 million]. Approximately 88% of our interest exposure is fixed for quarter three, and 93% for quarter four.

Tax. The actual tax charge in the first half of 2009 of GBP1.6 million was GBP3.5 million lower than in the same period last year. The blended tax charge, at a constant rate of 30% for both years, was GBP3 million lower than last year due to year-on-year reductions in profit before tax. The first half of 2009 tax charge has been further reduced by adjustment in respect of prior periods of GBP2.8 million.

The underlying tax rate for the full year is expected to be around 30%, and favorable one-off adjustments are likely to continue. Cash tax paid in the first half was GBP5 million, GBP5.3 million lower than 2008. 2009 has been assisted by GBP10.6 million of tax refunds, principally in the UK and France, significantly more than in 2008.

Now to operating cash flow. Cash generation has been a major project for the management in the first half and this will continue going forward. A number of initiatives have been implemented to increase our operating cash flow, including a continued drive of working capital, optimization of capital expenditure, and the execution of cost reduction programs. We have made strong progress in all areas, with the first half operating cash flow of GBP116.7 million representing an overall year-on-year increase of GBP78.4 million, and a profit to cash conversion of 140%.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Working capital has improved on last year, mainly as a result of low debtors, resulting in daily sales outstanding of 56 days against 61 days at the 2008 year end. Capital expenditure has reduced year-on-year by GBP12.4 million, giving a CapEx appreciation ratio of 85% against 115% in 2008.

So, in summary the net of all these moves, plus the benefit of GBP87 million worth of favorable FX change, reduced net debt from GBP1,362 million at the beginning of the year to GBP1,217 million at the end of June. And with that, I would like to hand back to Alan. Thank you.

Alan Brown - Rentokil Initial Plc - CEO

Thanks, Michael. We have five thrusts which have served us well over the first 12 to 15 months and I'm going to stick with them. They are service, capability, operational excellence, lowest cost maximum cash and profitable growth. What I'm going to try and do is really adopt a very simple internal tool we have, to give you some sense of the progress that the management feel that we're making against these five thrusts, and it's called a RAG tool, red-amber-green. And I hope this at least will give you some indication of how our complicated series of initiatives are progressing.

And here on this chart you can see our top line view. We've made, and we're pleased with, progress on service, green. And we're making progress on capability and operational excellence, and on costs and cash, but a lot more to do and we're not happy with our progress on growth, which always was going to be the one we'd get to last because of the priority and prerogative of sorting out the operational and service issues in the Group. I want to talk about each of these in a greater or lesser degree of detail over the next few charts.

Now the first one is service, and I'm going to give you some detail on how we're getting on. The three sub-initiatives we identified at the year-end was driving the basic service levels across our business, which as you'll see we've done very well on, ensuring accountability for customer relationships across our 500,000 customers, where I think we've made progress. And I've been particularly pleased, I must say, with the way that the business has taken up these very simple values and behaviors, across the Group, of service relationships and teamwork. They came from the front line, so perhaps I shouldn't be so surprised that they would relish the adoption of these values, but it has gone well for us.

Finally, a little bit more on some of these areas. As I said the basic stuff we've done very well. We'd like to direct your attention to the bottom half of this chart, however, which highlights the areas that we have to do better, and I really highlight this word responsiveness.

I think we are pretty good at getting out when we say we would against our contracts, but we're not sufficiently responsive. I don't think that we respond quickly enough, in particular to residential customers, when they have a problem. I don't think we're getting out there to quote quickly enough and clearly enough, and I think that the local competition, which is the majority of our competitors, we're generally competing against local people at this moment, sometimes hit us to the first punch, and we are taking measures to improve that responsiveness.

Even in the City Link business we're very comfortable in dealing with major contracts, large customers, but we're not good at being able to respond to the need of smaller customers who maybe don't do business with us so frequently. We're putting a lot of effort, for example, into our website, as Michael said, but we have yet to get to a point where we can transact on the web, and we need to start being able to transact on the web, in my view, for those smaller customers.

So there's a number of issues going on that we're really trying to get to. I talk also here about customer propositions and I'll come back and talk with that again under strategic thrust five, which is the growth agenda.

Just some of the basics to keep you up to date and where we're getting all the sum of the metrics. We focus very much on the basic customer service measure; are we getting out to the customers when we say we would? This is where we were in the five



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

so-called turnaround businesses, the problem businesses, in June 2008 and here we are today in 2009, a cracking performance from City Link in particular. They are regularly hitting 99%-plus service levels; 98.9% on average in the first quarter, and that includes a week of snow where no-one did very many deliveries, I have to say. And then across the rest of the business Washrooms, Pest and the Aussie businesses even are doing pretty damn well.

Move on to two. I'm not going to talk about this one so much today. It's a complicated area of capability development. I'll just talk through this chart. One of the things we set out to do was to establish category capability, particularly in Pest and Washrooms across the Group, where the lead division would then support, in particular the Asia Pacific operation, to help drive marketing and sales capability. We've struggled in this area, the big divisions have been heavily focused on sorting out their own patch and have not yet developed what I would call propositions which can be taken across the business. Again, I'll come back to that on strategic thrust five.

But elsewhere progress has been fair to good. We have made great progress in developing a common information systems architecture. That harbor's a million miles away from actually having it operational but the vision is now extremely clear, extremely clear. And we're now into a long period of implementation to make sure we have the same systems configured in the same way, and operating in the same way across the Group. This is linked in with Project Olympic which I'll come back and talk about later as well.

On the HR agenda, I'm really pleased. We've had a very clear agenda and we've gone about it in a very workmanlike way. All the managers now know what grade they are, we've got much greater clarity of our management cadre and we've now done a lot of work, I think, to start developing management. We've had a review of the top 120 managers over the last few months, and that will go further down in the organization next year, and we've now got clear performance reviews in place for management. So the basics are now getting in place pretty well.

