

FINAL TRANSCRIPT

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RTOKY - Rentokil Initial plc Quarter 3 Trading Update Conference Call

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PRESENTATION

Operator

Good day and welcome to the Rentokil Initial trading update conference call. Today's conference being recorded. At this time I would like to turn the conference over to Mr. Alan Brown. Please go ahead.

Alan Brown - Rentokil Initial plc - CEO

Thank you, good morning everyone. Alan Brown speaking, Rentokil's Chief Executive. And we have Michael Murray our Chief Financial Officer.

Overall the third quarter had demonstrated good and continued operational progress in nevertheless difficult trading conditions. And we've made good progress on four of our five operational priorities, not yet so much progress on the growth agenda however. Revenue's up 3.6% in the third quarter at actual rates, a constant rate this would have been down 3%. Adjusted operating profit at GBP49.6m has more than doubled year on year. This compares with market consensus for (inaudible) GBP46m.

The improvement was driven by firstly progress, further progress in fixing the turnaround businesses. Again City Link made a big contribution. Secondly the avoidance of bad debt provisions that we had to take in Q3 2008, particularly the UK Washrooms business. And that avoidance of bad debt provisions of course has been driven by the progress we've made on accounts receivable. And thirdly we are benefiting from favorable currency, given that about 70% of our earnings stream is in euro. Nevertheless at constant rates the increase in profit was still very substantial (inaudible) 80%.



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And we made further progress during the quarter in services, in cost management and especially on cash. Operating cash flow GBP104.2m was three times the operating cash flow in Q3 2008. And this represents a cash conversion of 160%, 159% of profit which is well ahead of our target for the year.

And you'll recall we stated at the interims that we intended to retire our unused GBP125m foreign revolving credit facility by the year-end. We've got this forward to September and we have retired this facility (inaudible) to the strong cash flows which have been borne out.

We've made further improvements in our days sales outstanding and we are currently at our full-year target of 55 days. And this is important to [mention]. I think it's certainly a very pleasing reduction, given that we started the year at well over 60 days.

A quick comment on the divisions, if I may. City Link, we've further reduced the forecast operating loss for the year, from GBP12m to GBP7m, driven primarily by cost management, which has more than compensated for quite tough market conditions. They were -- I am pleased to say the business is being pretty consistently at the moment.

The European Textiles and Washrooms business, again, saw modest but encouraging portfolio growth during the fourth quarter, and a number of our instruction programs have now commenced. The pension program to close the plants -- three plants is underway, and we have various other smaller initiatives in Spain, Italy, Switzerland and in the Netherlands divisional Head Office. We are also close to stitching together a supply chain organization, not only to oversee the restructuring program across Europe, but also to implement a major opportunity we have on the procurement of garments across our Textiles business in Europe.

Pest, again, had a good quarter, with some good portfolio growth, particularly in the US, and customer service has been excellent. I am particularly pleased that we have had further progress in the UK Pest business. One of the things I think we've done quite well over the last 18 months is that, when we identify a problem business, we fix it. Service in UK Pest is now 99.9%. Client retention, though still not good, has risen to 76% in August and September, which is the highest level for quite some time. Sales -- or new business, I should say, new business from SME customers are at their highest level for 18 months. And, pleasingly, also, we are seeing much less turnover of staff in critical sales and service roles.

So, again, in Q3, we've made good operational progress, and I would expect that Q4 will also benefit from further operational improvements. Looking further ahead, we have a lot of opportunities and challenges. We see service productivity being an area that there's room for further improvement. And, of course, (inaudible) Olympic, where we see significant opportunities to improve back-office efficiency and reduce admin costs, and to deliver a much better service at the same time.

But the biggest challenge, of course, is to develop and implement the strong and sustainable growth agenda. We are making progress on this. We have had significant discussions with the Board earlier in the week about our plans. I'm not going to say a lot about it now, but we will tell you much more about our growth agenda when we get to the year-end results in February. At that point, I'll stop talking for a moment and hand the call back to the operator and Michael and I will be delighted to take any questions you might have.

QUESTIONS AND ANSWERS

Operator

Thank you. The question and answer session will be conducted electronically. (Operator Instructions). We will take our first question from Tom Sykes from Deutsche Bank. Please go ahead.



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Tom Sykes - Deutsche Bank - Analyst

Yes. Good morning everybody. I just wanted to ask a question on the top line. Obviously, you're seeing the 3% cost in currency reduction. Your portfolio is relatively flat. Presumably, there is some weakness in what's probably a slightly more cyclical job in your businesses. Your churn is still relatively high, with the reduction still ahead of the additions. When do you think you might start seeing some improvements on the revenue side? Or do you think the portfolio is going to continue to be stable, maybe come under pressure, going forward?

