Rentokil Initial 2022 Preliminary Results Q&A
Thursday, 16th March 2023

Andy Ransom: Good morning ladies and gentlemen, and thank you all for joining us today for this extended Results session.

In a few moments, Stuart will provide you with details of our excellent performance in 2022 and will provide our technical guidance for 2023. I'll then come back to provide a brief update on each of our categories and on our bolt-on M&A programme.

After that we want to spend some time taking you through our plans for Terminix covering the integration plan and cost synergies; the investments we are making into the business; and a number of positive accounting adjustments. We will also share with you our high-level growth plan for the combined business in North America, where I will be joined by Brett Ponton, who of course heads up our organisation in the States.

Also with us today are Vanessa Evans, our Group HR Director and Mark Purcell, our Group IT Director, who are both heavily involved in the North America integration programme.

So, to set the scene, let me just say a few words by covering the highlights of 2022.

Our full year results are very strong, reflecting an excellent performance in revenue, profit and cash all ahead of our medium-term targets – as well as an excellent year for M&A, where our bolt-on programme didn't miss a beat, despite also delivering the landmark Terminix transaction.

Revenue increased by 19.1 per cent to three and a half billion pounds, with organic growth of 6.6 per cent.

Adjusted operating profits grew by almost 23 per cent to 542 million pounds, and we delivered a group margin of 15.4 per cent – which is our highest for around twenty years. And if we drop down a level to our Regions and Businesses, you can see that strong underlying revenue growth was delivered across the board.

Just to highlight two or three areas:

Our North American business obviously grew significantly with the addition of Terminix and also delivered a strong organic performance for the year – up by 5.7 per cent;

The Europe and Latin America Region had an excellent year, with revenue growth of 13.2 per cent, of which 9.1 per cent was organic; and

Asia and MENAT delivered revenue growth of 13.4 per cent with 11 per cent organic growth.

Looking at this revenue performance through a category lens, as you can see on the right-hand side of the chart, Pest Control grew by 29 per cent and accounted for 71 per cent of the Group's Revenue in 2022.

Revenue in Hygiene and Wellbeing increased by 9.8 per cent - 9.3 per cent organically - while in France Workwear, the business had an excellent year, growing revenues organically by 16.6 per cent.

Completion of the Terminix transaction was, of course, the key highlight of the year - adding valuable scale, capabilities and talent, as well as the powerful Terminix brand, and we are now highly focused on delivering the deal's significant benefits. A new organisation design has been finalised and a 'best of breed' top team has been appointed; there is a strong level of colleague engagement across the organisation, and we have now deployed a new shared mission, vision and values; we've also identified the 'best of breed' systems and processes across the two organisations, which will be adopted over the course of the integration; early synergies have started to come through – and obviously I'll come back to later.

An optimal end-state branch network has been designed - taking us from over 600 branches to around 400 branches – we'll execute in a planned and disciplined way, using our vast integration experience; and despite this significant level of activity, trading in the fourth quarter was very good, with the combined pest control business delivering an organic growth rate of 5.6 per cent.

Looking ahead, as the undisputed leader in pest control, we will be very strongly positioned to create further value for shareholders.

We have an increased net cost synergies to at least 200 million dollars, to be delivered by the end of 2025; we have increased our overall medium-term Group Organic Growth target to greater than five per cent; it was previously between 4 and 5 per cent; beyond that, once we are through the integration, our ambition for organic growth in our US pest control business is to consistently achieve 'one and a half times' the US industry growth rate.

We are targeting a Group Adjusted Operating Profit Margin in 2025 of greater than 19 per cent that's up from around 15 per cent before the deal; and our post integration cash conversion will be above the 90 per cent mark.

So, an excellent performance during the year, really good progress being made with Terminix, and an exciting set of targets for the future, so with that, I'll now hand over to Stuart…

Stuart Ingall-Tombs: Thank you, Andy, and good morning, everyone. I'll run through the financial highlights of what has been a strong year. I'll start with the Group level numbers, and then as usual I'll move through the regions and then look at the balance sheet. Unless I state to the contrary, all numbers are at constant rates of exchange.

The business delivered a strong topline performance in the year. Revenue was up 19.1% to three billion, five hundred and twenty two million pounds, benefiting from good underlying growth and of course the Terminix acquisition. Organic Revenue, which excludes disinfection, was up 6.6%. This translates to adjusted operating profit of five hundred and forty two million pounds, a year-on-year increase of 22.7%. The strong profit conversion from the higher revenues, in addition to Terminix synergies and IFRS accounting adjustments – which I'll discuss shortly – has resulted in improved Group margin of 15.4%, a year on year forty five basis point improvement. This reflects margin improvement across most of our regions, including notably in our North American and European businesses.

Free cash flow in the year results from strong profit performance and was three hundred and seventy four million pounds. This represents about 92% cash conversion, excluding the impact of one off cash flows mostly related to the Terminix transaction. These factors, combined with the continued success of our bolt-on M&A programme and the dividend payment resulted in a pro forma net debt to adjusted EBITDA ratio at year end of less than 3.2 times.

Based on a strong full year performance, the Board has recommended a final dividend for the year of 5.15 pence per share to bring the total dividend for 2022 to 7.55 pence per share, more than an 18% rise year on year. This is in line with our progressive dividend policy as well as our commitments at the time of the Terminix deal and demonstrates our confidence in the outlook for the business

I want to briefly step back and look at some of our key financials over the longer term.

On this slide we show a number of P&L and cashflow metrics over the longer term. These charts illustrate the trends in the business, evidencing our strong and consistent progress over the longer term in compounding revenue, profit and cash performance through organic growth and M&A. To pull out just one of these trendlines – Adjusted Operating Margin in the top right quadrant – we can see a 290 basis point margin improvement in the period from 12.5% to 15.4% - our highest net operating margin for twenty years. This speaks to the success of our business model, which is focused on increasing route density, maximising the efficiency of our support structure and driving advantage through the use of technology and innovation.

I'd like to say a few words about our margin development in 2022. Here we firstly look at the factors that drive our net 45 basis point year on year improvement. Underlying trading – delivered through the continued execution of our strategy, which has driven business growth and improved density – contributed nearly 30 basis points to margin. Terminix overall contributed a net benefit of 19 basis points. The underlying Terminix business dampened Group margin by 45 basis points. However, this was more than offset by realised synergies and IFRS accounting adjustments of 64 basis points with about $18m of the benefit coming from accounting versus our guidance of $14m, and $13m from synergies versus our guidance of $4m.

Looking at inflation, we've worked hard this year to both recover cost and protect margin. As expected, margins showed less progress in the second half as inflationary wage increases largely dated from the first of July, but margins were still broadly in line with prior year.

Two of our most significant cost lines are employees and fuel. People based costs are our single largest cost, accounting for more than 50% of revenue, whilst fuel for vehicles is the most volatile line item. Cost inflation as a percentage of revenue has moved as expected and as a consequence, at this point, we remain confident that we can continue to pass on input cost inflation to our customer base whilst clearly, keeping this under very close review.

For you to review in your own time, in the appendix we've set out in more detail the impact of Terminix on Group margins as well as an estimate of Terminix margins had they reported in the full year. These margins are in line with that anticipated in the acquisition case.

