

FINAL TRANSCRIPT

Thomson StreetEventsSM

RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Event Date/Time: Nov. 05. 2010 / 9:15AM GMT



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

CORPORATE PARTICIPANTS

Alan Brown

Rentokil Initial plc - CEO

Jeremy Townsend

Rentokil Initial plc - CFO

Katharine Rycroft

Rentokil Initial plc - Head of IR

CONFERENCE CALL PARTICIPANTS

Tom Sykes

Deutsche Bank - Analyst

Robert Plant

JP Morgan - Analyst

Jaime Brandwood

UBS - Analyst

Andy Grobler

Credit Suisse - Analyst

Craig Fraser

Arbuthnot Securities - Analyst

Andrew Ripper

Bank of America - Merrill Lynch - Analyst

David Hancock

Morgan Stanley - Analyst

Edward Donohue

One Investments - Analyst

Austin Earl

Aldersgate - Analyst

Iain Armstrong

Brewin Dolphin - Analyst

Mike Murphy

Numis Securities - Analyst

PRESENTATION

Operator

Good day ladies and gentlemen and welcome to today's Rentokil Initial third quarter trading update call. For your information today's conference is being recorded. At this time I would like to hand the conference over to Mr. Alan Brown, CEO. Please go ahead sir.

Alan Brown - Rentokil Initial plc - CEO

Thanks very much. Good morning everyone. Thanks for joining our Q3 results call. It's Alan Brown speaking, Chief Executive of Rentokil. I'm here with Jeremy Townsend who joined As Chief Financial Officer at the end of August. I'll begin by summarizing our Q3 results and then we'll be happy to take any questions you might have.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

The business delivered a good profit performance in Q3 with adjusted profit before tax up 16% on flat revenues. I'm encouraged that Pest Control, where strong performances in the UK and the US helped lift divisional operating profit by 13%, though City Link and Textiles & Washrooms had a tough quarter. The business continues to be high cash generative, free cash flow of GBP135m year to date bought out net debt down to just over GBP1b and we'll expect to be well below GBP1b by the end of the year.

The improved profit performance was achieved during a period of accelerated structural change across the Company. To give you a flavor of that, since the half year City Link has moved into a single hub and closed another three depots, and we've made really great strides in integrating our IT platform. In Europe the Textiles & Washrooms business has completed its plant rationalization in Belgium and is pretty well close to completing the rationalization in France. And in IFS we are well advanced with big organizational change. We've moved from 11 business units to three subdivisions and we've been very happy with the early performance and integration of Knightsbridge, the security business we acquired in quarter two.

During this period of high structural change we've really focused on maintaining high levels of customer service across the group and I'm very pleased with what we've achieved although it has come at some cost in the short term. We remain heavily focused on our customer-service agenda, on proving our responsiveness to customer calls and customer queries, and I think this is starting to come through really quite strongly in terms of improved retention rates across the business.

On the costs, we continue to work away at reducing our cost base, but we have reduced our savings target downwards to GBP70m and this really due to City Link. The business, as I said earlier, has undergone significant structural change and we have incurred very high subcontractor costs in the middle of the year and are continuing to ensure that we don't compromise the service at a time when we were really moving to one hub and also reducing the number of depots in the network. And I think, to be frank, we've also reduced the number of employed drivers too much so we've got some redressing of our costs to do in City Link.

As a result we expect the business to perform no better than breakeven this year. I think the Q4 trading for the parcels market is somewhat unpredictable I have to say, but the opportunities for further improvement remain enormous and I think that in 2011 with a much more stable infrastructure we should be reasonably confident of delivering substantial further efficiency savings. Looking ahead, we expect Q4 to remain challenging for Textiles & Washrooms in the Netherlands in particular, and also for City Link, but we remain on track to meet current market expectations for the year.

Finally, I am more encouraged by the results coming through from some of our growth pilots and we hope to be able to brief you more fully on those at our prelim results in February.

So with that I'll hand the call back to you and we'll be very happy to take any questions you might have.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). We'll take the first question from Tom Sykes from Deutsche Bank.

Tom Sykes - Deutsche Bank - Analyst

Yes, good morning everybody. Just a couple of questions. Firstly, could you quantify what you mean by major or substantial cost savings in City Link?



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

And do you believe that the extra GBP50m of cost savings next year over and above -- excluding City Link, is still an achievable target?

Alan Brown - *Rentokil Initial plc - CEO*

Tom, yes, thanks for your question. Yes, I think the GBP50m for 2011 is very much the lower end of our expectations and I'm sure we'll come back with a more specific number at the prelim time.

For City Link alone I would certainly be expecting to see GBP25m next year in all likelihood. And I think there's one big area we have to go at which is really rebalancing the driver mix between employed and subcontractor. We believe that the cost differential between employed and subcontractor is about 35%. It costs 35% more for subbies compared to employed drivers. At the moment in terms of numbers of drivers the balance is about 50/50, but obviously in cost terms we're spending rather more in total on subcontractors than we are on our employed drivers.

Tom Sykes - *Deutsche Bank - Analyst*

Yes.

Alan Brown - *Rentokil Initial plc - CEO*

So we see a very big opportunity to rebalance that. Now it's a big, big bill. You're talking the guts of GBP200m thereabouts being spent on the C&D driver base, of which we're spending well over GBP100m on subcontractors and rather less than that on our employed drivers. So what we haven't I think finalized yet is the extent to which we can rebalance. As I said, we're currently around about 50/50 and we certainly feel we can to 75/25 without too much trouble, but it will take a little time to get there.

Tom Sykes - *Deutsche Bank - Analyst*

Okay, thank you. And just so that I'm not double counting at all, so when you say the GBP50m low end of expectations for next year and then you talk about City Link GBP20m to GBP25m, of the GBP50m, is that excluding anything from City Link? I'm trying to work out what's cost savings that we would have expected perhaps to have been taken out in 2010 and then may fall into 2011, and what's incremental. So are you talking about a total number of GBP60m over and above where we were in 2010?