Alan Brown - Rentokil Initial plc - CEO

Tom, thanks for the question. I'm loath to give really firm projections on the top line, as I told you, difficult to do. I think what I would say is that the Textiles and Washrooms business in Europe, which is obviously a very profitable business, has continued to see portfolio growth. And, overall, the Pest business has also seen modest growth. The area where we've struggled, in particular, has been in Ambius, the IFS business, and also in the [IFS] portfolio, the Cleaning business portfolio, which tends to be at a relatively low margin.

Now, the IFS business, I think, is difficult to predict. It's a little bit more lumpy, in terms of revenue, as far as you can lose some contracts but also win some big contracts. So it's quite a tough one to call, on IFS. What we do know, however, from -- in our history, going back years, is that the IFS profitability is actually much more stable than its revenue, because of the ability to -- the (inaudible) arrangements arrangements to lay on costs very, very quickly.

Tom Sykes - Deutsche Bank - Analyst

Right.

Alan Brown - Rentokil Initial plc - CEO

So, I'm really a bit loath to give any guidance on IFS, at this stage. It's a tough market, and I think it's going to continue to be tough for some time, but I don't think it will have a material impact on our bottom line. The Ambius business is clearly going to continue to have a tough trading position, for at least the next six to nine months.

If the GDP forecasts are to be believed, then we will be into some growth next year, across our markets, (inaudible) with the UK, with the growth strengthening as the year goes on. So, if we do see GDP growth climbing towards 3% plus towards the end of the next year, then I think Ambius will start to recover, because it does follow the GDP cycle quite closely.

Tom Sykes - Deutsche Bank - Analyst

Okay.

Alan Brown - Rentokil Initial plc - CEO

I think the crucial ones, of course, are Pest and Washrooms, and that I think will depend, to some significant extent, on the quality of the initiatives, that I will be talking about when we get to the full-year results. And those initiatives are, predominantly, organic growth initiatives. They are initiatives relating to the market agendas we have and to the sales agendas we have. And it's not a question about returning to growth. It's about whether we can accelerate the admittedly modest growth that's there at the moment. And I would have thought that we will be hopeful of seeing the results of these initiatives -- early results of these initiatives by the time we get to Q3 next year.



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Tom Sykes - Deutsche Bank - Analyst

Okay. Great. Thank you very much.

Alan Brown - Rentokil Initial plc - CEO

Thanks, Tom.

Operator

We will take our next question from Andrew Ripper from Merrill Lynch. Please go ahead.

Andrew Ripper - Merrill Lynch - Analyst

Yes. Morning chaps.

Alan Brown - Rentokil Initial plc - CEO

Morning Andrew.

Michael Murray - Rentokil Initial plc - CFO

Morning.

Andrew Ripper - Merrill Lynch - Analyst

First question. In terms of the cost and productivity agenda, can you give us a sense of what your aggregate expectation is for 2010? I think, previously, you'd talked around GBP40m, GBP50m. I guess you're a little bit into the budget process now. Are you able to give us a firmer view, please?

Michael Murray - Rentokil Initial plc - CFO

Yes, (inaudible) Michael. I think we're still looking at a similar range of GBP40m to GBP50m. Obviously, that may become a little bit more clarified over the next few months, as the budget process progresses. But we're still within that range, with obviously a fair share coming from -- continuing to come from the City Link business, but also spread across the other divisions.

Andrew Ripper - Merrill Lynch - Analyst

Yes, okay.

Alan Brown - Rentokil Initial plc - CEO

Andrew, on our budget process, I have a very particular view about this. I'm always the last to let breakers when it comes to budgeting. So, our budgeting process really gets settled in mid-December, early January, because I believe, very strongly, in seeing, as close as possible, the outcome of 2009, before we finalize the budgets for 2010.



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Andrew Ripper - Merrill Lynch - Analyst

Yes.

Alan Brown - Rentokil Initial plc - CEO

So, at this stage, I think we've got very good clarity on all the initiatives, very good clarity. What we haven't done is to finalize the specific numbers to go behind each of those initiatives, but that will be settled by the time we get, obviously, to the full-year results announcement.

Andrew Ripper - Merrill Lynch - Analyst

Yes, okay. And then, in terms of the swing factors which could influence 2010, clearly the cost agenda is going to be the most significant. Obviously, we're going to move on to talk about the growth initiatives at the final. Is there anything else that you would flag, aside from economic factors, where you have an influence, where -- which are going to be swing factors for next year, that you could flag today?

Alan Brown - Rentokil Initial plc - CEO

I think that some of the things that we will talk about on the growth agenda, I think, are swing factors for the business, but probably not in 2010. I think they're more likely the swing factors in 2011, 2012.