Looking now at our performance by region, starting with North America.

Our core North American business grew by 29.7% in the year, of which 5.7% was organic. If we break that organic number down, we estimate that the full year growth rate of Rentokil North America – that is, standalone Rentokil – was similar to Terminix's annualised run rate from the date of its acquisition.

In spite of a slightly weaker Q3 performance, we still delivered a good full year growth rate in North America pest control of 5.3%. The full year organic performance reflected an increasing contribution from price rises to offset the expected inflationary pressures. We had good pricing across all channels in the region.

The positive performance in the North America business continued into the year end, driven by good underlying trading – at both Rentokil North America and Terminix – and also by strong delivery on synergies from the Terminix transaction. North America pest control delivered 5.6% growth for the final quarter. Again, we saw similar rates of growth at Rentokil North America and Terminix in Q4.

Adjusted Operating Profit was up 32.7%. We've had a stated ambition to improve margin year on year in North America and that's what we've delivered once again. Adjusted Operating Margins in the region increased to 17.1% for the full year. That's a forty basis point improvement year on year. Our target of 18% net operating margin at Rentokil North America by the end of 2022 has also been met, with Margins in Q4, whilst always a strong period, well in excess of 18%. That margin journey has been driven by growth, both organic and acquisitive, creating increased density and underpinned by the implementation of our best of breed operating platform which we completed at the beginning of last year.

Despite the attention given to the Terminix transaction, we've had another excellent year for bolt-on M&A in North America, acquiring 13 businesses with combined annualised revenues of around thirty eight million pounds in the year prior to purchase.

Turning now to the European region … a really good performance across the board here. Driven by both pricing and volume, Revenue rose by 13.2%. Organic Revenue growth was 9.1%. All three business categories in Europe posted strong numbers. Pest Control Revenue was up 21.5%. Hygiene and Wellbeing (including disinfection) was up 2.4%, while France Workwear recorded growth of 16.6%. Hygiene and Wellbeing is back to providing full contractual service terms in most of its markets in the region. France Workwear overall is actually exceeding pre-Covid levels, supported by robust pricing.

Adjusted Operating Profit rose by 14.8%. We've been successful at protecting margins with pass-through pricing. And that provided a stable basis for the delivery of a thirty basis point improvement in Adjusted Operating Margins to 19.9% through business growth and improved density. While labour markets throughout the region remain tight, we've been very effective at managing the pressures. Consistent with other regions, we have seen no material increase in bad debt or insolvencies.

The region completed 18 business acquisitions in the year, with annualised revenues of sixty two million pounds in the year prior to purchase.

Turning to the UK and Sub-Saharan Africa. The region delivered a resilient trading performance against strong Covid related comparators in 2021, particularly in the medical waste business. Revenue for the region increased by 2.9%. Pest Control was up 6.2%. Hygiene and Wellbeing was down slightly, owing to the anticipated reduction in COVID disinfection business. Our Ambius business delivered an improved performance reflecting a more supportive operating environment in the hospitality, office and travel sectors.

Regional Adjusted Operating Profit increased by 1.7% to ninety six million pounds. Adjusted Operating Margins were 26%. It's worth noting that regional cash performance has been good, with debtor days ahead of pre-COVID levels.

Inflationary pressures have been significant in the UK. But our pricing systems have delivered a price performance that has mitigated cost inflation. Despite price increases, customer retention is up over 1 percentage point year on year at 86.6%.

Looking now at Asia and MENAT. The year saw a strong performance as we benefited from post-COVID market reopening in most countries. Sectors hardest hit from the pandemic such as hospitality, retail and offices, resumed operations. This led to a quick recovery in demand for core service provision in both Pest Control and Hygiene, with recovery led by two of the region's largest markets, Indonesia and Malaysia.

Regional Revenue rose by 13.4%, of which 11% was organic.

We have made good progress on price increases – in a region where we have been historically less successful. Demand recovery and pricing have helped deliver 17.5% growth in Adjusted Operating Profit. Adjusted Operating Margin for the Asia and MENAT region was up fifty basis points to 13.9%.

And finally, turning to the Pacific region…Another strong trading performance here. Regional Revenue increased by 12.8% of which 7.9% was organic. Pest Control was up 12.9%, with notable strength in commercial. Hygiene and Wellbeing was up 12.7%. We've had good demand in the region for Ambius services and new air hygiene solutions.

Regional Adjusted Operating Profit was up by 19.7%, with an increase in Adjusted Operating Margin of one hundred and twenty basis points to 20.9%. In the region we acquired 7 Pest Control businesses and 1 Hygiene & Wellbeing business.

So that's a rundown of our regions, which as you can see have performed very well overall in the year.

Across our geographies we've the persistence of inflationary cost pressures, most notably, wage inflation but also in fuel. But we've continued to be very successful in mitigating increases through pricing.

Let me say a few words now on cash flow and debt.

Adjusted Cash Flow of four hundred and ninety million pounds was £31m higher than in 2021. It was driven by an increase in Adjusted Operating Profit, offset by one-off items, much of which was related to deal and integration costs of the Terminix acquisition. The group had a £9m working capital inflow in the year, due to tight management of payables and receivables. There was a partial offset from higher levels of inventory to protect against potential supply chain challenges. Capital expenditure of one hundred and eighty five million pounds reflects a more normal pattern of spend post pandemic. It also includes Terminix capex in the final quarter of the year.

On the second cash flow slide, we see that Free Cash Flow was three hundred and seventy four million pounds. Cash interest payments of £39m were only £2m higher than in the prior year, reflecting the timing of interest charge payments relating to financing of the Terminix transaction. Cash tax payments of seventy seven million pounds reflect higher Group profit.

Cash spend on current and prior year acquisitions, dividend payments, proceeds from new Debt and the cash impact of one-off and adjusting items (largely due to deal and integration related costs of the Terminix acquisition) contributed to an increase in cash and cash equivalents of seven hundred and twenty six million pounds.

Let's take a look at debt.

As a reminder, we were active in the debt market in the first half to finance the Terminix acquisition. We issued three bonds, converting our short term bridge facility into longer term debt. These bonds, alongside the $700m term loan covered transaction costs and Terminix debt. Terminix's term loan facility and bonds were repaid in October and November 2022.

The other material movement seen on the slide is for FX translation of one hundred and thirty one million pounds. This is primarily due to the strengthening of the dollar against sterling. We closed the period with net debt of three point three billion pounds, in line with guidance. That's a pro forma net debt to adjusted EBITDA ratio of less than three point two times. The Group remains committed to an investment grade rating of BBB. And as you'll see in our medium term outlook, we're targeting a Net debt to unadjusted EBITDA ratio of less than three times by the end of 2024.

On this slide we update some technical guidance to help you with your models in relation to the full year 2023. I'll let you read these in your own time but will draw your eyes to a couple of items. For the avoidance of doubt, the accounting benefit is an additional $32m versus 2022. Interest is in the range of £125-135m after an expected non-cash hyperinflation credit of £20-25m. Note that about 75% of our interest costs are fixed and therefore not subject to rate volatility. An effective tax rate of 25 to 26% reflects the expected UK increase in April and the fact that a higher proportion of group profits are in the United States.

At this point I'll hand back to Andy who will take us through the business category performance.