Alan Brown - *Rentokil Initial plc - CEO*

Yes, I think that is correct. I'm not going to put out a (multiple speakers) number, but you're right; it's over and above 2010. I'm talking what will fall through in 2011. We'll probably be able to give some guidance at the year end, how much of the 2011 savings are derived from the carry over from the 2010 projects and how much will be delivered from the savings which will be the result of projects started in year. And certainly the net effect will be comfortable over GBP50m and yes, you say, GBP60m. Whatever it's going to be, that will be coming through in the bottom line in 2011.

Tom Sykes - *Deutsche Bank - Analyst*

And just lastly from me, in terms of your management team in City Link, one could argue you've been perhaps more accident prone or there have been more problems in City Link perhaps since there's been a change of management. How confident are you in your City Link management team?



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Alan Brown - *Rentokil Initial plc - CEO*

I think that what the type of management team you need varies a bit depending on the conditions in the business. And I think that we had a management team which was very good when there were blood and guts all over the floor and basically there was an enormous mess there to be tidied up, which was visible and obvious to everyone. You will remember, I'm sure, many of your -- my stories of walking around car parks of depots and seeing vans sitting there day-in, day-out doing nothing. And you need one type of management team I think to address those problems, those obviously problems and do it very quickly.

But the challenges facing City Link now are quite different. It's much more about understanding the numbers in the business, understanding the cost drivers. It requires a more analytical mindset. And there's no doubt that the management team which did a very good job a year ago has struggled in this different environment, and therefore we have moved to make a number of changes in the management team.

Not, I hasten to add, the Managing Director, Stuart Godman, who I think has done a terrific job under pressure over the last six months and whose, his real ability is with customers and with growth. And I think he will come into his own in 2011 once we really start to benefit from all the restructuring work we've carried out in 2010. But we are in the process of making a number of changes to the management team under Stuart Godman, which have been announced internally in the business.

Tom Sykes - *Deutsche Bank - Analyst*

Okay. Thank you very much.

Operator

The next question comes from Robert Plant from JP Morgan.

Robert Plant - *JP Morgan - Analyst*

Morning Alan. Morning Jeremy. In the past City Link has had profit warnings because of the Christmas period not going to plan. Coming into the crucial Christmas period how well do you think City Link is set up and should we be worried that a business that perhaps isn't performing as you'd like is weakened into this period?

Alan Brown - *Rentokil Initial plc - CEO*

Robert, good morning. Thanks for your question. Operationally City Link has really never run better than it has done in the last six weeks. We've seen service levels exceeding 99% week-in, week-out. The new hub and trunking network is working absolutely superbly well. We've really broken the back of the systems issues, which I've long lamented, and we are seeing the integration of our depots in terms of systems now reaching a very high level. I think certainly we're up to about 60 out of the 70-odd depots that are fully integrated in terms of systems, and the ones that have to come are really at the edges of the country rather than the centre of the country.

And the integration of the depots has then enabled us to rollout a huge number of improvements. We are now starting to rollout our route -- our round-optimization tools, which are proving very advantageous to us. And I think the visibility and the transparency of what's going on, on the network is dramatically improved over what it was even two months ago. So I don't think we've ever been in better shape for Christmas and I would be extremely disappointed and surprised if we had any material service issues over the Christmas period.

And this has undoubtedly being recognized by what our current customers and some of our ex customers who've shown a great interest in what is a very obvious improvement in the quality of the City Link business over the last two to three months



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

as the new systems have come into place. And as we've got through the restructuring of the hub and depots in a way which I think many people in the industry were skeptical about. So I'm not at all worried about our being open for business. I think in the meeting this morning I said City Link is as sweet as a nut at the moment of operations.

I think obviously what I am worried about is that there are signs that Christmas is coming very late in terms of traffic. Now my view is that it will come and it will come thick and fast, and not least because of the VAT change at the end of the year. So I think the risk now in City Link is absolutely not operational. It's really operating beautifully. It really is about if Christmas is cancelled this year then of course everyone's going to suffer.

Robert Plant - *JP Morgan - Analyst*

Thanks Alan.

Operator

Next question comes from Jaime Brandwood from UBS.

Jaime Brandwood - *UBS - Analyst*

Morning Alan. Sorry to sort of drum on about parcels but just wondered if I could ask a couple of questions on that area as well. So just thinking about this GBP20m to GBP25m of additional savings in FY'11, but also thinking about the external environment where you've still got RPC pressure. You're also now potentially seeing a little bit of volume pressure reflective more of the macro environment rather than of any internal issues.

I'm just wondering how much for that GBP20m, GBP25m could ultimately being eaten up by effectively offsetting those price pressures and potentially offsetting a fairly subdued volume environment in FY'11, particularly if you've had a little bit of a VAT benefit in Q4 '10 which then means you kind of, there's a little bit of getting that in 2010 rather than 2011, if you see what I mean.

Alan Brown - *Rentokil Initial plc - CEO*

Yes, morning Jaime. Just to be clear, the GBP20m to GBP25m is what I think we can get out of the subcontractor-to-employed-driver switch. I'm not saying that's the end of the story for City Link. But as I say, don't push me any further than that. We'll come back with a more complete view in the prelims.

But I think that, as we've long said, there has been long-term pricing erosion of about 4% in price per consignment. There are signs that it's easing in recent months. There are signs that it's easing and it may not be quite so bad next year. But I certainly accept your point that we are not bullish about the UK economy next year. I do accept that point. Nevertheless, there is an underlying and continued move to internet shopping, which works in our favor, albeit that the pricing is undoubtedly very competitive.

I think that the big unknown for 2011 is the competitor set. A number or certainly one of our major competitors will have to face up to an extreme level of restructuring in 2011 at a time when our business capability will continue to improve really quite dramatically. In addition to the excellent service we're currently offering, we will be in a position to offer estimated times of arrival for all of our parcels and that will be onstream from about Q2 next year.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

So I think all the work we've done in terms of capability development will really start to hit the marketplace early in 2011 at a time when I think some of our competition will be having to face up to some of the restructuring we've carried out over the last 18 months. So I think it leads for what I described to the Board as a period of uncertainty, but in my view optimism as well.