Thrust three, operational excellence, I'll spend a bit more time on. Consistent KPIs across the Group, as you know, has been a priority and I'll come back and show you that chart of the 18 KPIs later on, albeit I'm only focusing on three this time.

Upgrading Group governance. We're making steady work although it's not been the highest priority for our company secretary, but he's getting there.

Driving common systems, well, we'll come back on as well. And I want to spend a bit more time then focusing on the turnaround businesses.

The bottom one, the Aussie Pest and Washrooms business is running very well. I'm not going to say any more than that, but their consistency of delivery against the internal operating plan this year has been an absolute pleasure to see, given the problems we've had over the last couple of years. I'll spend a bit more time on the other two in the subsequent charts.

So, City Link which of course has been the biggest part of the turnaround story in these early days for Rentokil Initial, and I do stress it's early days. Here are some of the numbers; this is why we think that we are now going to deliver GBP40 million plus for 2009. Depots, from 98 at the beginning of the year down to 90, 81 by the end of this year, well, 74, if that, by the end of 2010. I think we've now really sussed out how to get from two hubs to one hub and we are now really looking quite seriously about implementing that in Q2 2010 at relatively low cost, I have to say. We're certainly not going to build a new hub, that's for sure.

Reduction in headcount, 22% down year-on-year. We've gone from 7,800 down to about 5,750 at the end of June and the vehicles are down in terms of the delivery vehicles, C&D vehicles, down 33% year-on-year.

And the whole area of credit to customers, which I think at our peak running at GBP20 million per annum, we've made a lot of progress in and I think they're going to come in now around about GBP8 million this year, so that's a big, big improvement. Of the GBP8 million, I think it's going to take a bit more time to get that down, a lot of that was coming from the billing errors



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

because our billing and IT systems are still our Achilles heel, I have to say. We've made enormous progress in terms of hand-held terminals and PDAs for our front line troops which are proving to be very beneficial.

Our customers, particularly those involved in the B2C market such as Amazon, are really delighted with our ability now to take photographs of the doors of those premises we visit where the customer's not present. One of the big problems in the past with industry is when you go to a house and you find the customer's not there, and the customer then often disputes whether the driver has turned up or not, but with our PDA we can actually take a photograph of the door so we have a record that the driver actually has been there. And generally, if you show the photograph to the customer, they accept at least the driver made a genuine attempt to turn up. That takes away all the emotional problem that one has about failed deliveries.

So we're really making progress at that front end. It's the back end of our systems that are absolutely crap. But we have got a -- I can't think of a better word to use, they've got different names in the business, but crap is my term for them, and we have got a clear way forward. We know what we're going to do, we've just got to implement it over the next nine to 12 months.

All that leads us to reduce our year-end forecast to losses of no greater than GBP12 million. Yes, it's a conservative estimate, I agree with you, but there are still uncertainties in the marketplace. Competition is very tough. We've seen competitors come in at very aggressive prices, prices which we do not believe can -- the competitors are able to provide a consistent good service and we've decided to stay out of that.

We want to make sure that we price and deliver where we can offer excellent service on an ongoing basis. And we're already seeing, I'm pleased to say, that some customers who've gone for the low cost have come back to reopen discussions with us, on the basis of recognizing the quality of service that City Link is now consistently delivering to our customer base.

So lots more to go for. There are some things that are down at the bottom half of the chart here. I will just perhaps look at the bottom two. We've got a big move back to big pallet cages during the second half of this year, early next year, which is really essential if we're going to move from two depots to one. Together with these curtain-sided trailers, it's a very important precondition for getting into that one hub because by moving to -- from these roller cages to the big pallet cages, we reduce the unloading time for a trailer from about 20 minutes to four minutes. And we've vastly reduced the number of people we need to actually move the cages around the hub, which means we can operate with a smaller hub. So that's important, that's going ahead.

Just also to note, you may remember of course, at the beginning of this year everyone was worried about our accounts receivable exposure and, well, you know the earth was going to -- the sky was going to crash around us because of our exposure to all of these small customers. But here we are today, our DSOs come down from 60 days mid-2008 to 40 days at the end of June and from 45 to 40 days during quarter two. And I think as Michael said earlier on, our debt exposure over 90 days is about GBP5,000, something like that, it's gone away completely. So I'm absolutely delighted with the progress this business in particular has made on exposure to bad debt.

UK Pest Control, earlier stage of turnaround. We have a six-point plan. One was to appoint new management; it's gone very well. Phil Wood's got a very simple slogan, which is to, he says, wear the shirt always, which is a Rentokil shirt to introduce pride into -- to reintroduce pride into the quality of the work that people are doing, and that's had a fantastic impact on the business.

The focus on service has been great. We've been delivering on average 100% service across the business. I'm still a little concerned that some customers are getting more than 100% and some are getting less than 100%, but on average we're getting 100%. We still haven't got our scheduling sorted out properly in my view. And this issue of responsiveness to customers, I really think we haven't cracked yet, but we're getting there.

Phil also set about sorting out his cost base and he's come up with a range of initiatives, which we feel confident will deliver GBP3 million to GBP4 million saving, which in the context of a GBP70 million business, is pretty good.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

And we've been developing in training -- and we've been investing in training and development as well, of course. It's gone well. The one thing which we've not really cracked yet, out of the six initiatives, which is not on this chart, is the growth area; it's down at the bottom actually sales and marketing. And I'll come back again to that point. I keep saying I'm going to come back to that point, when we get to the fifth thrust and I will do.