Andy Ransom: Thanks Stuart.

Right, over the next few minutes I'll update you on the performance of our operating model and our three businesses – before turning to the exciting opportunities with Terminix.

I am sure you all recognise our operating model, starting of course at the top with our colleagues and our employer of choice agenda, which rolls into excellent customer service, innovation and digital, and onto the delivery of profitable growth, and then on to our capital allocation model and ESG.

Let me focus, for today, on our colleagues. Despite the continued labour market pressures in some areas, our recruitment systems and processes performed really well in 2022. Our Careers Plus app - which allows colleagues to apply, refer or share our career opportunities across their own social networks – now has 16,000 registered users from within the Rentokil Initial family and has delivered an impressive 27,000 job applications from this network. This was one of the first pieces of best practice that we were able to share with Terminix to enhance their recruitment – and in the first six weeks has already generated the first 330 job applications directly to the company, as a result of the vacancies shared online by colleagues in Terminix.

Colleague retention in Rentokil Initial has remained strong overall at 82.6 per cent. The stand out performance coming from our Europe region at 91%, and our largest business, North America, delivering a retention rate of 81%.

Colleague retention in Terminix now stands at 64 per cent – which, despite a year of obvious uncertainty, improved by one per cent year on year – and year to date has improved a further 1 per cent to 65 per cent. Clearly, the opportunity to materially improve colleague retention in Terminix is as significant as it is exciting.

Turning now to Pest Control. Rentokil - which operates in 90 countries and 97 of the world's largest cities by GDP - had a very strong year with Revenue growth of 29 per cent, Organic growth of 5.6 per cent and with profits growing also by around 29 per cent – with an Adjusted Operating Margin of 18.6 per cent.

In addition to the Terminix deal, we completed 46 'bolt-on' acquisitions in the year with annualised revenues of 121 million pounds.

As you can see on the right-hand side, the growth in our pest control business has been very consistent and, since 2015, we have delivered CAGRs of over 15 per cent for both revenue and profit.

As well as our unmatched position in growth and emerging markets, Rentokil also leads the industry in technology, and, as this slide demonstrates, we are continuing to scale that competitive advantage with around 290,000 PestConnect detection devices are now in customers' premises – up by 24 per cent year on year. PestConnect is typically sold on a three-year contract basis and, underlining the quality of this service, our UK business, which has been the flagship businesses for PestConnect, is now seeing higher than average customer retention rates in its connected base. Our PestConnect units sent us over 300 million messages last year – these are real-time status reports, including whether a unit has been triggered by rodent activity, and this gives us and our customers highly transparent data on the pest control status of their facilities. In addition, we now have 1.2 million customer sites which have their service data available 24/7 through the myRentokil digital customer portal.

And - this combination of connected technologies, customer insight tools and big data analysis will be available to Terminix commercial customers over the course of the integration programme.

As you know, one of the drivers of organic growth is digital innovation, and in 2022 we have continued to push the boundaries with new technology trials using mini digital cameras and Artificial Intelligence to recognise pests and to provide an early warning of a potential infestation.

To date, our trials have been focused on rodent control with technicians and field biologists in the UK testing this new technology. However, last year, we acquired A-TAN AM-ICH-E – the largest pest control company in Israel – which is also the leader in the use of AI in pest control.

They have moved beyond trials - they have this technology working in around 170 customers, including some major international key accounts, and have now expanded the system's capabilities to use AI to also recognise seven different types of insects.

This is just one example from our innovation pipeline of around 50 projects – which are designed to support organic growth and customer retention, enhance our productivity and introduce more sustainable solutions – making us the global leader in the use of cutting-edge technology in pest control.

Let me now turn to Hygiene and Wellbeing where we also continued to make very good progress last year. Revenues increased by 9.3 per cent organically, excluding the emergency COVID disinfection services, which, as expected, were only 20 million pounds in the year. Profits increased by around 20 per cent year on year with an Adjusted Operating Margin of 19.1 per cent; and accounted for about a quarter of Group's Adjusted Operating Profits.

Revenues in Core Hygiene services, inside the washroom, grew by 10.4 per cent, with enhanced environments, outside the washroom, up by 8.8 per cent. There were good performances in air care and air purification, and also in Ambius, which grew revenues by 15 per cent.

Supporting this performance, we have continued to deliver a range of product enhancements and we've maintained a very high level of customer satisfaction. Our new Signature hand-print range is designed to attract younger children's attention and encourage regular handwashing in schools. The new Luna Hand Driers have hospital grade HEPA filters and low-energy motors; and our myInitial customer portal - which was upgraded in 2022 with an enhanced customer experience - and is now live in around twenty countries, with over 100,000 customers as registered users.

As you can see on the right – In the year, we exceeded our target for 90% of our hygiene paper to hold appropriate sustainable forestry certification. On Trustpilot - potential new customers can now read over 10,000 customers reviews - with an outstanding overall score of 4.9 out of 5; and by our own measure of customer satisfaction – using the robust Net Promoter Score – this improved by 3.7 points last year to a high overall score of 47.7.

So - all in all, a very strong year in Hygiene and Wellbeing.

Turning very briefly now to France Workwear…which I'm pleased to say also had a very good year, benefiting from a strong post pandemic recovery. Revenues increased by 16.6 per cent year on year, all of which was organic, while profits enjoyed a post-covid recovery and increased by 81.6 per cent. As you can see on the right, both revenue and profit have now exceeded their 2019 pre-pandemic levels.

During the year, we have continued to deliver more efficient and sustainable operations. Water consumption in the laundries has been halved over the last 20 years or so, due to the installation of modern tunnel washers - and last year we finally completed that deployment, with our last remaining laundries having these new and highly efficient washing machines installed.

So turning now to bolt-on acquisitions which are, of course, a core part of our strategy, enabling us to build route density and to target those higher growth 'cities of the future'.

In 2022, we delivered 52 bolt-on acquisitions with annualised revenues of 125 million pounds - one deal a week, for the second year running - demonstrating the strength of our pipeline, and 38 of these deals were completed in our target 'Cities of the Future' including, Santiago, Klang Valley, Delhi, and Lahore.

Based on our most recent annual review – the M&A programme continues to deliver revenue and profit ahead of our expectations, and with aggregate returns above our required IRR hurdle rates.

The M&A pipeline remains strong, and our target spend for 2023 is around 250 million pounds, in line with last year's bolt-on programme.

So – we continue to focus on the execution of our strategy – concentrating on people; on safety; on customer service and retention; on innovation and digital; on sales and on sustainability; and also on in-fill M&A.

So… let's now move on to talk about delivering the pest control power house. You've all heard me talk at length about this incredibly exciting deal. You've heard me talk about the highly complementary fit of the two businesses - with Rentokil's core strength in Commercial pest control and Terminix's strong heritage in Residential and Termite control. You've also heard me talk about the excellent cost synergies - and more on that shortly.

But today, we're also going talk about delivering the pest control powerhouse in the context of the significant growth opportunity that being the market leader in the massive North America market and indeed, the global leader, will present to us over the coming years.