Jaime Brandwood - UBS - Analyst

Yodel do seem to be specifically targeting the B2C space and, like you say, being quite aggressive, but ultimately at some point having to restructure. Is it, I guess, ultimately your hope that that restructuring encounters problems or that somehow they have to kind of focus more on the restructuring and therefore perhaps aren't as proactive about chasing new business next year?

Alan Brown - Rentokil Initial plc - CEO

Jaime, I think to quote or misquote from the past, you might say that but I couldn't possibly comment.

Jaime Brandwood - UBS - Analyst

Okay, fair enough. Just moving on to one of your other divisions, in Pest Control, I guess UK washroom on-the-one-hand saw yet another reasonably big revenue decline, but actually quite an impressive margin increase. I'm just wondering, can you update us roughly where UK washroom now is on its margin?

Alan Brown - Rentokil Initial plc - CEO

Yes. UK washroom is trading profitably. It will be slightly ahead of last year, but I do agree with you that we do have to turn around the top line. We are making progress on retention but the sales force really needs significant attention and I think that I think will take some time to turnaround. But the business is now in excellent hands. You're all extremely well aware I'm sure of the fantastic turnaround in UK Pest, which continues to go from strength to strength, and I'm quite sure that management team will address that.

We can see very clearly what the issues are. The number of calls per day per sale rep in UK washrooms is about two and we really should be hitting six or seven calls per day. So the issues there are really extremely obvious but they will take some time to sort out.

Jaime Brandwood - UBS - Analyst

Okay. Then just lastly in terms of your sales growth initiatives, and I guess we're doing to hear more in February, but it sounds like you're expecting more of a visible benefit in the second half of 2011 rather than in the first couple of quarters. Has there been do you think any sort of push back there or is that still in line with your original timetable?

And which is the division where you think we'll see some of that benefit come through first?

Alan Brown - Rentokil Initial plc - CEO

Yes, it's not very different from what I initially expected really because these pilots really take a long time to come through. We're into our second iteration of pilots and I think the really encouraging thing is we're seeing some traction in the pilots now, absolutely. We've got seven pilots running actually formally under the Olympic banner, with certain initiatives in other businesses and we are seeing some traction. But the time taken to deploy these pilots is not insignificant.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

With regard to the business which would benefit first, I think that because the Pest business is much further down the line in terms of being an integrated fully divisionalized operation capable of deploying initiatives quickly the Pest business will benefit first.

Having said that, the bigger benefit in my view will come through in Washrooms over time, because the Washrooms business is much more dependent on generating new business as opposed to the Pest business which can rely for over half its sales on enquiries and leads. So I think that Pest will benefit more quickly but Washrooms will ultimately benefit to a greater extent, but that will be into 2012 now in all likelihood before I see Washrooms really beginning to capitalize on this.

Jaime Brandwood - UBS - Analyst

I thought, and maybe I was wrong in this, but I thought you might have mentioned Asia-Pac as well. Is there anything that you think might stop Asia-Pac from already showing pretty good recovery in 2011 or --

Alan Brown - Rentokil Initial plc - CEO

When I talk about Pest and Washrooms, Asia-Pac is within that in terms of the generic initiatives we're taking.

Jaime Brandwood - UBS - Analyst

Okay sure, right.

Alan Brown - Rentokil Initial plc - CEO

I think Asia-Pac's has got some other opportunities and I think that with regard to China and India we've made good underlying progress in the commercial businesses, slightly disguised I must say because the government business which we acquired through acquisition has not really proven to be I think a great model in China. But the commercial business is going well. And I think that what we need to get into is a way to replicate our business model from city to city in China and in India, and we are now working on how to that. It will take some time to come through, but I'm quite encouraged by the potential of us to build business quite quickly in those markets over time.

Jaime Brandwood - UBS - Analyst

Thanks very much.

Operator

The next question comes from Andy Grobler from Credit Suisse.

Andy Grobler - Credit Suisse - Analyst

Good morning. I just had a couple of questions if I may. Firstly on the central costs, they were lower in the quarter partly because of the movement of the Project Olympic cost of GBP3.5m. How has that been phased through the year? Did all of that fall in Q3 or was it just a third of that in the quarter?



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Alan Brown - *Rentokil Initial plc - CEO*

Yes, Andy, it all came into Q3. I think that we missed a trick. I think that we should have booked these costs to exceptionals quarter-by-quarter. We just overlooked it to be honest you with and then of course the sum became material. So we have caught up and made a GBP3.5m provision in Q3. Having said that, that's offset to some extent by some provisions we've taken through the trading line in Asia-Pac, the Philippines and Singapore during the quarter as a result of more historic problems relating to acquisitions made there. So it doesn't have a massive impact on the quarter. But, yes, we did take it in the quarter. I think we should have taken it quarter-by-quarter rather than booking it in one quarter, but we've sorted it out now.

Jeremy Townsend - *Rentokil Initial plc - CFO*

It's a reasonably even run rate so roughly GBP2m of the GBP3.3m was related to the first half.

Andy Grobler - *Credit Suisse - Analyst*

Okay and will you continue to do that now for the next few quarters?

Alan Brown - *Rentokil Initial plc - CEO*

Yes, I think you can expect a GBP1m a quarter going forward. Yes.

Andy Grobler - *Credit Suisse - Analyst*

Okay. Then just in terms of the cost savings, I know you mentioned earlier the GBP20m to GBP25m of employment reductions within City Link. Outside of City Link what are your expectations and have those changed since the interims?

Alan Brown - *Rentokil Initial plc - CEO*

No they've not changed from the interims so I think we're better just to say we'll come back on that. As I say, it will be more than GBP50m next year. I think there was a number mentioned earlier on the call, which I wouldn't push you away from but we'll try and give further color on the overall number when we get the interim -- to the prelims, sorry.

Andy Grobler - *Credit Suisse - Analyst*

Okay. And have you updated any thoughts about dividend payments or is that as we were?

Alan Brown - *Rentokil Initial plc - CEO*

As we were. As we were.

Andy Grobler - *Credit Suisse - Analyst*

Okay. Thanks very much.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Alan Brown - *Rentokil Initial plc - CEO*

Thanks Andy.

Operator

Next question comes from Craig Fraser from Arbuthnot. Please go ahead.