Andrew Ripper - Merrill Lynch - Analyst

Yes.

Alan Brown - Rentokil Initial plc - CEO

That's not to imply that the growth agenda will not have an impact in 2010. It will have an impact in 2010, but I think there will be a range that (inaudible) will talk about, some of which will have a fairly immediate impact, some of which will have a longer term impact.

Andrew Ripper - Merrill Lynch - Analyst

Yes. And, basically, if you look -- the last couple of Management teams have tried and failed to consistently improve the growth profile of the Group. But you guys, I think, have made more efforts to fix structural problems within the business and, obviously, you've demonstrated an improvement in service levels. Do you feel, in terms of moving to a more growth-orientated strategy, that those fixes now are embedded? It's a better place to work and you're able to, potentially, get a better payback on incremental investments in sales and marketing now? You're in a position, basically, to press the accelerator?

Alan Brown - Rentokil Initial plc - CEO

Well, I think that -- two different thoughts I could give you on that. I think you're absolutely right that, of course, there's no point in telling a story if you can't deliver on it. That's rule number one of one of marketing. And I am certainly of the view that the basic service levels of the business are now as good, if not better, than the competition, in most of our markets. We're not there



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everywhere, but we've moved an enormous way forward. So, I think the basic service levels are now pretty good and, yes, one can capitalize on that.

I think the added-value service level, particularly in terms of information to our customers, is still weak, in a number of places, most notably in City Link. Our information systems are not yet sorted out, and won't be sorted out for another nine months, in my view. So, there's more added value to be delivered, in terms of service, particularly on the information side. But the -- so that's one train of thought. So, I think that, certainly, because the basic service levels are now relatively good, money spent on convincing new customers will be well spent, because we will deliver.

The second, I think, train of thought is, I can share with you some of the deficiencies we currently have. I'm not yet going to share with you the -- our responses, but some of the deficiencies I'll share with you. I think the most profound deficiency we have is a lack of marketing in the business. We rely much too much on the personal initiative of individual salespeople to win business. We give them training, but then we send them out and tell them to work a patch, with very little direction, in terms of what particular target customers we should be aiming for.

Andrew Ripper - *Merrill Lynch - Analyst*

Yes.

Alan Brown - *Rentokil Initial plc - CEO*

So I think there's a lot that can be done to bring -- with marketing in terms of what researching customer base, and marketing in terms of what propositions are relevant to specific customers, to improve the growth rates of the business. So that's my analysis, but I would obviously want to see some evidence that this was kicked off delivery, before I would raise the flag to the victory of growth.

Andrew Ripper - *Merrill Lynch - Analyst*

Yes.

Alan Brown - *Rentokil Initial plc - CEO*

But I certainly will be able to tell you more about what we're going to do when we get to the year end. It will then take, I think, a few quarters, before we see whether it's actually delivering.

Andrew Ripper - *Merrill Lynch - Analyst*

Yes. And, in terms of the cost of these growth initiatives, is it likely to be material in 2010? Will you reinvest some of the GBP40m to GBP50m of cost savings in these?

Alan Brown - *Rentokil Initial plc - CEO*

Well, I don't think the cost is material itself, but, obviously, of course market conditions will dictate that we -- would we invest some of the savings we're making, of course they will.



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Andrew Ripper - Merrill Lynch - Analyst

Yes.

Alan Brown - Rentokil Initial plc - CEO

The pricing pressures are -- in the markets are actually, probably, the bigger issue we have at the moment, rather than volume pressures.

Andrew Ripper - Merrill Lynch - Analyst

Yes, okay. And then, just finally from me, on the cash flow. The CapEx was quit low in the third quarter. Can you give us some guidance, please, for CapEx, in Q4 / full year? And, with the Textile agenda next year gathering pace, presumably you guys are trying to get your asset turnover up. Can we expect CapEx to run below depreciation next year? And is Textile investment the biggest component of that?

Alan Brown - Rentokil Initial plc - CEO

I think we'd better leave it until we get to the year end, to give you some better guidance. It's one of these things that people are learning as they go, Andrew. I think that the operators are pretty amazed at the CapEx they haven't had to spend this year. They're really quite astonished about it. And, of course, we still really have to wait and see whether we have actually made a fundamental change in understanding about capital expenditure, or whether there's going to be some correction. Clearly, there will be some correction related to the restructuring expenditure, but I, again, don't want to call it an underlying change too quickly.

I think the answer is somewhere in between, to be honest with you. I think we have made a structural change in CapEx, and there is more to do in that area. The most fundamental area, of course, is the equipment for rental in the European Textiles business, where we can see we've been paying too much for our garments.

Andrew Ripper - Merrill Lynch - Analyst

Yes.