As I am sure you will recall, I set out to appoint a senior team in North America comprised of top talent from both Rentokil and Terminix – and we have achieved that as you can see on the screen. We were also pleased to have appointed two of Terminix's senior leaders to Rentokil Initial group-wide roles as 'Group Director for Safety, Health and the Environment', and as 'Group Director for Information Security'. With the top team in place, we have been able to make great progress on the combined structure of our US pest control operations.

We have divided the US into seven regions each comprising Commercial, Residential and Termite operations. And we have appointed highly experienced operators to head up the regions, with each region accounting for between 400 and 500 million dollars of revenue.

Over the next three years, we will be moving from over 600 branches, with the average branch delivering annual revenues of around 5 million dollars, to around 400 larger branches, each delivering between 8 and 10 million dollars – enabling us to deliver both density network benefits, as well as span of control operational productivity and savings.

A programme of this scale obviously requires exceptional governance and we have put in place a robust structure of programme management with key operational leaders from both organisations alongside dedicated functional experts – and external experts – all supporting the programme from design to implementation.

So, now let me cover one of the most important charts in this presentation. As I mentioned earlier, we are uplifting our expected annualised net cost synergies from at least 150 million dollars to more than 200 million dollars. As you can see from this chart, most of these synergies come from two broad areas: We will achieve around 150 million dollars of savings in SG&A and a further 125 million dollars of savings from field operations and the branch network. So that's total gross synergies of around 275 million dollars.

Offsetting these cost savings will be a 75 million investment (or negative synergy) going back into the business over the next three years. These are important investments to underpin the synergy delivery and to ensure the quality of the enhanced operations going forward.

In addition to delivering the net cost synergies of more than 200 million dollars, over 2022 to 2023 we also have around 50 million dollars of positive accounting adjustments coming from the move from US GAAP to IFRS.

Now, if you look down this chart from top to bottom, you will see that, in the period since completion, we delivered 15 million dollars of SG&A synergies; no synergies yet from field operations; and we have made 2 million dollars of investments into the business – giving us an overall net synergy benefit of 13 million dollars in 2022. Added to that, we had an 18 million dollar of benefit flowing from the accounting adjustments I mentioned earlier. Therefore - in 2022 – cost synergies, less investments, plus accounting adjustments, delivered 31 million dollars to profits in the year.

If you look down the 2023 column, you will see the equivalent contributions we expect to deliver this year, with a further 80 million dollars of SG&A savings and the first 10 million dollars of savings from field operations. This year we expect to make around 30 million dollars of investment into the business, giving us a net saving of 60 million dollars in the year ahead. A further 32 million dollars of accounting adjustments, over and above the 18 million in 2022, gives us an expected 92 million dollars overall positive impact to our profits in 2023.

In the third column, you can see the benefits of synergy delivery and investments coming through over the 2024 and 2025 period. You will also note that the one-off 'cost to achieve' the original 150 million dollars of synergies was also 150 million dollars. And this off-off cost to achieve will also now increase to around 200 million dollars - in line with our new annualised cost synergy expectations of more than 200 million dollars.

I will now put a little more meat on the synergy bones - but I also draw your attention to the box on the right-hand side of the chart. This deal is not just about synergies – this deal is about becoming the Power House in Pest Control – where we also expect to see significant revenue growth opportunities in the post integration phase, with our ambition to achieve pest control organic revenue growth in North America at 'one and a half times' the industry growth rate.

So looking first at SG&A, we have broken that into three main parts – sales, procurement and support functions, which together will account for around 150 million dollars of gross synergies.

In sales, our focus will be on driving up sales productivity, improving lead flow to the front-line teams and sharing best practices. We have already made very good progress in procurement, for example, in aligning fleet policies and appointing a single supplier for North America, whilst also signing a number of product supply deals using our enhanced buying power. And in the support functions, we are on track to right size the combined organisation across our functions, and, in particular, in HR, IT, Finance and Marketing, to create a structure that will best support our frontline teams.

Moving onto the combined Field Operations, where we plan to create a network of fewer, but larger branches, with tighter, more dense routes and with good operational leverage across our branch management and support functions.

This process will take time as it will require the implementation of a single IT stack, the move to a small number of strong brands, the harmonisation of front line pay and benefits, and the alignment of customer offerings.

We have given ourselves three years to complete this part of the project - with a disciplined approach that will fully utilise our shared acquisition integration experience in North America - and with 125 million dollars of cost synergies being delivered by the end of 2025.

As I mentioned earlier, to enable the success of the integration, we plan to make investments of around 75 million dollars over the next three years into the future of our business in North America.

These investments include:

Management pay harmonisation – where we are making good progress with the appointment of the wider management population;

Frontline pay and benefits alignment;

An exciting new innovation centre – which will focus on residential, termite and vector control – which we plan to open in Dallas later this year, with an additional termite facility to be based in Mobile, Alabama;

We will be investing in branding including at the branch level covering vehicles, uniforms and signage; and of course…

Alignment on safety policies with additional personal protection equipment for the combined team, ensuring that all employees have the best and safest equipment.

So hopefully that gives you a good understanding of where the synergies will come from, over what period, as well as the investments we are making into the business.

Now, as Brett will highlight shortly, Termite Control is an outstanding business, where Terminix has long been the market leader. To appreciate this market, which will be new to many of you, but also to understand the accounting for the historical termite claims - I first need to give you a quick primer on this business…so sit back and relax.

In many parts of the world – including many US States – termites can have a significant impact on businesses, and, in particular, on residential properties.

To keep things simple there are three main types of termite:

- Subterranean – this is the most common type of termite – present across many states in the US;
- Drywood – drywood termites are common in States nearer to the coast like California and Florida; and thirdly
- Formosan - a particularly aggressive termite found primarily in Alabama, Louisiana, Mississippi, and along the Gulf coast.

Termite control accounts for roughly one fifth of the US pest control market and we estimate that it was worth around 2.2 billion dollars last year – so it's a very important market.

The reason Termites are such a significant pest is that they consume cellulose in wood, working their way up buildings - and, as you can see there on the chart on the right, in 2021, over 90% of all new homes in the US were built with wooden frames.

If you are unlucky enough to have a termite problem in your building, if left untreated, the damage can be substantial – as you can see on the screen.

So Terminix, essentially provides two core services: The first one is a Basic Treatment & Retreatment Warranty Only service where a treatment is applied in and around structures, and, if Termites go on to infest the structure, our only obligation is to come back and to re-treat the property to attempt to eliminate those Termites. Second offer is an Advanced Treatment & Retreatment and Repair Warranty service - where treatment is applied in and around structures and if Termites go on to infest the structure, we will not only re-treat for those termites but also repair any localised termite damage, under the terms of the warranty.

To prevent a potential Termite problem, the industry typically offers a liquid treatment and a baiting system. And if you have a termite problem, typical solutions range from liquid spot treatments all the way to full fumigation of the property and property repair.

So – if a customer under the Advanced repair warranty service has a termite problem, which it notifies to Terminix, we will open a formal claim. Importantly, this occurred for less than 1 per cent of its termite customers in 2022.

Subject matter experts will then talk to the customer about the process to repair the damage, and licensed contractors will carry out repairs and check that the customer is satisfied with any repairs.

In some rare instances, if a dispute arises, the customer may seek legal representation and may potentially file a lawsuit.