Craig Fraser - *Arbuthnot Securities - Analyst*

Good morning. Sorry to return to City Link and the issue of subcontractors. Could you just give me a little sense of what the difficulties are in moving that mix from employee drivers and subcontractors? Because I'm just looking at my notes from the end of the second quarter and it seemed to be that one of the reasons that we're going for initially something like GBP10m of profit was that that mix was going to change. And clearly it hasn't changed and now again the story on City Link is that that mix is going to change. So there's clearly some problem in moving that mix. Is it that there are break clauses or costs upfront, or something like that?

Alan Brown - *Rentokil Initial plc - CEO*

Craig, it's a great question. It's a question that has been asked of City Link and as a result we're changing some of the management in City Link as I referred to earlier. I think that the acceptable part of the reason why it's been delayed is that we have undergone a lot of change during the year, in particular depot closures. And there's not much point in recruiting employed drivers in depots which are not going to remain open very much longer.

But nevertheless I think the less acceptable part of the answer is that culturally the old Target Express business was very wedded to the subcontractor model. It was the way they had traditionally run. And we've got a lot of Target Express management in the business, many of whom are very good, but on this one issue they have been somewhat intransigent.

And I think also there have been weaknesses in terms of understanding the business model and the cost model within City Link, which we've moved to address. And I think that a financial analysis has been murky until very recently. And really since Jeremy's arrival we've had a much better perspective of the huge difference in cost between the subcontractor and the employed driver model.

So I don't think that the points of resistance that we have admittedly met over the last nine months will prevent us moving forward quite quickly in the new year on this point. The City Link management are now quite galvanized to do it because they can see that the size of the prize is quite enormous. It is, I think just unacceptable that well over half of that GBP200m on the C&D, the collection and delivery driver and vehicle bill is spent on subcontractors.

Craig Fraser - *Arbuthnot Securities - Analyst*

Understood. Thank you. Great answer.

Operator

The next question comes from Andrew Ripper from Merrill Lynch.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Andrew Ripper - Bank of America - Merrill Lynch - Analyst

Hi, morning guys. Just to finish off on parcels business, the thing that surprised me about the performance in the third quarter was the sequential decline in revenue of GBP3m and I wonder if you can talk to that please. Because you've had a couple of quarters of volume growth, which has now reversed. What's been happening across the customer base? Can you talk maybe to B2C, B2B, and whether you feel that you've lost a bit of share in this quarter and whether that's been driven by the changes to the hubs that you've made?

Alan Brown - Rentokil Initial plc - CEO

Morning Andrew. What happened was that we lost some B2B customers, big B2B customers in the second half of 2009. And during the first half of 2010 the loss of those customers was completely disguised by the year-on-year growth in B2C, completely disguised, even to City Link I think to be honest with you. But then from about June/July onwards we have seen that the growth in B2C has really stopped, pretty well stopped, and then the visibility of the lost B2B business became very clear. So that's precisely what's happened.

Now history is not always a good harbinger of what's got come I have to say, and I think that there will be yet another change moving forward. It was my view that Christmas is coming late and the B2C traffic will pick up quite significantly. And the level of customer interest in our offering now we're through all the restructuring has been exceptional, I have to say, over the last month or two. But that is factually what's happened, but I think one has to be cautious about reading too much into what that means going forward.

Andrew Ripper - Bank of America - Merrill Lynch - Analyst

Yes. Just in terms of your larger B2C customers, thinking about Amazon, John Lewis, is anything happening in terms of where they're directing traffic too? It's my understanding you're generally not doing the low-value, low-weight items like books and CDs so if people are buying more through Kindle or through the post it's not going to affect you guys. What can you say about how those customers are trading with you?

Alan Brown - Rentokil Initial plc - CEO

I won't make any comments relating to any specific customer, but I would say that generally it's always been the case that the low-value cassettes etc. and books did not come through us, except when there was a problem with Royal Mail or when there were extremely tight deadlines on delivery, in which case it would switch to us. So that's not changed.

With regard to the slightly higher-value traffic, of course we're very aware that our customers have choices and not many customers -- or some customers would have options whether they use us, whether they use one of our competitors. And from time to time customers will switch traffic between competitors, depending on circumstances. But I think that where we feel confident, again I stress, is that now we've come through the restructuring and now we've got a much better offering to make, I think that our competitive position vis-a-vis the customers, or rather the other couriers you're competing in the B2C market, has materially improved and I think that we're in a strong position going forward.

Andrew Ripper - Bank of America - Merrill Lynch - Analyst

Yes, okay. Thank you. Then just going on to the growth initiatives, I appreciate you don't want to reveal your thunder now. But thinking about the timeline next year, are you basically planning to, in the budget process, start to rollout some of the initiatives that you've been trialing through the pilots?



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

And how are you going to compensate people next year, how are you going to get them more focused on growing the top line and presumably putting in place tools to help them do that? Presumably you'll talk a lot more detail about this at the finals, but I just wondered if you could maybe give us a sense of the sort of timeline internally as to how this program is going to rolled out?

Alan Brown - *Rentokil Initial plc - CEO*

If I deal with the initiatives in a broad sense rather than a detailed sense, there's one group of initiatives which are focused on customer care, Andrew. And they are really already rolling to be honest with you because they're so no-brainers in a way. I think everyone across the Group is now aware of the customer-care agenda and the specifics of it. And it's really a question of when are they able to do it rather than having to wait for a starting gun to go off. And we're already seeing big improvements in customer care over the last few months and that is absolutely feeding in to better customer retention. I'll give more -- I'd better constrain myself and say I'll give you more color on that when we get to the year end.

But one particular example which I can't resist is City Link, I have to say that our ability to communicate with customers by telephone has been truly awful, truly appalling. We've been turning away at peak times more calls than we've been entering. And I was absolutely delighted to see that last week we were managing to get our average response time in answering thousands of calls down to about one minute per call, which is a big step forward for us. We've still got to get it down to 20 seconds, which is the industry standard, but we've made a really big step forward in City Link.

So those customer care initiatives are really on the way and I think they will have a -- are having a material impact, but will have an even bigger impact even in the first half next year.

The initiatives which are related to --

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

And sorry, just to finish off on that, what you've previously said is you think you can get to mid-80%. There's no reason for that to have changed at all in terms of retention?