Thrust four, operating at lowest possible cost and delivering maximum cash. Now, despite the fact that we've upped our saving estimate from GBP50 million to GBP70 million still overall, we rate this as an amber rather than a green because there just is so much to go at, there really is so much to go at. And it's a complicated thing to do. Not least the first thing, which is driving down admin costs. I've got a separate chart on that so I'll come back to that.

Days sales outstanding has actually gone well, there's more to go for. We've gone from 61 days to 55 across the Group -- 56 sorry -- 61 to 56 across the Group. We have a target of 55. We might do better than that the way things are going.

Increasing service agent productivity; we still have very few tools to help us drive scheduling or route optimization. We are piloting this year in a number of places to see whether we can introduce tools to help us drive more agent productivity. Not going to talk more about that today.

Delivering procurement savings. Well, this is a frustrating area. I think I indicated to you last time that in our Textiles & Washrooms business, we have 133 suppliers of garments, we've got 7,900 different garment specifications. Every country negotiates separately with broadly the same suppliers. The opportunities are at least EUR20 million savings longer term, but getting into this is complicated; we have to get the businesses to agree that they don't need 7,900 different specs for basic work-wear.

It may seem obvious to you and me, but if you're German you do want things one way, and if you're French you do things another way. It takes a little bit of time. And we've got to then put in place a European buying organization. So this story will run and run and run, but it won't be quick, but we will get there.

The processing plants' productivity, the next bullet point. You'll see we've taken a GBP10 million provision for the closure of two or three plants in Belgium. So I'm very pleased with the rate at which we've tackled that, faster than I thought. But perhaps the scale of the opportunity is not quite as big as I thought. I think Belgium has proven to be exceptional; we're still looking at the opportunities elsewhere.

So overall, I think the opportunity for efficiency in the Textiles and Washrooms business is as big as I thought it was, but now it seems that there's actually more in the procurement area than in the processing plant area. Though we are indicating there's an additional EUR20 million procurement saving, we think there's at least EUR10 million processing plant productivity to go for by 2011.

And City Link I've talked about of course.

Maybe I'll just come back if I could to the admin program? Now this is -- sorry, my apologies, there's one chart in between. I did say I'd update you on progress against our goals. I'll just do that momentarily. I think I've talked about all of these already. You see the DSO, 61 down to 56. We're still sticking with our target of 55 by the end of the year.

Cost savings, we've actually delivered about GBP30 million, GBP35 million in the first half. We'll get to GBP70 million by the end of the year I'd have thought quite comfortably. Cash conversion 140% of profit in half one; we're saying we're going to do better than 100%, certainly by the year-end.

If I now come to Program Olympic, which is the overall banner for our administration agenda, so-called because want to deliver by 2012. There are six elements to it and the first four are really quite complicated. It's about defining best practice processes across our major business processes.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

It looks complicated, this Prospect to Cash. I am personally sponsoring this project, that really goes from the salesman out there prospecting for business through signing contracts with customers for portfolio businesses, to servicing the customers, then to billing the customers, and ultimately getting paid for that work. So it's a big complicated process.

At the moment, we do it every which way across our 1,000 branches, and we believe we should be doing it in relatively few numbers of ways with similar systems, and by doing so we will greatly increase our efficiency, and greatly increase the reliability and sustainability of service we deliver to our customers.

Similar processes in place for the procurement area, for the HR Recruit to Reward area and indeed for the finance area as well, Record to Report.

Record to Report we have started to make progress, particularly in the accounts receivable area, of course, which is one of the reasons we've done so well in DSOs, but a lot of work to be done. The systems architecture is pretty clear behind all this, but actually defining the business processes we want to use is going to take some time. And this is a big part of Olympic. We've not given a cost saving target, all I have said consistently is that GBP500 million to be spending in this area is far too much. And we hope that we're going to see a significant reduction over time, at the same time giving us improved service quality.

Two others at the bottom here within Olympic. Property, we've made big progress on. We've got again over 1,000 leases across the Group. We've got quite a number of freehold properties. This year we believe we'll -- out of our GBP73 million property bill, we'll save GBP7 million, not least because of the closure of the head office in Victoria and consolidating our head office activities in an existing office, City Place down at Gatwick.

And I must say the Group has responded extremely well to our various projects, whether they're called squeeze or compression or even finding that some of our divisions are actually quite happy to live together on the same site, which is quite a new thought for Rentokil Initial. This is all pretty good.

Organizational Development, of course, is ever there. I think I told you that we had moved to bring a stronger function reporting line across the organization to drive the HR, IT and finance agendas. That's not been easy, but it is starting certainly to pay dividends in terms of supporting a common move towards these major business processes across the Group.

There are a couple of specific things we've done just to level the top level views with some detail. I've talked about the property stuff and the other thing, of course, it's in the announcement, as you'll see, that we are changing our auditors; we're moving from PWC to KPMG. That in itself is not so significant. PWC have done a terrific job for a good [few] years, but we did decide in principle that we wanted to merge external audit with large parts of internal audit.

We felt that we could drive significant savings by doing so, particularly in our organization, which is a very broad organization but quite thin, sending separate groups of internal and external auditors to all of our locations is clearly very inefficient. And we then got the support of both KPMG and PWC to look at a merger where we really only send one person, rather than sending two, in simplistic terms, not quite as simple as that.

As a result of that procedure, the Board decided earlier this week to accept the KPMG proposal, which will reduce our total auditing costs by around about 30% in 2010, over 2009. So nothing is going untouched in terms of this administration cost agenda that we're pursuing.

Now on to five, strat thrust five. UBS and Merrill [are becoming uncomfortable here], are they?

Unidentified Speaker

Yes.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Alan Brown - Rentokil Initial Plc - CEO

So, strat thrust five, we've got Delivering Profitable Growth of course. We've got red here on the chart. The first one was in sales productivity, the second was marketing. We are trying hard, particularly in the sales productivity area, I have to say, but I think the conclusion that we've come to over the last few months is that we've really got start with the marketing first. We've got to really tighten up on our customer propositions.