Alan Brown - Rentokil Initial plc - CEO

We can see we've been buying too many garments, and we can see that there's an enormous opportunity for improving that area. For example, we looked at an example on Monday, where, in one pair of pants, in one country, for one business, we were buying 504 different SKUs. 504 different SKUs for, basically, one pair of pants. Totally, totally nonsensical. Even Imelda Marcos couldn't have managed that.

Andrew Ripper - Merrill Lynch - Analyst

I think, if it was shoes, my wife could.

Alan Brown - Rentokil Initial plc - CEO

So I think that this CapEx problem -- we'll give you some more guidance at the year end.



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Andrew Ripper - *Merrill Lynch - Analyst*

Okay.

Alan Brown - *Rentokil Initial plc - CEO*

I'm pretty aggressive about this, but I'm being held back by my colleagues, saying we're going to get some correction.

Andrew Ripper - *Merrill Lynch - Analyst*

Yes, all right. Well, I appreciate your answers anyway. Thank you.

Operator

We will now take our next question, from David Hancock from Morgan Stanley. Please go ahead.

David Hancock - *Morgan Stanley - Analyst*

Thank you, yes. Good morning. The first question is a follow-up to Andrew's, on cost-saving and procurement initiatives, and that was specifically about 2010, but I wonder if you can talk about longer term? You said you'd updated the strategic plan during the quarter and I just wonder, through the whole of the project, or Program Olympic, are you able to quantify what you think the long-term opportunity might be? And, in particular, with reference to the GBP500m of admin spend that you've identified, do you have a sense of where that could come down to in the longer term?

Alan Brown - *Rentokil Initial plc - CEO*

Yes, I do have a very clear sense, but I'm keeping that to myself at the moment, David. We'll mull over what guidance to give you at the year-end but, no, we've got very clear targets in relation to Olympic.

But I think that what's become clear is that Olympic has moved on. It also is potentially very important, in terms of facilitating the growth agenda, because Olympic is about systems. It's about capturing prospects, prospective customers, on our databases, and keeping them there. And everything has to go back to them. At the moment, far too much of the information that we have about prospective customers is in the minds of sales reps. And if you've got sales rep turnover of close to 50% per annum, which we have in many of our businesses, the information on those prospects walks out the door with the sales guy.

So, I think what we see with Olympic is that, yes, the cost savings are in line with what we initially targeted, in terms of the general direction. But, yes, there's also an opportunity to facilitate the growth agenda through Olympic.

David Hancock - *Morgan Stanley - Analyst*

Thanks. And then a follow-up on this year, in terms of the seasonality of the business. Can you just give a sense of how Q4 might look, relative to Q3, with the various seasonal moves in the different business units?

Alan Brown - *Rentokil Initial plc - CEO*

I'm sure (inaudible) given you some technical advice now, but I have the (inaudible).



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Michael Murray - Rentokil Initial plc - CFO

Yes, David, there is seasonal impact on the business always, in Q4. Some go up and some go down, so Q4 should be a -- is normally a good quarter for the Transportation business and for the -- and therefore for (inaudible). Pest, less so, because the seasonal uplift there is January, in quarters two and quarter three of the year, particularly in the USA, just given the weather conditions and therefore the -- in terms of Pest. Ambius should have a tick-up, due to the seasonal Christmas business in the USA and the UK. So, there are ups and there's downs but, generally, what we find is that Q4 should be at least on Q3, if not slightly better, in terms of overall results for the Group.

David Hancock - Morgan Stanley - Analyst

Great. Thank you. And then the last quick detailed one. You mentioned in the release, asset write-offs in the Textile and Washroom business. Could you just quantify those and say -- are they included in the adjusted operating profit number?

Alan Brown - Rentokil Initial plc - CEO

Yes.

Michael Murray - Rentokil Initial plc - CFO

No, they're not. But the two write-offs, they're in the normal results, so they're not taken as one-offs. They're in the in normal results. And there's three items to do with not-released stock, and then write-offs of costs in one of our Scandinavian countries. So, one-off items, but not treated as one-off, in terms of the definition, not to be repeated.

David Hancock - Morgan Stanley - Analyst

And then can you quantify that for us?

Michael Murray - Rentokil Initial plc - CFO

In total, about -- just over GBP1m.

David Hancock - Morgan Stanley - Analyst

Perfect. Thanks very much.

Alan Brown - Rentokil Initial plc - CEO

We've also got asset write-downs, of course, for the restructuring, but that's completely separate.

Michael Murray - Rentokil Initial plc - CFO

Exactly.



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David Hancock - Morgan Stanley - Analyst

Thank you.

Operator

We will now take our next question from Mike Murphy from Numis Securities. Please go ahead.