Alan Brown - *Rentokil Initial plc - CEO*

Sure, sure. I have to say we're struggling a bit with the calculation of the number for Textiles & Washrooms. That's a technical issue. But, absolutely, the mid-85% I think is really what we're aiming for as a generic. And IFS will move around a bit because it's a more volatile business of course.

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

Yes. And you're around 80% today across the Group, yes?

Alan Brown - *Rentokil Initial plc - CEO*

I think we're, I would say we're 83% on the four divisions where the reporting is consistent.

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

Okay, so you've taken IFS out.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Alan Brown - *Rentokil Initial plc - CEO*

Yes, I think we'd say 83%, 85% is certainly within our ambition. That's where we're at. It's not 80% to 85%, Andrew. 83% to 85% on a like-for-like basis.

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

Yes.

Alan Brown - *Rentokil Initial plc - CEO*

With regard to the new business stuff, some of that is technology driven, which I'm sure we'll be able to demonstrate to you and it's very, very exciting, and some of that is organizationally driven. The technology driven stuff is going into pilot and the rollout then would be in the second half of 2011. The organizational stuff we're putting in place now and I think the impact of that will be somewhere during 2011. And there is some other stuff as well which I'll come back to in the prelims.

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

And will you ramp up sales and marketing investment at all next year?

Alan Brown - *Rentokil Initial plc - CEO*

I wouldn't -- there'll be a slight increase but not material. It's much more about getting much better value for the money we're already spending. I made reference a minute or two ago in our worst businesses the new business guys are achieving two calls per day, which is completely hopeless. Getting visibility of the individual sales guys' performance is step one. And I think that we, if we do incur some additional costs in some places, for example, on the technology route which I talked about, I would certainly hope that would be covered off by not incurring all the high costs we have at the moment of such high sales churn, sales-colleague churn in the business as we hire and we fire very indiscriminately.

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

Yes, so it's more about sales productivity rather than ramping up investment in the absolute level of sales people and/or products?

Alan Brown - *Rentokil Initial plc - CEO*

That's correct.

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

Okay. And just finally, in terms of the growth outlook for next year I presume you're going through the budget process right now. I guess you don't want to give any guidance for numbers next year, but what can you tell us about how that process is going that might be relevant for '11? And presume that you believe that you can grow the business, but you're reluctant to put a number around it at this stage. And when I say grow the business I'm talking about organic growth rather than EBITDA.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Alan Brown - *Rentokil Initial plc - CEO*

I couldn't have put it better myself, Andrew.

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

Okay. Is there anything in terms of the budget process that you would flag to us? Just thinking about how you're going to sort of comp people for next year? Will you move more towards an incentive scheme that's drive by the top line?

Alan Brown - *Rentokil Initial plc - CEO*

I think tangentially we might edge it a bit more towards revenue. We might do that. But we've already done that this year of course. It's been revenue, cash and profit. And that mix -- those three components won't change; we might slightly change the mix.

But I would say that it's important in my view to set the budget with as much of the reality of 2010 in place as you possible can. So it has always been my habit to leave the final budget decisions until we've got pretty well the scores on the board for 2010. So we'll take a view when we see how the fourth quarter pans out.

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

Yes. It's a little bit early. Okay. Thank you.

Operator

Next question comes from David Hancock from Morgan Stanley. Please go ahead.

David Hancock - *Morgan Stanley - Analyst*

Morning Alan. Morning Jeremy. Just a couple from me. Firstly on the existing portfolio, particularly in Textile & Washroom in Continental Europe, can you just talk a little bit more about the trends you're seeing as you go through Q3 in terms of gross new wins versus lost contracts, and in particular what's happening on the like-for-like, so as used on existing contracts? Could you just talk about those trends?

And on the subject of new contracts I think you changed the sales organization quite a lot in France and there was quite a lot of disruption from that in the first half. In the interims you indicated that you were seeing some better performance in June, has that continued as you've gone through into Q3?

Alan Brown - *Rentokil Initial plc - CEO*

With regard to France, yes, certainly we are pleased with the progress we're making on new business in France. It is being counteracted to some extent by extreme price competition in the marketplace, which has certainly affected us to some extent, but we're very pleased with the new organization.

We're doing very well in Germany. We're doing reasonably well in Belgium I have to say in terms of the marketplace. The area we're really suffering is in the Netherlands where the business is materially down, which is certainly in part managerial and in part, again, a very price-competitive environment. We have not seen the bottom I don't think yet in the Netherlands. There's



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

still more work to do to turn that business around. It's still a highly profitable business, but it really needs to get momentum in the top line moving again. And that will take, in my view, some quarters before that starts to come through.

David Hancock - Morgan Stanley - Analyst

Great. Thank you. The second question was on the IFS business. So you've obviously made some changes to the structure of that division. Can you just give us a little bit more detail on that please?

Alan Brown - Rentokil Initial plc - CEO

Yes David, we've taken the 11 previous business units and we've formed three major subdivisions.

One is the, what we call the commercial division. The previous CFO, Debbie Dowling, is now heading that up under Mike Brown. And that's a very large division employing well over 20,000 people, and that division is really looking after the cleaning services and offices and in all the city-center locations, retail environment. We're bringing that all under one organization so that each location can be managed by one team. Rather than what was previously happening, we had five business units all working in the same space, one dealing with one sector, one dealing with another sector. So we think that will improve efficiency and quality of delivery quite significantly.

The second division is the specialist division, which looks after, for example, our major transport contracts and looks after the major industrial premises and that's run by a gentleman called Graham Thwaites. And that's a division which has been quite successful over the last six months, so some major wins including London Underground.

And the third division is the business services division, which will include catering and security, for example, which will then provide the FM-type services into customers in the other two divisions, the specialist division and the commercial division.

And then through the savings we've generated, particularly in the commercial division, we're reinvesting some of that in an innovation team, which will look at opportunities to further our FM capability. Because I think that we have trailed the market a little in terms of being able to deliver FM and I think, particularly with Mike Brown's experience from Serco coming in, he sees that there are significant opportunities in the FM market.

So that's a sense of the organization and a sense of the direction that I think IFS will start to move in over the next few months.