The business does not have a great legacy of marketing. I'm told that one of my predecessors actually banned the use of the word marketing in the business. And we now -- I think it's incumbent upon me to see whether those of us with a consumer goods background can see whether bringing some real marketing expertise into the Group, not me personally, but I know people who know a bit about marketing, can make a difference.

And we have, therefore, embarked on a very important project in the Group to refine, look again at our markets, and our marketing propositions within the Washrooms and Pest areas with the intention of differentiating ourselves from competition and particularly with the intention of getting those propositions formulated in a way that a salesman can use across the table from a potential customer. At the moment, we leave far too much discretion to the local sales force in how they present the business, and in fact where they look for customers.

The second part of this agenda is not just to identify markets we should be going for in a broad sense, but to actually use marketing skills to identify exactly who we should be going to see; street number, name, address, all the rest of it. At the moment we are still back in, what I would call the dark ages, where the salesman's given a territory and told to go out and hunt for who he can find. But with the access we have today to databases, and with a clear proposition of who we're going after, we should be able to do this in a much more efficient way going forward.

So the next chart really just gives a top line view of a complicated chart. The top line view is just an extract from the brief that has been written with the help of some external consultants, which is going to drive us from our core value proposition through a customer segmentation exercise to give us specific propositions for specific segments, A, B, C and D. And then in particular the tricky bit, to make sure that those propositions are usable by the salesman on the ground when he is tackling specific customer groups.

We do have some examples of very good practice in the business, but they, at the moment, are only some examples. And what we have to do is make sure that quality of marketing and sales across the Group is of a high caliber. This, I think, will take some time to develop. I certainly should be in a position to update you with the year-end results on progress. It'll take some further time after that to actually see the impact in the marketplace. But I do think this is the right thing for the Group to address now. I'm pleased to be able to say that I'm able to spend time now looking at marketing propositions rather than worrying if whether the cash is going to come in tomorrow or not.

So in summary, I repeated the first slide really. We are continuing to compete in a difficult economic environment. We've seen revenues decline constant rates, so we're up in current rates given our big euro exposure.

We've made good progress in cost savings, in particular in City Link where the losses are reduced, albeit the revenue line is not great. The big beast in the business, Textiles & Washrooms, is starting to dance a bit with restructuring underway. And indeed one of the smaller beasts, UK Pest, which has been intransigent, is starting to make some progress.

The cash number is truly outstanding and I must say I congratulate my colleagues across the business for the way they've responded to this. They've done a fantastic job. And the passing of the interim dividend coupled with that cash flow is absolutely consistent with our strong desire to reduce our debt by the year-end.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

The outlook is, of course, that positions remain challenging but we have greater confidence now in sticking to our commitment to drive further progress in Q3 and Q4, and notwithstanding the uncertain environment.

So there we are. Good progress in half one, early stage in this four to five year recovery, in particular a lot to do in the marketing and sales agenda, but so far so good.

Mike and I will be delighted to take any questions you might have, together with my Chairman I must say, who is here today. So I'm going to reserve any difficult questions for him. Thank you.

Unidentified Company Representative

Excellent.

Unidentified Company Representative

Dream on.

QUESTIONS AND ANSWERS

Alan Brown - *Rentokil Initial Plc - CEO*

Thanks, John. Andrew?

Andrew Ripper - *Merrill Lynch - Analyst*

Morning, chaps. Just a couple from me. First of all on City Link. In terms of the new guidance, I wonder if you can give us a feel for what sort of revenue assumption you're making behind the minus GBP12 million, and a sense of what's happening to sales per day now?

And then, looking forward, how much more potential is there to take costs out? I'm aware, obviously, the two hubs to one and the depot closures. Could you give us a feel for what the magnitude of saving would be, for example, by the time we get to the end of '10 and they're done, please?

Michael Murray - *Rentokil Initial Plc - CFO*

I think we'll stick with what we've said before, Andrew, that the guidance we gave on the GBP20 million was assuming that the revenue declined in single-digits and didn't get into double-digits. I think what you can assume from what we said is that we stick with our guidance and we obviously are more confident now that we're going to stick with a single-digit decline, not by much mind you, and not go into double-digit decline.

I think Q3 is the one that worries a bit. Having said that, July's been okay. So really it's now August and September that are the worrying bits because that is generally a low time for parcels activity, because economic activity generally drops. And Q4 I think we feel is looking reasonably robust.

You know we've done a very good job in the B2C market, with some very big customers and those big customers are paying well. They're very much orientated towards December, so one has, of course, an uncertainty because one doesn't know whether they're going to really demand all that volume from us that we'd like to give them in December. But having said that, the trends



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

in some of those businesses are pretty good and I would have thought if we get through Q3 not badly, then we'll have a fair amount in Q4.

Andrew Ripper - Merrill Lynch - Analyst

(Inaudible) a little bit conservative given the progression on costs. You've gone from minus 6 to minus 1 on a revenue of GBP82 million and if you're saying single-digit decline for the year, that implies revenues will be up in the second half of the year versus the sales per day in Q2. So I'm sort of struggling to see why the loss would go up in the second half.

Alan Brown - Rentokil Initial Plc - CEO

Yes, well, I'm not a great reader of the Bible but I do remember the parable about the seven years of feast and the seven years of famine, and I think, you know, if you've got a bit of a feast, you just want to put a bit away and make sure you can provide against any famine.

Andrew Ripper - Merrill Lynch - Analyst

It's one of the more unusual answers I've had in 15 years of covering Rentokil but it'll do.

And just looking forward, in terms of the final bit to the question, once you get to the end of '10 we've gone from two hubs to one and down to 70-odd depots, what's the incremental cost saving, please?