Mike Murphy - Numis Securities - Analyst

Morning guys.

Alan Brown - Rentokil Initial plc - CEO

Good morning.

Mike Murphy - Numis Securities - Analyst

If I could just return to City Link. I wonder if you can just quantify, actually, what the impact is, just recently, of the Post Office strike on your existing customers. You did say it's modest, but I wonder if you can quantify that?

And also, in terms of -- there is a guidance for the fourth quarter now, for a profit of GBP1.3m. Can you say exactly what your cost base is, running into the fourth quarter? Because, if you take last year, clearly, Q3 was very inflated, with a cost base of GBP105m, and in Q3 this year it's GBP86.4m. Clearly, as you -- a big cost base in Q4 of last year of GBP101m. Can you give us some flavor of what it is at the moment, and how quickly you can ramp that up or down, depending on whether the Christmas period goes according to plan or against plan?

Alan Brown - Rentokil Initial plc - CEO

Yes. I think that, Mike, the Royal Mail impact has not been great. It's been a (expletive) factor actually, to use a technical term for -- its led to a lot of short-term volume. We've had to bring in short-term resource. And the view in the business is that it really hasn't made us any money at all. In fact, I was talking to the Managing Director of the business before the call. He actually was quite relieved to hear the Royal Mail strike was over and get back to business as usual.

Mike Murphy - Numis Securities - Analyst

Is that because of new customers, the problem of new customers rather than existing customers I'd imagine?

Alan Brown - Rentokil Initial plc - CEO

Well no, we've focused on our existing customers, really tried to help out our existing customers to deal with these sudden peaks. Amazon for example clearly has to switch business post to us and the home delivery network so it can cope with the problems of the Royal Mail strike. But it's been very costly to service. It's just so sudden and then it switches off equally quickly of course.



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And in regard to our cost base going forward in Q4 and our revenue base I think in Q4 should be reasonable. The Internet buying businesses continue to perform well and they have to do lot to compensate for the depressed nature of the B to B businesses we've certainly experienced.

Our cost base is I have to say one of the most flexible of the carriers. I think we've demonstrated by being able to cut our costs very quickly. But equally if revenues dip up very suddenly we then have to buy in a lot of cost to make sure we maintain our service levels. I think you understand why this is. We don't have a big mechanized hub. We tend to do our sorting at individual depots, therefore we feel we've got quite a lot of variability in our cost base.

But the real thing we've been doing, of course, is to massively improve productivity over time. And that's through -- we are down now to 86 depots, I think, from 98 or 100 we were at the beginning of the year. We now see that our depot numbers are probably going to go below 70 when we get to 2011. We're pretty confident that we'll be able to go to one hub Q2 2010. I think it's all for us about productivity and though we see all that flowing through. I'm not going to give particular guidance on the cost base in Q4, all we can say is we're pretty confident that the cost will be less than the revenue.

Mike Murphy - Numis Securities - Analyst

Okay.

Operator

We will take our next question from Iain Armstrong from Brewin Dolphin. Please go ahead.

Iain Armstrong - Brewin Dolphin - Analyst

Good morning gentlemen. It's a very, very simple question I suppose. You talked about the effects of the postal strike on the City Link. I was wondering actually what sort of positive impact you might have had in the third quarter from swine flu in the Textile and Washrooms.

Alan Brown - Rentokil Initial plc - CEO

Yes, we have seen in the Washrooms business a big increase in demand for hand sanitization. On that in particular has driven out in Asia and a little bit in Europe. Again not significant for the Group as a whole but the hand sanitization has been a big factor within that sector during the quarter.

Iain Armstrong - Brewin Dolphin - Analyst

Is that a one off effect, do you think actually the very fact that now that it will continue for two of three quarters.

Alan Brown - Rentokil Initial plc - CEO

I think it's, judging by my Asian experience, it's not a one off effect. I think that there has been really a sea change in consumer understanding of hygiene. I saw this throughout my time in China with the SARS crisis and then carrying on. I was in China last week and it just seems to have become a part of everyday life there now. Much, much greater consciousness of hygiene.

We weren't about to meet demand I have to say in Q3 such was the sudden up tick. So we weren't able to get full benefit of it. So I think that there is an opportunity there, which we are not fully exploiting at the moment because a lot of the hand sanitization



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stock been round in counters of various offices. It's all pretty crude and we're truly thinking about whether we can do something, which has much better permanency and more effective way of helping people deal with this need.

Iain Armstrong - *Brewin Dolphin - Analyst*

Would you say that it was a benefit to the top line that actually, just like you've mentioned with regard to City Link, there's actually extra costs involved in fitting all these antibacterial hand wash machines etc. And that the benefit will actually be seen over the next couple of quarters rather than the quarter just reported.