David Hancock - Morgan Stanley - Analyst

Great. Thanks. And my very last one is on cash flow and the balance sheet. I think at the interim stage you said you were confident you were going to beat your cash conversion target. Is that still the case and can you tell us where we are on DSOs?

And the second part of that is on net debt at the end of the year. Are you -- is your view on that still the same as it was at the interims, given that you're still saying well below GBP1b in spite of the fact that euro sterling has obviously seen quite a meaningful move since then? Are you doing better on free cash flow than you thought or is that still where you were in August?

Jeremy Townsend - Rentokil Initial plc - CFO

Hi David. It's Jeremy. Cash conversion obviously remains strong in the quarter at 101%. There's a lot of focus in it within the operations and I think, subject to anything unexpected, we'd said we're looking to hit those targets for quarter four. I think DSO is slightly ahead of last year, but we're still pushing it to improve it in the fourth quarter.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

In terms of the fourth quarter cash flow I think, excluding ForEx movements, we'd be looking for cash flows in line with quarter three, subject to CapEx phasing being slightly higher in the fourth quarter and cash tax outflows being slightly higher. But in order of magnitude reasonably close to free cash flow, which excluding FX movements would clearly get us, as Alan said previously, well below the GBP1b mark. Who knows where foreign exchange is going, but at the moment the movements that we're looking at in quarter four have been less negative than quarter three. So unless the market moves significantly we should still be below the GBP1b.

David Hancock - *Morgan Stanley - Analyst*

And just remind us, your euro debt exposed, is that about two-thirds of your total that?

Jeremy Townsend - *Rentokil Initial plc - CFO*

Yes, yes.

David Hancock - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

The next question comes from Edward Donohue from One Investments.

Edward Donohue - *One Investments - Analyst*

Good morning everybody. A couple of questions if you don't mind. I'll probably open it and stay in line as everybody else and start with City Link. Rather than (technical difficulty) savings, can I just get an idea of actually what are the costs going to be with regard to the investments required to get you to the next level of [G&A]? You detailed quite a lot in the press release, but it seems to be -- I take the comment, major structural change. How does that actually phase through the year? And also especially with regard to the introduction of the IT system, with regard to the pricing and billing system?

And the other one was just with regard to quarter four. Going back to your comment on Christmas arriving late potentially, how are you sized to handle what could be a concentrated volume spike? Would you have to build in additional costs to cope with that and that could actually disturb the budget expectations for that division now? To start with.

Alan Brown - *Rentokil Initial plc - CEO*

Edward, thank you for your questions. With regard to a City Link restructuring, I would not envisage any material costs in 2011 because the switching of subcontractors to employed drivers is really zero cost. Subcontractors are on relatively short-term contracts and that is the major impact.

We have had an ongoing level of cost really to getting out of leased properties as we've been closing properties, but I think that the attrition of our property portfolio in 2011 will be reduced somewhat over 2010 because we're getting much closer to where we wanted to get to. And in fact we may even slow down a little bit on the depot closure program in 2011 to enable us to tackle the driver issue that we referred to.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

The IT investment has been mostly, mostly already made in 2010, as in the current numbers. There will be an ongoing level of IT investment in 2011 but also some significant IT benefits. We inherited a model, certainly in City Link, where each depot had its own IT system all based on the same [Clan] system, but we actually had about 70 different IT systems across City Link. And then they're all being migrated into one [Clan] system, as we speak, which will actually reduce a lot of our infrastructure costs in City Link.

So I don't think there's any big bill in the wings for the City Link improvement program.

Edward Donohue - *One Investments - Analyst*

Okay.

Alan Brown - *Rentokil Initial plc - CEO*

With regard to quarter four -- sorry?

Edward Donohue - *One Investments - Analyst*

No, that's fine.

Alan Brown - *Rentokil Initial plc - CEO*

With regard to quarter four, yes, we have a plan in place as always. I think that one big advantage we have, compared to where we were previously, and indeed it almost certainly relates to some other carriers, is that our ability to switch volume between our hub and our regional hubs is now much, much greater.

We are now one network because all of our vehicles are now the curtain-sided vehicles and we now do have forklifts in pretty well every depot, whereas previously there were some depots that could be fed from Coventry and some depots that could be only fed from Wednesbury. We no longer have that constraint. And we have certainly significant additional capacity in the regional hubs, which are part of depots, in Heathrow, Warrington, Peterborough and Bristol. So we have I think the most flexible system in the UK market in terms of dealing with volume surging.

But certainly you're right, the planning of bringing in additional C&D drivers is really, really tricky. We have a plan for that and given the bolted-in volume, it is not an easy thing to get right. But I think that we, as I say, have a very flexible system, which is able to flex for capacity probably more than anyone else in the marketplace. And let's hope that we call it right in terms of when to bring in the additional drivers.

Edward Donohue - *One Investments - Analyst*

Okay. Thanks for that. And then just a question with regard to the growth dynamic in the Group. Going back to all the various quarters' press releases, the sales cycle seems to be extending and there seems to be a slightly harder edge to comments with regard to price competition. And I'm just wondering how you're managing to potentially offset that, and looking at the contract portfolio reduction in Q3 versus the first half?

And the other side of it is also is there a need to recycle more of the savings that you're getting out of the Group, which includes price positioning or marketing or just general support for the various business units? And do you think actually that's going to be a greater proportion of the savings reinvested in the Group than maybe originally envisaged?



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Alan Brown - *Rentokil Initial plc - CEO*

Edward, I think you're right in terms of your first comment that there is a harder edge to the price competition. I think that is the case, other than City Link. I don't think -- I think the City Link price competition was at its nadir late last year. It got slightly easier. But certainly in Textiles & Washrooms we've seen pricing competition getting tougher. Not so much difference in Pest. Textiles & Washrooms has been the change.

What we have done is to really focus a lot of effort on customer retention. And it is my hope that our efforts on customer retention will offset the increased pricing pressure in the Group, as we drive retention rates up, which will still enable us to deliver cost savings to the bottom line.