Alan Brown - Rentokil Initial Plc - CEO

We haven't really put a calculation together at this stage, so at this point in time I think what I'll do is stick with what I've said consistently, is that in addition to, well, now, the GBP40 million of saving this year we would expect, there will be a GBP10 million to GBP15 million of additional saving in each of 2010 and 2011, and I say that not really having done the numbers but feel pretty confident about that.

Andrew Ripper - Merrill Lynch - Analyst

Thank you. And then a second one on Textiles. I appreciate your openness on the EUR35 million-odd of potential savings and efficiency benefits. Just in terms of the processing element of that, are you saying there's a potential saving of EUR10 million across all of the plants in the European textile business?

Alan Brown - Rentokil Initial Plc - CEO

At this stage, we've still not completed the exercise, though to be honest with you we had a great start with Belgium. We found, however, in the work we'd done in France the opportunities are more limited. The plants are running at a higher level of capacity utilization than I expected, and we're now getting into Netherlands and Germany where we just don't know at this stage.

But I would direct you towards the procurement side, which really is massive, and we haven't got a feel of just how big it could be, but we're pretty clear that there's EUR20 million.

Andrew Ripper - Merrill Lynch - Analyst

And the EUR10 million that we talked about does include the EUR4.6 million for Belgium?



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Alan Brown - Rentokil Initial Plc - CEO

Yes it does.

Andrew Ripper - Merrill Lynch - Analyst

Okay, so you'll maybe come back to us when you've done the work on the other countries for a revised figure. Okay.

And then just finally bringing it all together in terms of the cost agenda, obviously you've been very open about this year's figure. When you look out to 2010, I mean some of these Textile initiatives look as though they are going to have quite long gestation periods. What's your -- do you have a rough sense on overall cost potential for 2010 versus '09?

Alan Brown - Rentokil Initial Plc - CEO

No. I don't, and I'd rather get the operating plan much closer in my line of sight, Andrew, at this stage. Clearly, City Link has had an exceptional run because there's been so much to go at and one can't expect as much of City Link next year, 40 million to maybe 15 million. It might do a bit better than that, but at this stage I don't know.

We will be making more progress in Textiles and Washrooms so that will fill some of the gap, a bit more than Pests but Pests is a bit more tricky. And the admin agenda will be starting to deliver so I think it's going to be tough to get to match the 70 million this year, but obviously we'll be pushing to get up that direction, 40 million or 50 million, but at this stage I really don't have the numbers to hand.

Andrew Ripper - Merrill Lynch - Analyst

Thank you.

Unidentified Audience Member

Hello, good morning. I just wondered if you could say on the GBP70 million of cost savings in the year, what's actually the annualized rate of cost savings on that GBP70 million, please? That's the (inaudible).

Michael Murray - Rentokil Initial Plc - CFO

Yes, GBP30 million of it comes from last year from City Link which leaves GBP40 million. And the GBP40 million we're looking at a fair share actually between the first half and the second half year-on-year. There's a bit of a slow or stop in City Link in terms of their additional savings, but there's a fair split between the two halves year-on-year.

Unidentified Audience Member

Okay. So sorry the incremental into 2010 from the GBP70 million you've already announced that you'll get in year from this year is how much, sorry?



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Alan Brown - Rentokil Initial Plc - CEO

Well, if you're saying how much of this does this flow into next (multiple speakers) then I again haven't done the numbers but will be GBP25 million or thereabouts.

Unidentified Audience Member

Okay, thanks. And on the management change in City Link, could you just outline or detail a bit more what the operational experience is of the new Divisional Director?

Alan Brown - Rentokil Initial Plc - CEO

Stuart Godwin started in the parcel business when he was 16. He's still only about 36, 37 but he's had 20 years experience. And his basic experience is in sales, but he's run depots and he's run regions and he's highly operational. If you walk around a depot with him he's all over the damn thing. This guy really knows operations big time, and he's a full on character, he is absolutely full on. This is a guy who cannot stand still for a second.

So I think he's a great choice for the business. He's a great choice because he knows the business back to front. He has worked in other businesses; he started his career at TNT, and he's been with Target, and now with City Link for quite a long time. And he obviously is the ideal person to continue the agenda for City Link that we're on in terms of the operational agenda and the cost saving agenda, and he has the support of his colleagues, which is really important.

The thing which we have to bring into City Link into 2010 and 2011, as with the rest of the Group, is that marketing agenda in particular. That is not clearly enough crafted yet. Particularly our offering to the B2C market is not clearly enough crafted. That is the same challenge whether it's Peter Cvetkovic or Stuart Godwin is running the business.

And I should just emphasize by the way that Peter Cvetkovic did a tremendous job for the Group, and I'm sorry to see him go, and we wish him well, whatever he chooses to do. But equally, I'm delighted we have Stuart there to take over the reins from Peter.

Unidentified Audience Member

Thank you. Just a final one if I could. Just in the terms of the tone of what you're saying about the non-City Link businesses, are trying to intimate that the economic headwinds are a little bit stronger for you now than where we were when you were speaking in Q1 and perhaps some of the pricing environment? Or is that just to stop people getting a bit too carried away on the forecast [calendar]?

Alan Brown - Rentokil Initial Plc - CEO

I think it's a sensible precautionary remark about the continuing uncertainty of the development of the economy. Setting aside City Link, I think that the economic headwinds are being felt most by the retail cleaning business. Peter Lloyd, by the way, is sitting right at the back of the room and you can talk to him about it later on, and he's the nice gentleman with the blue tie. And Peter's certainly finding that that market is very, very difficult at the moment in the UK, the cleaning market.