Alan Brown - *Rentokil Initial plc - CEO*

No. I wasn't saying that so much. I was saying that because demand was so strong there just wasn't enough supply. We weren't able to meet demand so we didn't get the full benefit we might have done. And I think even though demand will cool off a little bit going forward at least we should be able to meet supply and therefore we'll see I think some reasonable benefit from that.

But the second point is that at the moment I think the solutions are somewhat crude. And there are opportunities for more sophisticated solutions going forward. I reviewed some of the more sophisticated solutions that are, for example, currently being sold in Korea which are much more permanent, much more hygienic even than the solutions that are currently available in the UK. So we think there's an opportunity there but it'll take a while to implement.

Iain Armstrong - *Brewin Dolphin - Analyst*

Thank you.

Operator

We will take our next question from Hector Forsythe from Oriel. Please go ahead.

Hector Forsythe - *Oriel - Analyst*

Good morning guys, couple of questions. First one on finance costs. When you gave the presentation for 2008 at the beginning of the year you were indicating that the fixed, the interest costs rolled off as you went through the year. Can you give some indication if that's still the case so that you're now I guess hopefully moving more towards a floating base and how that sustains itself into 2010.

Alan Brown - *Rentokil Initial plc - CEO*

For this year indeed Q2 and Q3 interest costs went up because of we made agreements we mentioned to you last year in 2008 for those two quarters. Those have now rolled off and so we're back to normalized level in Q4, which will be therefore around the Q1 level in terms of interest cost. And then going into next year of course there's a high level of fixed nature, sorry, (inaudible) nature (inaudible) costs at lower interest cost levels for next year.

Hector Forsythe - *Oriel - Analyst*

Fabulous, thank you. Also I saw a headline flash by on -- that Alan, you'd made some comments on the dividend.



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Alan Brown - *Rentokil Initial plc - CEO*

I think my comment was a non-comment.

Hector Forsythe - *Oriel - Analyst*

Okay.

Alan Brown - *Rentokil Initial plc - CEO*

I think I was asked the question have you any update on that you'll review the dividend in 2010. I said no. I've no update on that comment.

Hector Forsythe - *Oriel - Analyst*

Okay, fine. And one final question on City Link. Can you give us a flavor of customer wins or losses and whether that's brought about a change in the nature of the customer base? Perhaps the more B to C type structure.

Alan Brown - *Rentokil Initial plc - CEO*

Yes, I can give you a flavor. We did lose some customers in Q2 of this year and I think that we know why we lost then. We lost on price and we lost them I think because we had come through our service traumas and we thought the improvement in service that would be sufficient to hold on to the customers.

But I think that what we were a little bit slow to recognize that in fact that market was changing in Q1, Q2 this year on pricing, and pricing became absolutely ludicrous for a period of months. And we lost a couple of customers that we wouldn't have wanted to lose to be honest with you. And we lost them purely on price, to a very low priced competition. The impact of that actually is really only come through in late Q3 into Q4 because it takes two or three months for some big customers to switch out. But I certainly -- since then we've lost no one of significance. The situation has stabilized. We certainly have seen pressure on pricing, no doubt about that. But we've secured our position.

So I think that fundamentally the loss of a couple of B to B customers and fundamentally the trading pressures on some of the B to B market is under is tending to result in a move, a modest but significant move towards B to C. Because the B to C business is going strongly. No doubt] about that. And I think that trend is likely to continue. So that would be my sort of sense about the customer base, that we're doing well with our -- we're now doing well with all of our big customers. They're all very stable. We did lose a couple we shouldn't have lost in retrospect and there is slight move towards B to C because that's where customers are going.

Hector Forsythe - *Oriel - Analyst*

Okay, thank you. That's what I expected. Thanks very much.

Operator

We will take our next question from Jaime Brandwood from UBS. Please go ahead.



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Jaime Brandwood - UBS - Analyst

Firstly just a housekeeping question. Can you give a bit more detail on exactly what you reclassified from Pest Control into Textile and Washroom.

Alan Brown - Rentokil Initial plc - CEO

Yes, Michael --

Michael Murray - Rentokil Initial plc - CFO

Yes, they're smaller entities, but in Italy we've combined the management of Pest and Textiles and Washrooms under one management team. And also in Dudley Industries we've done the same thing. I think we make a reference in the [pack], which meant that that's within the Textiles and Washrooms division. So Italy and Dudley Industries are the two main items.

Alan Brown - Rentokil Initial plc - CEO

And sorry, the Nordics was the third area where again Pest and Textiles and Washrooms management has been combined within the Textiles and Washrooms division.

Jaime Brandwood - UBS - Analyst

So these are actually Pest Control businesses that are now sitting inside. Obviously they're small but, yes.