And I stick with the guidance that I've been quite consistent about, that I feel that the first 1% to 1.5% of savings as expressed as a percentage of revenue are needed to keep us competitive. And anything over that 1.5% will come to the bottom line. I don't think I really feel the need to move from that guidance, providing our increased focus on retention comes through, which it does seem to be coming through, I have to say.

Edward Donohue - *One Investments - Analyst*

Okay. And if I may just ask one last question. Just on Pest North America, outstanding performance. Is that -- obviously there's a seasonal dynamic to that, but was it better than normal due to the fact it was a very hot and wet or humid summer in a number of the states, that you actually saw a bit of a spike there? Or just the underlying improvement, especially looking at the contract wins you put effort into in the first half?

Alan Brown - *Rentokil Initial plc - CEO*

It's an interesting observation you make, Edward. My team would say it's due to the brilliance of the new sales organization, but I take onboard your cautionary statement about weather conditions being favorable. I guess we'll really know when we get to next year. But again, in Pest North America, as in France, we have moved to a much more functional sales organization and there are some signs that is working for us and seems to be quite a viable model for our larger business units. But as I say, let's see, but certainly the early signs are reasonably favorable.

Edward Donohue - *One Investments - Analyst*

Okay. Excellent. Thank you very much indeed.

Operator

We'll now take our next question from [Austin Earl] from [Aldersgate]. Please go ahead.

Austin Earl - *Aldersgate - Analyst*

(Technical difficulty) questions, perhaps if I can take them one by one. Just regarding the guidance provided at the interim stage about growth returning in the second half, with a flat third quarter do you still expect that maybe in the fourth quarter you might return to some organic sales growth?



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Alan Brown - *Rentokil Initial plc - CEO*

I think it's going to be tough, given the UK parcels market. I'd say it's a really difficult one to call because of the uncertainty around the UK parcels market in particular. But I am certainly less confident of getting to growth for the year as a whole as a result of what we've seen over the third quarter.

Austin Earl - *Aldersgate - Analyst*

Okay. And then I'm just returning to pricing on the contract portfolio. Maybe I'm misinterpreting the data, but when I look at it, it does seem that the pricing is 0.1% or something. It's not negative, put it that way. I'm just a bit confused as to whether I'm interpreting the data and your comments correctly about that?

Alan Brown - *Rentokil Initial plc - CEO*

I'm not sure I understand your question, Austin. What are you trying to give me?

Austin Earl - *Aldersgate - Analyst*

Yes, so what you're saying is on the contract portfolio you're saying the pricing is negative, but when I look at the third quarter release and the actual data you're providing, it is actually the price increase, the net number's a positive number.

Alan Brown - *Rentokil Initial plc - CEO*

I certainly didn't mean to say that the pricing in absolute terms was negative. I was saying the trend in pricing generally is very difficult. It's certainly negative in City Link. In Textiles & Washrooms I think it's still marginally positive. But it's got much more difficult and we're certainly seeing that new business is having to be more competitively priced than we've historically seen.

Austin Earl - *Aldersgate - Analyst*

Okay, I've got you. And then in terms of the statement about your optimism about the second half of 2011, I know we've talked about this. I'm still not absolutely clear. Is this because of the growth projects that you have set up going that you're going to talk about in February? Is that what then gives you the optimism for the second half of 2011?

Alan Brown - *Rentokil Initial plc - CEO*

Yes, it is primarily the initiatives we're taking on the sales side that leads me to believe that we are increasingly well placed for growth in the second half of 2011.

Austin Earl - *Aldersgate - Analyst*

Okay, great. And then finally just a housekeeping. The restatement amongst the divisions that you've made since the half year, is there somewhere I can find the restated first-half numbers?

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

Yes, Austin. It's Katharine here. I'll send that to you when we get out of the meeting.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Austin Earl - Aldersgate - Analyst

That'd be great. Thank you very much for your help.

Alan Brown - Rentokil Initial plc - CEO

Just Austin, can I just come back to your point on the portfolio? I've got Appendix 1 on page nine of the statement in front of me and my interpretation of this in fact is that we're saying in Textiles & Washrooms price increases were negative in the quarter and indeed the year-to-date. Negative GBP1.2m I think is what I read into this in the quarter and GBP3.6m year to date.

Austin Earl - Aldersgate - Analyst

Yes, that's exactly what I was looking at. It was more across the portfolio as a whole that I was looking at the GBP1.7m for the third quarter.

Alan Brown - Rentokil Initial plc - CEO

I accept that. I accept -- Pest, as I said before, is still managing to drive pricing. The Pest business is proving much more resilient than the rest, as I made in my -- the point I made in my earlier comments. But Textiles & Washrooms is certainly facing some strong headwinds, particularly in Netherlands and France.

Austin Earl - Aldersgate - Analyst

Okay, that's great. Thanks a lot for your help.

Alan Brown - Rentokil Initial plc - CEO

Thanks Austin.

Operator

Next question comes from Iain Armstrong from Brewin Dolphin.

Iain Armstrong - Brewin Dolphin - Analyst

Good morning gentlemen. I've got three questions. One is with regards to your traffic-light program for the execution of the strategic plan from the slide you had in the first-half presentation. Has that changed? You've addressed it slightly, but, for example, profitable growth I presume is still very much in the red. Any of the greens actually gone backwards rather than forwards?

Alan Brown - Rentokil Initial plc - CEO

Iain, yes, morning. Thanks for your question. The traffic lights have got a little bit more complicated. We're not showing them, but I will give you a feel for what we've done. On the first one, customer service -- and I'm speaking from memory, I don't have them in front of me. But customer service is split into two, service and care, and what I've said is that service is green but care



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

is amber, because as we've focused more and more on the care agenda I've not been happy with our response rates or the call-rate responses to our customers. So that's amber. As I say, we're working very hard on that.

Capability is still amber. I think it always will be, to be honest with you. There's so much to do in terms of capability development.

Operational excellence I have toned down to amber because I think that the City Link execution this year in terms of the restructuring has been excellent, but in the rest of the business I think we've taken our eye off the ball a little bit, particularly in this driver issue. So I've said that's shading from green towards amber.

Iain Armstrong - *Brewin Dolphin - Analyst*

Okay.

Alan Brown - *Rentokil Initial plc - CEO*

Cost and cash is still pretty strong to be honest with you.