Now - to its credit, Terminix has already put in place several improvements to its termite systems and processes:

It has given its technicians enhanced tools and technology;
It has completed its transition from a third-party claims management team to an in-house team of subject matter experts; and
It has pro-actively offered to provide supplemental treatments to areas with the heavy pressure of Formosan termites, particularly in Mobile, Alabama.

In addition, in January of this year, we introduced a new warranty cap of up to 250,000 dollars in relation to all new termite residential sales - instead of the old, un-capped liability commitment - and, as I mentioned earlier, we will be shortly introducing a new Termite innovation team – to be based in Mobile.

As you can see on the screen, over the last few years, Terminix has in fact seen a number of improved trends in the termite space. The total number of warranty claims filed by customers has reduced by 35 per cent since 2019 - to just over 2,000 claims in 2022. The number of open warranty claims at the end of 2022 had reduced to 608 claims - a reduction of around 30 per cent on 2021 - and a reduction of 50 per cent since 2019. And looking at the total of filed warranty claims in the Mobile Bay area - these have reduced by 59 per cent since 2019 - to 285 last year. Over the same period, the number of complex litigated termite damage claims filed have remained at around the 40 to 55 mark each year.

Obviously, while we cannot guarantee these positive trends in the future, we are generally encouraged by these data points and we are delighted with the termite expertise we have in the business.

Right, so now you are all experts in termite control, you'll all be talking about it later, but I have to briefly mention the accounting….

Under US GAAP, the costs to remediate customer claims and to
respond to claims in litigation were expensed by Terminix, on a 'pay as you go' basis through the P&L. Under IFRS accounting, the future liability from existing Terminix termite customers has been modelled in consultation with external advisors, and that liability has been put onto the balance sheet as at the closing of the deal. So there is a chart in the Appendix that explains this in more detail.

So - that's it on integration synergies, on investments and on termites and the accounting.

Let me hand over to Brett to take us through the exciting growth plan for our North American business, I'll then come back very briefly to round things off, and we then take any questions.

Brett Ponton: Thank you Andy. Good morning everyone.

Over the last year, I've had the honor of meeting hundreds of Rentokil colleagues, in our North American business; and globally, having met Rentokil Initial leaders and colleagues from around the world. What's really clear to me is that the shared culture of both companies will be an important driver of our success over the next three years. Similar people, doing similar things, in similar ways, and with a willingness to learn from one another.

Globally, pest control is a resilient, growth industry - which we expect to deliver a CAGR of around 5 to 6 percent through to 2027 – with the more mature U.S. markets growing at around 5% and the rest of the world at around 6%. This is an attractive market where pest control is a 'license to operate' for many industries.

There are three segments of the pest control market: commercial, residential, and termite control – and globally, as you can see on the left-hand side, each is forecast to grow at around 5.5 to 6 per cent through to 2027.

The U.S. accounts for over 50% of the global residential and termite markets, and 65% of the US market is in the strong residential and termite markets – where of course Terminix has core strengths, brand and know-how.

Turning to the growth drivers – and here you can see that the market is being fueled by number of attractive drivers. Let me draw your attention to one or two of the drivers:

Firstly - in the case of residential in the US - and despite the size of the market - there is still relatively low penetration among homeowners, with less than 15% of consumers who have professional pest care done for them.

Secondly – in the US, there is a population migration to the Southern states, where hot and humid temperatures are also, of course, conducive environments to pests.

On the commercial side, and as I mentioned earlier, pest control is a non-discretionary expense for many of our commercial customers. As well there is increasing regulatory pressure in the case of specialized businesses. There is also increasing awareness of 'sustainability' by our commercial customers and more interest in sustainable solutions.

These things coupled with climate change, population growth, and a rising middle class, create a blend of social, economic, and regulatory trends that are tailwinds for our business.

Today we estimate that there are around 75,000 pest control companies in the world. Both Terminix and Rentokil have a long history of strong acquisitions—and reputations for being good acquirers. So, clearly, the pipeline for acquisitions continues to be robust in what remains a highly fragmented market and there are attractive opportunities for continued growth through 'tuck in' M&A in the U.S. and beyond.

In the U.S., the top 100 pest control companies are also getting larger – with the entry point on the PCT 'Top 100 Companies' increasing from around $5.6m in 2016 to around $7.5m in 2022. So pest control is a thriving, growing market, and of course, following the deal in October, we are now the number one pest control business in the world – for commercial, residential and termite control.

Clearly, one of the reasons why this transaction has a strong financial case are the benefits of scale. In America we are now about 1.5x our nearest rival and that scale means that we can drive greater purchasing power, build additional local branch density, as Andy has already demonstrated. We can drive more powerful digital marketing with a smaller, more impactful set of brands, and of course invest in technology in a way that other pest control companies simply can't.

So - Andy's laid out the integration benefits - but clearly there is an outstanding organic growth opportunity too as we bring together the two companies.

Here you can see our growth plan and the building blocks for organic growth over the next several years. These initiatives – and the key enablers that underpin our strategy – allow us to build organizational capability to deliver our ambition of organic growth of 1.5x the NA industry rate, post integration.

I'll briefly touch on each one.

You will hear me talk about 'The Rentokil Terminix Way' over the next several slides, and it's all about scaling the best-of-the-best, our 2 companies offer in a uniform way across the organisation. We're looking at core business processes, training, technology enablers, and rewards/recognition programs to encourage adoption along the way.

For colleagues, it means we're training to best practices from both organizations; they are using systems that are seamless, and we have compensation and recognition plans that incentivize our people to execute the process at a high level. Engaged, motivated and well-trained colleagues will deliver happy customers who'll stay with us.

For customers, it means their technicians are advising them and offering them superior solutions. It means they have a "frictionless" customer experience, and they would prefer us to any other pest control company in North America. Currently our customer retention rate is around the mid 70's so, clearly, we've got a material opportunity to drive this up as part of our programme.

An area of strength and a focus of Terminix in Residential Pest has been the "Trusted Advisor" process - to drive higher levels of customer penetration – and we plan to scale this programme across the combined organization. The trusted advisor process is all about leveraging our technicians to not only perform the service but also equip them to do a simple inspection around the home and make it easy for them to recommend additional services that we offer to protect the customer's home.

Trusted Advisor has been a game changer for our field colleagues. The program makes them better service professionals… better at understanding and communicating with our customers… better at demonstrating the expertise and knowledge our technicians have … and better at advising our customers…

Since launching early last year, Trusted Advisor continues to result in a significant improvement in organic growth, and more and more technicians are now seeing how executing this process can also increase their paychecks.

As an example of how significant the opportunity is at scale …. at Terminix we have 4 core services we offer consumers: General Pest, Termite, Mosquito, and Wildlife Control. Currently today our customers buy on average 1.3 of those 4 core services; and we know that every 10 basis points of penetration it is equal to about $50M of revenue.

So, the more services a customer has, the more connected to us they are, and the less likely they are to leave us. Ultimately, customer penetration tightly correlates with customer retention and clearly improved performance. So, this will be a big focus for us going forward.

The next building block we are focused on is Pricing.

With the current inflationary environment, we recognize how important robust pricing strategies are in driving growth and protecting margins. But importantly, we have very strong brands and should be proud to charge a premium price because we're delivering the very best service levels, through the very best technicians in the industry.