Michael Murray - Rentokil Initial plc - CFO

It's been done from an organizational viewpoint just.

Alan Brown - Rentokil Initial plc - CEO

(inaudible) simplification. I was not happy with having divisional managers from various divisions all flying to the same small countries so we've basically on a pragmatic basis rolled in some of the that, some of the businesses. Either to give them the same overall boss or even, in the case of Italy, to combine the business into one operating unit.

Jaime Brandwood - UBS - Analyst

That's fair enough. And then I'm sorry to be a bit more precise on the previous question on interest charges. Whether you could actually give some guidance on relative to what is likely to be an over GBP60m net interest charge in FY09 what your expectation would be for FY10 including any refin that you might have to do.

Alan Brown - Rentokil Initial plc - CEO

The issue on the financing charge in 2010 is really all about pensions. I think that we will on an underlying basis probably see some further reduction in interest costs but there will be a swing in the pension cost, which will be negative, given the likelihood of a deficit opening up because of the all the movements to the marketplace.



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Jaime Brandwood - UBS - Analyst

And would you hazard a guess at this stage in terms of where you're likely to be in FY09 versus where you could end up being in FY10.

Alan Brown - Rentokil Initial plc - CEO

FY10 will cost more, but it's not going to be a cost that's going to be dramatic but it will be more. We'll be certainly into the 60s and even the upper 60s. And the more that it will cost will be due to whatever assumption we make on the pensions deficit.

Jaime Brandwood - UBS - Analyst

Okay. So low 50s in terms of underlying interest charge but then whatever the pension impact is as well I guess.

Alan Brown - Rentokil Initial plc - CEO

Yes, mid 50s plus pension.

Jaime Brandwood - UBS - Analyst

Okay, perfect.

Alan Brown - Rentokil Initial plc - CEO

And the interest rate will move around so, and the pension situation across, I think you're well aware of this, across the UK it's so volatile at the moment. But our best view at the moment is that we're going to take a hit in terms of the, not a cash hit but a P&L hit, next year because of that.

Jaime Brandwood - UBS - Analyst

Thanks. And then just back to the question on growth. Like you say portfolio growth is reasonable in Textile and Washroom Services but could you give a little bit more color on differences by country? So it looks like France is doing quite well Benelux not doing so well. Could you talk about some of the others as well?

Alan Brown - Rentokil Initial plc - CEO

Germany underlying I think not so strong Q3 but it is performing well as a business and I think we will be back into growth in Q4.

Jaime Brandwood - UBS - Analyst

Germany was negative but back into growth in Q4.



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Alan Brown - Rentokil Initial plc - CEO

No. It wasn't negative but it wasn't strong. It was very marginal positive, but the underlying business is trading quite well in Germany. So I think France and Germany are good.

It's Benelux where the issues are. We've got some issues, managerial issues I have to say, and we've got some competitive issues, it's what we're trying to address. Spain is improving but very, very tough. Eastern Europe's fine, the acquisition of Raywerk in Austria is now beginning to [step down] reasonably happy with that. Those are I think the main points I would pick out.

Jaime Brandwood - UBS - Analyst

Right, thanks a lot.

Operator

(Operator Instructions). We will take our next question from Tom Sykes from Deutsche Bank. Please go ahead.

Tom Sykes - Deutsche Bank - Analyst

Yes. Thank you. It was just a follow up question. You mentioned price in City Link and you obviously mentioned price several times in the trading statement. To what extent should we be concerned about pricing? You're obviously viewed as one of those companies that potentially would see the late cycle downturn in either revenues or price. It has been in parts of your business nasty at certain points of time. What degree of comfort or otherwise can you give us on price in some of the major businesses, please?

Alan Brown - Rentokil Initial plc - CEO

Pricing is tough. We've seen in it both Pest and Washrooms. It tends to come through relatively slowly because of the portfolio nature of our business. The challenge is what price are we reviewing our contracts and there, there is some pressure. And I wouldn't want to give any good comfort on that.

However, what I would say is that maybe the other issue we've got in pricing is that our pricing has not been sufficiently disciplined. And we've got I think too much variation in pricing in our business within country and we've got some work to do to sort that out a well. But the good thing about I think pricing is that if you are taking hits in pricing it does tend to improve your competitiveness going forward. And I think (inaudible) that over time does tend to pay off as the security of business you then have.

And the challenge for me and for the team is of course to make sure that the operational agenda focusing on cost in particular is far outweighing what we may have to give away on price. So I think in response to Andrew's question earlier on (inaudible) can we keep, I don't really know but we won't keep it all. There will have to be some which will go in terms of pricing. So the raw material is also very important because that will also be needed to more than compensate the pricing issues.