Having said that, I have to say I've been pleasantly surprised with the continued revenue growth of the Textiles and Washrooms business in Europe, and I have been very surprised with the performance of our US Pest business which has done rather well, despite my predictions to the contrary.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Asia, having said that, has not been easy for us, but that again is more due to the development of the management cadre in that business. The business was put together very quickly with a lot of acquisitions and not much operational focus. This is just further back down the track in terms of sorting out that business.

You will see that I've -- we are introducing into our top team (inaudible), a Chinese lady who has worked for me before for many years, based in Shanghai and I think that she will quickly make an impact there. But we do have certain risks still in the Asian business. Separate from (inaudible) business, which is going very well.

I think also the Ambius business, which probably (inaudible) our most discretionary element in terms of product service provision has been heavily hit, as you would probably expect, in terms of it is one of the easier things to move aside in terms of spend.

Unidentified Audience Member

Thank you.

David Hancock - Morgan Stanley - Analyst

Thanks. Good morning, it's David Hancock from Morgan Stanley. The first question on cash which was obviously a highlight in the quarter. Could you just talk a little bit more about the continued opportunity on DSOs? I think you alluded to the fact you could do better than the 56 days or the 55 day target.

And also maybe expand on the CapEx outlook where you were 85% of depreciation in the first half? Can you talk about how that might look for the rest of the year and for the years going forward?

Michael Murray - Rentokil Initial Plc - CFO

Yes, well on the DSO we've gone indeed as you say from 61 days at the end of last year to 56 days which is one day short of our target for the year. At the moment, I think we're firmly sticking to the target, clearly there's some impetus on the momentum going here. It's going to be of even greater focus in the second half over the first half going forward. One of our key objectives this year is to retire the GBP125 million facilities we've both commented on.

To enable that we need to generate more cash, and get to around GBP325 million worth of headroom to enable us to do that, which leaves us at the GBP200 million level. So we'll be striving forward in the cash. I would be hopeful that we could hit the target and beat the target, but I wouldn't want to put numbers on it at this point in time, but the momentum's there, it's a huge focus in the business. People are incentivized to do it, and there's real buy-in.

On the CapEx, again, reluctant to give you a target, but we've made strong progress again in CapEx. A good element coming from the Textiles and Washrooms division which accounts for a large share of our overall CapEx, particularly the EFR within the Textiles.

Year-on-year savings at the moment are around GBP12 million. If you actually look at that at constant rates it's more like GBP25 million, actually, moving us towards the 85% CapEx depreciation versus the [114%] as you say. It really depends what happens obviously with regards to the business, we are focusing on cutting down the CapEx. The businesses have taken note of that. There are less CapExes coming through. Most CapExes get signed off by us in the center, so that's made a difference.

Of course there is an element of growth-related CapEx within Textiles and Washrooms, but again we have talked about where we can improve upon that through better procurement.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

So we're hoping that we can maintain the progress so far but to -- will I say there's going to be 85% conversion at the year end? I'm not going to commit to that, by no means, but somewhere around the [one mark] conversion would be I think satisfactory.

David Hancock - Morgan Stanley - Analyst

Great, thanks. And then the second question was just around control issues where you clearly highlighted some issues in Spain, in China. How far do you feel fully through unearthing anything there is to unearth?

And I also note your comments about the Hong Kong government contract which was I think quite a decent size contract, that you said obviously is a zero margin. Is there anything more of that kind to find, and contract shedding perhaps to come? Thanks

Alan Brown - Rentokil Initial Plc - CEO

Well, I think saying you're never going to have a control issue again is a bit like a certain CEO saying they're never going to issue equity. You don't do that type of thing. But having said, the progress we've made in terms of general controls has been pretty good and I think that's been driven particularly by the 18 KPIs we have, because they are often lead indicators coming through the operational performance of the control breakdown. And we did see it in China, to be honest with you, and we saw the day sales going out to ridiculous lengths which put us on alert there was a problem there.

So I think that with those 18 controls you do pick up earlier a sense of when things are not right. We still can have things going wrong of course, if you get absolute, complete fraud then you're a bit stuffed, to be honest with you.

But having said that, I think we've been much more focused in terms of our auditing as well, an initiative announced to bring together external and internal audit I think will give greater focus on the areas that are important. So am I happy with the controls environment, no, a chief executive is never happy with it. Do I think we've made progress? Absolutely.

With regard to zero profitability contracts, again talk to Peter Lloyd afterwards. The UK Washrooms business, as you know, we've not talked about very much about it this time, but it's making steady rather than startling progress. But within that portfolio, there's no doubt that the range of pricing is too wide, and there'll be some contracts there which perhaps are not as profitable as they would need to be. But this is more a nickel and diming at the edges, putting here and there (inaudible) a big contract which is unprofitable. We do not generally have big contracts in the business, so it'll be more little things moving at the edges round rather than a big turn of the wheel.

David Hancock - Morgan Stanley - Analyst

Thank you.

Craig Fraser - Libernum Capital - Analyst

Good morning. It's Craig Fraser at Libernum Capital. And this statement alludes to some thoughts around resuming a dividend payment. And as you start to grapple with that issue again, I wonder if you have formulated even the embryo of a dividend policy in terms of cash cover or earnings cover?

And then related to that, there are still some credit facilities outstanding with fairly big spreads over LIBOR which would allow you a fairly good guaranteed return by retiring them. I'm just quite interested that you're thinking about paying a dividend when there are still quite big credit spreads to be bought back in?



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Alan Brown - Rentokil Initial Plc - CEO

With regards to -- I'll leave Michael to think of the second point because I don't quite understand. But the first question, if I can handle that one, I think that in terms of cash delivery we're still making very good progress. And our dividend policy is extremely clear in terms of payout ratios, but the caveat with that policy is that there has to be enough cash to pay it. And that's a rather important caveat. Undoubtedly we do have the cash, but we'd rather use it to pay down the debt at the moment.