We have already begun harmonizing our go-to-market strategy, core consumer offerings, and our standard service protocols, so naturally, it's a good time to also harmonize pricing for both new customers and renewals. We are also leveraging Terminix's capability ability to take a segmentation approach to develop more localized pricing strategies.

Turning now to innovation. This is a very exciting opportunity for the Terminix team – we've seen Rentokil's technology and innovations and now have the opportunity to commercialize them in North America.

The digital, remote monitoring services that Andy mentioned earlier will be an exciting opportunity to drive across the commercial market. We have some groundwork to do, first in IT and systems, but PestConnect, myRentokil, and the data benefits of the Command Centre will be heading to North America.

As Andy mentioned earlier we'll be launching later this year in Dallas - North America's dedicated pest control innovation center, with a strong focus on Termite, Residential Pest and Vector Control.

The final organic growth building block is acquiring new customers, both in the residential and commercial markets.

On the residential side, we have a great opportunity to harmonize our brands.

We currently have more than 80 branded pest control businesses. We're executing a very thoughtful brand strategy. Our three-year vision is to migrate to Terminix as the primary brand for residential and small-to-medium-sized enterprises … and Rentokil as the brand for our large commercial offerings.

We also have the opportunity to become smarter, and more sophisticated, in digital marketing. This includes finding more effective digital marketing tactics and strengthening our organic marketing, reducing our cost to acquire a customer, and increasing our customer lifetime value.

On the commercial side, Rentokil has a great reputation in North America with strong commercial brands and offerings.

As I've mentioned, Rentokil is much more mature in this space and the quick win for us is to leverage these strong capabilities in commercial and apply them to Terminix.

We have the opportunity to be thoughtful about customer segmentation and our go-to-market approach by segment, or vertical. We have a clear understanding of the attractive segments and value proposition to win in each.

In terms of selling, we have already identified our common technology and processes and are off to the races in harmonizing our approach to local selling.

Turning now to the key enablers of growth. As I mentioned earlier, it all starts with our colleagues. We have an experienced HR team in place, and they've made a strong start in 2022 against a detailed plan, with key aspects, as you can see on the right, set to be completed by the end of 2023.

While the longer-term objective is to become the employer of choice in North America, we have three big pieces of work ahead of us, starting with an early focus on our HR information systems and the onboarding processes. Next we will be addressing the need to build well-defined career paths for our colleagues in North America.

The second enabler of our strategy is technology. I spoke earlier about the Rentokil Terminix Way… hile it starts with establishing standards and processes – and then training to the standards – you must also have the technology in place that will enable that work to be performed in a consistent and efficient manner.

The pre-work has now all been completed and we have really assembled a very impressive, single IT team in place. They've done tremendous work mapping out the technology roadmap to deliver 'best in class' systems and architecture. We have a clear view on where we're headed from a systems point of view – and how to get there.

In 2023 we're focusing on migrating existing acquisitions and building out towards a full systems and IT pilot, with the first Terminix branch moving to the end state later this year – of course ahead of the full blown migration in 2024

Turning to the next slide and final enabler of our strategy, I want to talk about what it means to be the leaders in North America… It means we have a responsibility of taking on leadership positions. The industry is following this merger very closely. And as the industry leader there are opportunities for Rentokil Terminix to establish the standards for safety, service, technology, and sustainability. For instance, we have committed to developing a plan to achieve net zero with an early focus on fumigation.

There is increasingly higher demand for delivering sustainable pest control in North America and we want to establish Rentokil Terminix as the clear leader. This level of influence and leadership in such a fragmented market creates an incredible competitive advantage for us.

So – just to pull it all together… there is strong market growth in the world's largest pest control market, with favorable underlying drivers; and we have a clear growth plan – based on 5 key areas and 3 core enablers. We're excited about the potential for this business, and together we believe we can achieve our goal of growing at 1.5x the industry average, post integration.

We have a big agenda ahead of us, but I am very confident that we have the team to deliver it. And with that, I will hand it back to Andy to wrap up.

Thank you, Brett. So – as we've taken you through in some detail today, in 2022 we delivered an excellent financial and operational performance, and you can see that summarised on this chart.

Whilst I'm delighted with the 2022 performance, I'm really excited about the opportunity we have with our Terminix deal to lead the pest industry and to deliver the growth and margin expansion opportunities summarised on the chart.

We are delivering the 'Pest Control Power House' and I look forward to updating you on our progress over the next three years.

So - thank you very much - and we'll now take any questions – we'll start in the room and then any additional questions from the audience online…

Q&A

Paul Sullivan (Barclays): Great. Thanks, Andy. It is Paul Sullivan from Barclays, three for me.
Firstly, could you talk about the range of outcomes that you envisage for organic revenue growth this year, and how we should be thinking about that, and how should we be thinking of growth as we progress

through the year? Secondly, love you to share your thoughts on underlying margin improvement ex-synergies for 2023.
Then, maybe one for Brett. Could you talk about where you are in the underlying turnaround at Terminix, and how that's either hindered or enhanced by the integration process? Thanks.

Andy Ransom: As you know, we never commented before, and probably are not going to start now, one giving an in-year target for organic growth in a particular year. Obviously, we are in the year, and we started just fine. I will make the point, I leaned in a bit on it, the medium-term growth aspiration that we have, I use the words quite carefully, post-integration. The only point I would make, is any of you, who have ever been involved in the integration of a large project, organic growth will not be linear over the next three years. It will be a little bit up, a little bit down, a little bit up, a little bit down, and I apologise, you are just going to have to get used to that. It does not mean the wheels have fallen off the wagon if it goes down a little bit. It does not mean we are off to the sunny uplands if it goes up a little bit. Because you are bringing together their operations, and when you do that, you are changing a lot of things, so you are giving customers an excuse to have a thing.

Brett shared the industry growth rates. I am really clear what we will deliver from Pest Control. In the category, we have shared that. Really clear what the opportunity is. Once we have done all the plumbing and put the businesses together, we really will drive that industry leadership and above-industry growth. What we are going to do quarter-over-quarter in 2023 is like if we have strong weather, if you have an early spring, that is great. If you have a late spring, that is not so good. If you have fires, if you have storms – it is really difficult to give you that.

All I would say, is the underlying health of the business is good. However, don't worry if over the course of the next 36 months, you have got a little bit of that. It is nothing to be concerned about. However, generally speaking, the business is in a good place, and, generally speaking, the underlying growth drivers in Pest Control are really good, really strong. Yes, there has been more price in the last few months than we have seen in historical periods. That probably stays for a little bit, until inflation comes off. However, underlying growth in the industry is good. Underlying growth will be good for us. I doubt it will be linear, but do not panic if it is not. However, the first couple of months started well.
Second question for you, Stuart.

Stuart Ingall-Tombs (CFO, Rentokil Initial): Yes. I think that is quite a hard question to answer. The question was: what is happening in underlying margins in 2023? We have given a margin target for Rentokil Terminix North America of 19%, and that clearly includes the synergies, but also includes an exit rate of 18% in 2023 versus a delivered 17.1% in 2022. There is an implicit margin progress within that 19% in 2023. The third of the business that is not Rentokil North America, we have got no reason to believe today now, why we will not continue to make good progress on margins. I think at the Capital Markets Day back in 2021, I said I could see how we would make a couple of hundred basis points of improvement over the next few years. We delivered 90 basis points in 2022. I am pretty comfortable that we are making the progress we said. However, given that two-third of it is wrapped up in that broader North American target, I think that is where I would stay.