Overall, I think everyone's well aware that I'm shooting for a pay business, which in 2013 is really humming. And I see that coming from a combination of getting the growth (inaudible), continuing to deliver very substantial operational savings. We've indicated GBP50m (inaudible) for this year. And the trade off will be how much I have to give away on pricing. I don't think it'll be anything like as much as that but we'll have to invest in it.



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Tom Sykes - Deutsche Bank - Analyst

Right, okay. And so what if you look at the sort of net or the new business and additions in the contract portfolio, then what sort of lower levels of pricing are you actually seeing? Can you put any percentage numbers on that at all?

Alan Brown - Rentokil Initial plc - CEO

I can't really, either way because it's varies dramatically by business.

Tom Sykes - Deutsche Bank - Analyst

Okay.

Alan Brown - Rentokil Initial plc - CEO

It's really quite dramatic. It all depends on the particular marketplace and particular country.

Tom Sykes - Deutsche Bank - Analyst

Okay, all right. Thank you.

Operator

Our next question will come from Mizel Parkes from M&G. Please go ahead.

Mizel Parkes - M&G - Analyst

Hi, I apologies if this question has been already asked. I just missed starting 10 minutes of your presentation. I had a question on your customer retention rate. I understand that your service level has improved quite materially since the change of management. But could you give us maybe a color on how the divisions other than the UK Pest Control which you mentioned 76% client retention rates please?

Alan Brown - Rentokil Initial plc - CEO

Well UK Pest I think was about 71% retention has gone up to 76%. The rate is climbing. That is one of our lowest retention rates across the business so I'm particularly pleased to see that one moving up. Our Textiles and Washrooms division is generally in the mid 80s percentage. And our Pest overall business I think would be about 83%.

So terminations, I would say the general flavor of terminations we're seeing improvement. We're seeing less terminations than we have been doing during the third quarter. Our service and pricing level has improved. We're not where we want to be yet. We've got a lot of work to do both in the new and on the termination side. Situation is improving by we've got more to do.

I'm heading out, I'm tending to one side a bit, the IFS business which is a low margin business where it tends to be more chunky, tends to be a lot of price competition at the moment and you win some you lose some, (inaudible) but doubtless (inaudible).



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Mizel Parkes - M&G - Analyst

thank you. And just very quickly on your pension. I know you mentioned that obviously there's a lot of volatility right now and probably your pension deficit has deteriorated since your last update. I think in the quarter it was just over GBP100m. Could you maybe give us a color how much deterioration you've been seeing this quarter?

Alan Brown - Rentokil Initial plc - CEO

I don't think it's going to be worse than GBP100m. Not clear where that number came from. It will be negative but it won't be worse than GBP100m (inaudible) change. (inaudible) around GBP96m for the UK pensions (inaudible) deficit versus the surplus that we had last year of course driven by market condition and credit spreads etc. And it really all depends what happens to those underlying assumption in terms of markets and the growth in equities and the credit spreads etc. by then. I don't think at the moment we're anticipating any worse at the moment that that.

Michael Murray - Rentokil Initial plc - CFO

That's on an IAS19 basis of course.

Alan Brown - Rentokil Initial plc - CEO

On a IAS accounting basis yes.

Mizel Parkes - M&G - Analyst

So your pension liability at the end of last quarter, because your pension liability at the end of last quarter was just, I'm not talking about that, this is just the liability, was GBP1b.

Alan Brown - Rentokil Initial plc - CEO

No, sorry, yes, our -- the liability might have about GBP900m I think.

Michael Murray - Rentokil Initial plc - CFO

Yes, GBP900m plus, yes..

Alan Brown - Rentokil Initial plc - CEO

(inaudible) GBP800m.

Mizel Parkes - M&G - Analyst

Yes, so since last quarter could you maybe give us a color on how much it has deteriorated since the last quarter.



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Alan Brown - Rentokil Initial plc - CEO

I don't think it's deteriorated in the last quarter at all. It has deteriorated since last year. Last year we were in surplus. At one point we had a surplus of GBP130m. That has then deteriorated towards GBP90m-ish but it's not moved a lot in the last three or four months.

Mizel Parkes - M&G - Analyst

Okay. Thank you.

Operator

As there are no further questions I would like to turn the call back over to your hosts for any additional or closing remarks.

Alan Brown - Rentokil Initial plc - CEO

Ladies and gentlemen. Thank you very much for your attention. I think we've hopefully convinced you that we've had another very good quarter in terms of operations but we continue to be very much focused on delivering further operational improvement over the next 18 months. But in addition we want to get another golf club out of our bag and start swinging the growth club as well.

Look forward to talking to you again in two or three month's time. Goodbye.

Operator

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

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