So I think what we're saying is that once we get the GBP125 million away, and stop paying commitment fees, and that and once we get to that place we'll have at least GBP200 million of headroom within our long dated facilities, then we'll come back and look at it. And the cash caveat will no longer be the trigger for not paying the dividend. There will have to be some other caveat for not paying the dividend.

And one would have to say, based on the current numbers, that it looks as if we will not have a cash constraint on the business once we get into Q1 2010, Q2 2010.

Craig Fraser - Libernum Capital - Analyst

Understood, thank you. I guess really what I was asking was, is there a further stage of debt pay-down before one gets a dividend? Because there are still some fairly big credit spreads out there. I just wonder if you feel that this pay-down's obviously very beneficial. Do you feel there's a second pay-down before you actually get to a dividend?

Alan Brown - Rentokil Initial Plc - CEO

Your question is can we buy back our debt on the cheap, is that right?

Craig Fraser - Libernum Capital - Analyst

You're recasting my words, but yes.

Michael Murray - Rentokil Initial Plc - CFO

I don't think it's something that we've considered. Again we're probably repeating ourselves. The main terms of the RCF facility at the year-end, getting the cash in. The further debt that we've got has got a pretty -- is relatively mature in terms of its expiry date, starting at the end of 2012 going forward.

Alan Brown - Rentokil Initial Plc - CEO

The risk is pretty good apart from two small ones. But we'll take on notice what you say. I think we'll explore it with our shareholders when we're in that nice position of not having a cash constraint. So that might be a discussion for early next year.

Craig Fraser - Libernum Capital - Analyst

Thank you.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Mike Murphy - Numis Securities - Analyst

Thank you. Mike Murphy at Numis. If I can find the page on the central costs which I had. Can you just give us a steer towards the second half? Because clearly you've alluded to the increase in the accruals on the incentive schemes. Presumably you double that up for the year?

Or is that --?

Michael Murray - Rentokil Initial Plc - CFO

I would expect, there's obviously (inaudible) on performance and therefore targets, but I would expect that the second half of this year will be no greater than the second half of last year.

Mike Murphy - Numis Securities - Analyst

Okay.

Michael Murray - Rentokil Initial Plc - CFO

And that's in terms of overall costs.

Mike Murphy - Numis Securities - Analyst

And is there anything -- you've alluded to the savings or attacking the admin costs. Is there any -- what can you do at the center, and is there changes that's going on through the Group in terms of how they're managing their costs such as IT and HR, etc?

Michael Murray - Rentokil Initial Plc - CFO

Well, hopefully, there's a lot that can be done from the center, and certainly in terms of getting the project kicked off and having the project managed from the center with central functional ownership. So I sponsor several of the programs that Alan showed earlier on, such as the Record to Report, Procure to Pay.

Alan himself sponsors probably the biggest area, which is the Prospect to Cash, and there was a few HR elements, sponsored by the Group HR Director. There's more to life than sponsoring, of course, and we've got a project team in place that we've built up through resources from the field. The real action will happen in the business, rolling out the standard systems, rolling out the standard processes. So it's a Group-led initiative with the --

Mike Murphy - Numis Securities - Analyst

Have been able to identify, though, which are the major areas within there actually that you can reduce on the admin costs?

Alan Brown - Rentokil Initial Plc - CEO

Clearly we have done. We did an exercise, some time ago, which indicated we had over 1,400 finance and admin-related people in our business. And we were clearly at the bottom of the pile in terms of productivity amongst the benchmark companies.

Jul. 31. 2009 / 8:15AM, RTOXY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

So I think -- we said we'd 583 people working in the [contract] team alone, about 1,400, which is a bit excessive. And of course, that was linked through to trying to deal with the accounts receivable mountain we had to climb at that time. That mountain's come down to more of a hillock, I'm glad to say, in recent times. So we've been looking to make savings there. We'll continue to make big savings.

Michael Murray - Rentokil Initial Plc - CFO

And there are a number of savings coming through this year in that area, precisely for the reason Alan said, that the mountain of debt's beginning to disappear with that. The headcount required to help us actually collect the cash, so it's naturally disappearing.

But with regards to the area of finance and Project Olympic, indeed there were 1,500 or so finance people. Research that we have got tells us that there's too many people being inefficient, and therefore there's scope, through the standard processes, through the standard systems, and better training and standardization that we reduce those costs and get better quality as a result.

Alan Brown - Rentokil Initial Plc - CEO

We can give you various other examples. I've talked about the property one, GBP7 million out of GBP70 million has gone out this year. And head office has led by example. I've talked about the auditing where we've reduced our auditing, or hope to reduce our auditing costs by 30%, which I think is pretty exceptional.

I'll give you another example; through getting hold of the IT infrastructure we have had quotes, through increasing competition, into running our e-mail service across the business, which are less than one-third of the cost they are currently. Less than one-third. And we are moving fast to implement, I can assure you. We're moving fast to implement.

So by getting Group leverage in a number of these areas, we are making hay, to be honest with you. The thing that's just holding us back is just the sheer managerial ability to implement the change that goes with this. You don't implement a change to your e-mail system overnight, but you're damned sure you're go for it if you're reducing your costs by 70%.

Mike Murphy - Numis Securities - Analyst

And can I just have a follow-up question on Andrew's questions on the parcels business? Would it be fair to say that the fall-through contribution from additional sales is about 40%; i.e., the fixed cost of the Group is roughly about 40% of costs -- sorry, 40% of revenues?

Michael Murray - Rentokil Initial Plc - CFO

The 40% is fixed cost is margin.

Mike Murphy - Numis Securities - Analyst

Is the contribution from an extra GBP1 of sales?