Andy Ransom: Yes. Paul's third question, I will flip it to Brett, and have his view on it. The only point I would say, is you get we are five months in, and in five months, we have already put a lot of things together. It becomes increasingly difficult, and we will resist the temptation – we will have a go today – but we will resist the temptation going forward when the question is, that is interesting, but can you tell me what was Terminix versus what was Rentokil? It is just difficult. We have got one management team. We have got one set of branches.

To give you a real-world example, before, we were competing against each other. We could have a branch there that is Terminix, and a branch there that is Rentokil, and we will be kicking seven shades of whatever out of each other at branch level. Now, we are two parts of the same family, so leads can get handed over from this branch to this branch. If these guys are busy, they will hand leads over here, if these are not busy. Where is the organic growth? I do not know. It does not matter, it is one business.

Brett, I am sure, will give you some colour on how you are feeling in terms of where that journey has got to. However, obviously, some of that is also some of the things that Terminix were doing has parked because we are pivoting now into, now, we are not going in the same direction. Brett?
Brett Ponton: First of all, great question. Let me go back a second. One of the reasons I was really supportive of this deal, was I felt like there was high congruency here between Andy and I, on culture and really the operating playbook. The journey I was putting Terminix on, was really executing a playbook that Andy developed and implemented with Rentokil. I think there was a high degree of alignment between the two organisations there.

A couple of areas that I look at, that I feel really good about the progress that has been made, one is around colleague retention. Andy touched on this, the improvements that we have seen there already. There are two areas that will create a drag for Terminix and colleague retention. One was pretty poor onboarding experience for new people to join the company due to lack of training and investments in training; and the second one, our compensation plans were more variable than we would have liked to see. The combination of those two things, led to higher exit rates with colleagues.
Over the last year, we went to school, and talking with Rentokil about their compensation plans, and made some of those changes already. You are starting to see the benefits of those changes flowing through colleague retention. That is one area I point to.

Second area, around organic growth. As we commented earlier, performance of the underlying Terminix business was in line with Rentokil North America, which is an acceleration off the historical performance at Terminix. Two big drivers there.

One is, we talked about the trust advisor process; feeling really good about how well that is driving customer penetration. That is leading to improved organic growth rates. The opportunity for us now, is to spread that across both organisations and capitalise on that. That is one area.
The second area is around Commercial. The drag on Terminix organic growth rate historically has been our Commercial performance, and that was led by really lack of investments and capability expertise that we had in that space. We are already capitalising on some of the benefits that came from the expertise we are picking up with Rentokil in the commercial space.

Thus, feel really, really good about where we are at, at this point in our journey. More broadly speaking, feel great about the team that we have assembled, the transformation integration office is really doing some great things, and really excited about the progress that has been made, but more importantly, I think the plan we have in front of us.

Paul Sullivan: Thanks, Brett.

Anvesh Agrawal (Morgan Stanley): Hi, good morning. It is Anvesh Agrawal from Morgan Stanley, three questions as well.

First, can I ask on capital allocation infusion in the future? Obviously, you plan to spend £250 million on M&A every year. However, should we naturally expect that the weighting of that to shift to outside the US with a big deal? If that is the case, can you comment on multiple and [inaudible 08.49] deals related to North America and Asian market, for example?

The second question, just following from Paul's question around underlying margin, given £92 million in incremental benefit from Terminix that you are expecting, and 3.5% margin target would imply you are assuming slight decline in underlying margin for FY23. Maybe some comment there, please.
Finally, around the Residential business and the inflation in the environment, have you seen any change in the churn rate in that part of the business. Rollins had a bit of a soft Q4, and then they said January was fine, so wondering what you are seeing there?

Andy Ransom: Yes. Thanks. I will take the first one and the third one, and Stuart can talk to margins.
Just a minor correction what you said there, we have not said we are going to spend £250 million each year. We have said we are going to spend £250 million in 2023. Our spend target each year, when we sit at this meeting, we do the same thing. We tell you what we think we are going to spend in the year that we are in, and that is based on what we can see before us. It is based on what is in the pipeline. It is based on deals we have already signed. It is based on LOIs we have already signed. It is based on reasonable, educated guesses as to what is out there. It is not driven by how much can we afford to spend, it is driven by what quality targets are out there, that meet our return criteria.

I think, therefore, next year, maybe it will be £200 million, maybe it will be £400 million. I do not know. I will tell you next year. However, for this year, it is £250 million.

I think it is a fair comment that we are always selective, but we will be super selective over the next little while, in terms of deals we do in the United States because we are busy. We have got a lot of things to do here, and there are a lot of moving pieces. However, what we are not going to do, is we are not going to miss out on a must-have North American acquisition and let one of our competitors take it because we will never have that chance again. If it goes to private equity, you can say, well, maybe you will get another chance if it comes back in the future. However, if it goes to one of our competitors, and it is a real, top-quality asset, we will buy that. We will take that if we can. We will just run it separately. We will not mangle it into the integration flow. We will just keep that separately.

I think it is a fair comment to say we will probably do a little bit less in the States, perhaps, than we have. However, we have not set a separate internal target that represents that, and we have already done a very nice deal this year in the United States. Certainly, the other colleagues around the Group have been given pretty clear direction. Now is your moment, guy, because if we are going to spend potentially a little bit less in the States, there's more for you, guys, to go after. You saw an uptick in European M&A because we have had M&A in European for a long time, and saw a really good year in Asia, and a great pipeline in Asia and Latin America. Finally, we are beginning to see some deals coming through in Hygiene & Wellbeing as well, which is something we had not really seen so much of.

A slight general hand at the tiller, I would say, rather than a radical turn left or turn right. However, really confident based on what we have already done, and based on what we can see in front of us, we will spend £250 million, give or take, on really good assets. There will be a decent number in the States, but possibly a little bit fewer than normal. Margins, and then I will come back to Reze.

Stuart Ingall-Tombs: Yes. I don't recognise a decline in underlying margins. I think if you look at the appendix, you can see that the Terminix margins we estimate for 2022 on a pro forma basis were around 15.5%. Clearly, that is quite significant, and that includes accounting adjustments, by the way. That has quite a dilutive impact on the full-year North American business. I think once you work that in, and do your maths back, then I think you will see the underlying margins do not decline.

Andy Ransom: Yes. On Reze, and we have got another question that we can see on the screen, which I may as well get in of my chest now because you are all going to ask for it, and I am not going to give it to you. It is not because I am being unreasonable. It is just, can you give us a split of Termite versus

Residential versus SME Commercial versus Commercial versus National – no, cannot do that. Could, but cannot. We do not run the business that way. We run the business on a branch-based, and we have 600 going to 400, and each branch does Reze. Each branch does Termite. Each branch does Commercial SME. Each branch handles their national account. That is how we run our business, and that is how we report on our business. Other competitors run their businesses how they choose to run it, and report on their business how they choose to. I know it infuriates you because you would love to make the direct read across, but I have just being giving you data, just so you can do your job. I do not use that data for how I do my job. We are not going to give those breakdowns. Occasionally, of course, we are going to give colour. Of course, we will if one part of the market is behaving completely differently, or we are doing particularly well or less well.