On profitable growth I've also split that into new business and retention. And then I think what we've said is we're still red in new business absolutely, but we've gone to amber in retention because we've seen material improvement there.

Iain Armstrong - *Brewin Dolphin - Analyst*

Okay. That's an interesting guide. Second question is are you seeing or do you expect to see some impact presumably on IFS from the comprehensive spending review?

Alan Brown - *Rentokil Initial plc - CEO*

The IFS business, one of its weaknesses was it was actually very little exposed to government expenditure. That's now become its strength I think, certainly in the short-term. And really our government business is mostly round hospitals, which I think is pretty well safe for expenditure. So we would not expect to see a material direct impact as a result in changes in government expenditure priorities.

Iain Armstrong - *Brewin Dolphin - Analyst*

Or even a positive impact insofar as more outsourcing of some of the contracts that were done in-house. Is that something that you're targeting, especially with your new man from Serco?

Alan Brown - *Rentokil Initial plc - CEO*

I think that there are opportunities particularly in the health sector that we would like to focus on. I think that there are other competitors who are better placed than us to look at the more major infrastructure type outsourcing contracts. Serco themselves are excellent in this area. And I think that we need to be selective in the areas in which we focus. And, as I say, certainly the healthcare sector is one that we will look at given our hygiene back and our experience, but I do not expect us to be competing head-on with Serco going forward.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Iain Armstrong - *Brewin Dolphin - Analyst*

Okay. And finally, is there or rather was there in the second half of last year a positive impact on the Textiles & Washroom business from the H1N1 flu vaccine worries and the very fact that we've all got those little bottles in our toilets now to wash our hands, etc? And is that --

Alan Brown - *Rentokil Initial plc - CEO*

Yes, we had a very big positive impact in Korea.

Iain Armstrong - *Brewin Dolphin - Analyst*

Okay, right.

Alan Brown - *Rentokil Initial plc - CEO*

But that did not make an impact on the Group performance.

Iain Armstrong - *Brewin Dolphin - Analyst*

But not Europe?

Alan Brown - *Rentokil Initial plc - CEO*

Not -- there was some, but not materially.

Iain Armstrong - *Brewin Dolphin - Analyst*

No, okay. Thank you.

Alan Brown - *Rentokil Initial plc - CEO*

Thank you Iain. I think we've got time for one more question if there is one.

Operator

Last question comes from Mike Murphy from Numis Securities.

Mike Murphy - *Numis Securities - Analyst*

Yes, morning guys. Appropriately coming back to the beginning and City Link --

Alan Brown - *Rentokil Initial plc - CEO*

As you would Mike, as you would.



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Mike Murphy - Numis Securities - Analyst

Precisely. I'm just slightly confused guys because at the time of the interim you were saying second-half improvements in efficiencies and also recruiting more employed and owner drivers, and reducing ad-hoc subcontractors. And now you're saying these delays in delivering savings arising from an over-reliance on the use of subcontractors have resulted in significant saving shortfall.

And I'm confused as to what's really happened over that past quarter, from one expecting some improvements and, as I understood it, you had lots of sub-contract costs because you wanted to maintain service levels. And I'm trying to work out how much is that and how much is a structural issue on a permanent basis of having too many subcontractors as well in the core business. Do you see what I'm saying?

Alan Brown - Rentokil Initial plc - CEO

I'm not sure I'm seeing what you're saying, but I'll give you an answer anyway.

Mike Murphy - Numis Securities - Analyst

You've had loads -- you've had subcontractors in the past as well as your owner drivers. Then you brought on extra staff because you've had this IT change and the hub-planning change. And I'm trying to work out how much of it is just due to the fact you're trying to cover yourself obviously to make sure that service levels are kept to high levels? And, secondly, how much is that underlying position where you do have, and have historically through Target, had too many or too much of a reliance upon subcontractors?

Alan Brown - Rentokil Initial plc - CEO

It's not going to help us very much I don't think to break it down into which mindset has driven us to this place. I think it's much more constructive to say that we're in the wrong place and we need to move out of it.

Mike Murphy - Numis Securities - Analyst

But is it fair to say, though, that at the end of the half-year period that you thought you were getting there, but since it appears that you haven't and a part of it is a weakening in the market and part of it is these structural issues that you have with the subcontractors?

Alan Brown - Rentokil Initial plc - CEO

You know, Mike, the bridge had pulled the levers and the engine room didn't respond quickly enough.

Mike Murphy - Numis Securities - Analyst

Okay.

Alan Brown - Rentokil Initial plc - CEO

Which is why we --



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

Mike Murphy - Numis Securities - Analyst

Which is why you got the management changes.

Alan Brown - Rentokil Initial plc - CEO

Management changes down the organization.

Mike Murphy - Numis Securities - Analyst

Okay.

Alan Brown - Rentokil Initial plc - CEO

It is -- this is a matter of, as you might imagine, there's been significant discussion within the business, but I think we've now got connection so we'll be able to move forward on this. And as I said, I think the point to underline is that the opportunity is very significant indeed. We've now just got to get out there and implement it. And I think there's no longer a resistance in the City Link business to implementation. They've realized what's happened. And

And I certainly do, as I said to you before, I said to the call before, no doubt about it there was a degree of structural commitment to subcontractors and owner drivers in the Target Express model, which has proven difficult to break down. But over and above that I think it's clear we took out too many employed drivers or were not quick enough to replace employed drivers who left us in late 2009. This started back in late 2009 to be honest with you. So we've had a double whammy. But the opportunity is very significant to turn this round, which is what we're going to be focusing on certainly from Q1 onwards.

Mike Murphy - Numis Securities - Analyst

Right, okay.

Alan Brown - Rentokil Initial plc - CEO

Thank you very much for the quality of your questioning and calls and I look forward very much to discussing with you further over the next few weeks. And Jeremy, Katharine and myself are here to take any follow-up calls you might have. Thanks very much folks. Goodbye.

Operator

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



Nov. 05. 2010 / 9:15AM, RTOKY - Q3 2010 Rentokil Initial plc Trading Update Conference Call

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.

©2010, Thomson Reuters. All Rights Reserved.