Michael Murray - Rentokil Initial Plc - CFO

I would say it would be less than that, between 30% and 40%.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Mike Murphy - Numis Securities - Analyst

I'm just going back to a presentation given two years ago by your previous -- obviously the (inaudible) management team. But they were, I think in terms of doing their variance analysis, suggested that 40% -- I think they lost revenue of GBP30 million and (multiple speakers).

Michael Murray - Rentokil Initial Plc - CFO

Different circumstances I think (inaudible).

Alan Brown - Rentokil Initial Plc - CEO

Yes, I'm not really keen to get drawn into that, because it varies a lot by contract, it varies a lot on the route density, it varies a lot in the type of service you're doing. We had one contract which was about collecting checks for a particular financial institution, which was hellishly difficult to execute. The number of times you'd turn up to collect something on behalf of the financial institution and the person wasn't there was a nightmare.

On the other hand, you can get some quite high volume point-to-point deliveries, which there's a lot of efficiency, and you can make good money on. So there's a lot of variability in the marketplace, particularly in our marketplace, because we are a domestic carrier and the heartland of our business is the small to medium sized enterprise. And we are prepared to do bespoke things for those enterprises. So you really have to price contract by contract.

So I'm not keen to get drawn into what is the incremental, because if you look at it the other way round, we have lost business this year, and yet our profit has gone up by whatever it is, GBP26 million, GBP27 million.

Michael Murray - Rentokil Initial Plc - CFO

I think the whole thing is -- I don't know what was presented two years ago, but the whole thing's muddled a bit by the fact that we are actually taking costs out of the business, as well as the revenue moving. So it's not that easy to compare with what happened two years ago.

Mike Murphy - Numis Securities - Analyst

But once you've reached a stabilized cost base of about GBP83 million a quarter, which is where you're at, at the moment, then additional revenue --

Alan Brown - Rentokil Initial Plc - CEO

I think that the start of that -- the starting point of the hypothesis in our case is probably not correct. Our costs are more flexible than most other carriers. We have very little mechanization because of our cage-based operating system. So we're able to vary our infrastructure, I think, to a much greater degree than other carriers.

City Link is not going to invest GBP30 million in a new hub, or GBP40 million or GBP50 million in a new hub. If you start to go for a big mech hub, you are taking GBP40 million to GBP50 million. We do not do that; we don't have that big mech. So that's why I think it's not easy to draw comparison between ourselves and our competitors, because we are much more flexible. And we have a very bespoke service which, we believe, offers excellent security and protection to our customers, whereas --



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

Mike Murphy - Numis Securities - Analyst

I've got a presentation from a couple of years ago, maybe we'll go through that offline, actually. That shows the variable costs and the mixed costs of the business.

Alan Brown - Rentokil Initial Plc - CEO

Happy to.

Hector Forsythe - Oriel Securities - Analyst

Good morning. Hector Forsythe from Oriel. Just on capital structure, a couple of questions. You are where you are, and I can understand the way that you're proceeding, but where would you like to get to, in terms of the mix in equity and debt?

And the second part is, are there any observations you'd like to throw in on the movement on the pension liability? It's clearly ticked up.

Michael Murray - Rentokil Initial Plc - CFO

Do you want pensions?

Alan Brown - Rentokil Initial Plc - CEO

The first part, regarding the equity and debt. I'd like the equity to get a lot bigger, please, that's quite clear. With regard to the pension (inaudible) --

Michael Murray - Rentokil Initial Plc - CFO

Thanks, Alan. On the pensions bit, yes, indeed at the end of last year we had a surplus of GBP154 million at the end of June. That became a deficit of GBP96 million. Therefore a fairly big shift in pretty volatile markets. Underlying that, we don't believe there's a major change in the base underlying pension scheme. We do have underlying that, though, a large number of swaps, which have shown volatility which have contributed to this, which have been put in place, by the way, a number of years ago to even out cash in, cash out over the next 40 to 50 years. So there's a matching. That does have some volatility to it.

And it's something, of course, that we're looking at. But the next formal valuation of the scheme is March of next year, so we'll be looking at that as we go forward in terms of how it progresses.

Alan Brown - Rentokil Initial Plc - CEO

On the -- only slightly less different response on the equity and debt side is that the way to drive it is by getting the equity out. You have a highly incentivized management team who are committed to doing the right things by the customers. And we think that the actions we're taking will, over the longer term, and I always stress that, over the longer term, will drive significant value.

And I'm really not very much focused on the debt. It's tidy. Once we get rid of the GBP125 million, it's really tidy. It's not expensive, long maturity, and I don't feel strongly about it. We're not likely to go on a major acquisitions binge. It just doesn't fit with our agenda. It's about driving value from the existing businesses.



Jul. 31. 2009 / 8:15AM, RTOKY - Interim 2009 Rentokil Initial plc Earnings Conference Presentation

And, as I say, I hope you've got the impression that the key concern I have is that we're struggling to cope with the opportunities, rather than having to dive down looking for things to do. So I think the debt will look after itself, as long as the operating performance comes through.

The interest cover ratios, they're undoubtedly going to improve pretty rapidly, if we stay on the current track. 5.6 times per half year, any analyst will say, it's clear you're going to go above 6 times by the year end, if we stay anywhere near to the track we're going on.

So I think it's not a worry for me at all. I'd rather much more focus on the operational issues, as we have done over the last six months, to drive the equity performance and get us clear of any worries about the debt.

Hector Forsythe - *Oriel Securities - Analyst*

Thank you.

Alan Brown - *Rentokil Initial Plc - CEO*

I think we're probably down to the last one, if there's one final question? No? Thank you very much indeed.

Michael Murray - *Rentokil Initial Plc - CFO*

Thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2009, Thomson Reuters. All Rights Reserved.