You saw in the medium term growth stats that Brett shared, really quite an interesting stat, that all three parts – Residential, Termite and Commercial – are all growing about the same sort of level. Broadly speaking, our business is performing like that. We are still getting to know the business as well. Brett's Terminix business is in the family now, has been a big leader in termite. Rentokil has not. We have been the big guys in commercial and Terminix have not.

I think we have seen a respectable start to the year. Our Products business, our Distribution business, is a bit slow. The core business is doing fine after two months. I have not really seen. Rollins had, what was it, six point something percent growth in the fourth quarter, and the commentary was deceleration of organic growth. I looked at that and said it is a pretty good number. I am not as sensitive to these intra-month, intra-quarter movements. I think the underlying Residential business is in a decent place, do not think we've seen a significant negative response to price movement causing customers to react. Customer retention data is pretty solid.

If you are a residential customer, and you have got a problem, you call around the experts in pest control, and you want it sorted. It is not nothing, but it is not the biggest expenditure you are going to have. Typically, that is why it is such a defensive industry. People need pest control when they need pest control. I think the industry is in very good health. Across the board, the wonderful thing about this deal, is we have got this complementary fit now between Reze and Termite meets Commercial. However, give us two or three years to bed the whole thing in, and then ask me about how the different parts are performing, and will probably give you a more informed answer. Hopefully, that gives you some decent colour.

Oscar Obo Sylvia Barker (JP Morgan): Good morning, it is Oscar from JP Morgan on behalf of Sylvia Barker – three questions.

The first one on the upgrade to £75 million of increased investment. Could you give us a sense of which buckets those fall into? Is it increasing wages? Is it more physical investments?
The second question, maybe for Stuart, is just around the guidance for mid-teens EPS growth next year. Just to be clear, is that on a gross basis, and should we be seeing upgrades to consensus EPS.
Then the third question, maybe for Brett, is around digital. In our view, Rentokil is ahead of the competitors – Rollins and Terminix – in terms of rolling out digital in Europe. Is there a reason why the US market has not developed as quickly? Is it technology, or do you see what you have done in the UK being replicable in the US?

Andy Ransom: Thanks, Oscar. You just referred to Terminix as a competitor, but I am hoping that is not the case, right? And best wishes to Sylvia with her maternity leave, by the way. The £75 million, by the way, is not an increase of £75 million. We did not give a number when we announced the deal, and it is sort of in line with what we assumed at the time. We did not give a number, so some of you assume there would be a number and some of you did not. It really is a mix across the board. The one I am most excited about is the technology centre we are putting into Dallas. We found the building. We now need to kit out the building. We now need to populate the building with equipment and scientists. None of that comes for nothing. We have got the same story to a lesser extent then, in Mobile, Alabama.

Brett has already partially answered the point about colleague retention, and I have talked about why that is so incredibly important. We have already adjusted the benefits side. In America, benefits – medical, dental – all of that is incredibly important. Salary is important, but your benefits programmes are very important. We have already broadly aligned the benefit story between Rentokil and Terminix. Again, does not come for free, but we do need to move on to the pay side of it, and we are doing the work on that. There has been a number of misfires in the industry in the past, where you have adjusted the pay plan of technicians, and you have made a mess of it. We are not going to do that. We are going to take our time, pilot it, make sure we get it right. That will also cost a reasonable chunk of that £75 million.

However, there is a payback for that. If we get it right colleague retention goes up and, as Brett has already said, if colleague retention goes up that typically leads to customer retention going up.

Management pay is another one that you have to invest in because of the differential. If we have got seven regional leaders we have to broadly look at those regions whether they are the same size and the individuals comparable in terms of what they are going to get paid with bonuses and shares and all the rest of it. Those are the key building blocks and what I will tell you is we will not spend a penny of that money poorly and without a really good discipline in terms of return on investment. We are not going to do it just for the sake of it. We are going to do it because we are investing in the fabric of the business. I do think Terminix is a wonderful business with great strengths but in a few areas, you saw it in colleague retention, you saw it in customer retention, we have to invest to support those if we are going to deliver on the ambition to lead the industry in the way we have shared today. I do not see it as a bad thing. I actually see it as a really good thing that we are making these investments.

Stuart Ingall-Tombs: EPS to Oscar. I have not got sight of Bloomberg by the way so I do not know what Bloomberg says. It might be a little bit stale. When we last gave guidance in November FX was at $1.10. It is now $1.20-ish. Clearly interest costs have gone up over that period so that might not be in people's models. The technical accounting, the £32 million is probably slightly lower than people have got in their models I suspect. In the round there are some adjustments to be made but of course we have got a slightly higher launchpad from 2022 as well. There are a number of things going on there. I think the key point about EPS is Andy has laid out the health of the deal. Things are going really well. We are very confident about the medium-term value creation and we think that will be reflected in the EPS in both the short and the medium term.

Andy Ransom: A quick one, Brett, about the original thesis.

Brett Ponton: (CEO, Rentokil Terminix, North America): Back to the original thesis, one of the things that got me really excited about this deal again was the investments Andy and Rentokil has made and in digital technology. I always felt like in North America there is clearly a market for that. The value proposition is really compelling. We just could not afford to make the investments therein given our strength lay in residential and Terminix. However, to answer your question directly there are two dynamics here. One is no doubt I think the customers in North America may be less mature in their thinking around sustainability and the benefits that come from digital than you would find in the European market. Although having said that, they are quickly catching up. It is certainly becoming more and more of a discussion every day between our sales colleagues and I would say larger national accounts where that value proposition is much more compelling. We will start there. As I mentioned earlier in the prepared remarks, we have got some infrastructure work we have got to do on IT systems and the plumbing to make certain that we can adequately support that in scale but no doubt there are clear, compelling value to that proposition here.

How that fits into the broader agenda we will have to see because we have got a large agenda with the integration work. However, the technology is going to come to North America. We are excited about it and there is clear, compelling value to do that.
Suhasini Varanasi (Goldman Sachs): Good morning, thank you for taking my questions. I also have three please. One is on the listing, actually. In the recent months we have probably seen a number of UK companies trying to pursue primary listing in the US and given how your profit mix has changed post the deal is that something that you will be considering medium-term? Second one is actually on one of the slides where you talked about the advanced treatment. Is it possible to maybe give some colour on what percentage of the revenues for Terminix was exposed to that and has that increased over time? Just to assess the risk around that. Thank you. The last one, just a couple of housekeeping questions. The £40-45 million of 2022 exceptional items that remained with the creditors can you give some colour on what that is and is it getting paid in the first half of this year? On the capex guidance I think you have given it ex-leases of £235-245 million. How should we think about the lease payments please? The principle element, thank you.

Andy Ransom: Thank you. No, we are not looking at US listing. It is very topical right at the moment. We are happy with not an additional or primary listing but our ADS that we put in place at the time of the transaction. We have that. We have been on London for decades. We are in our 99th year. We are a proud British company based here and we are not looking to do anything. It is as simple as that.

In terms of the percentage it is probably a difficult one for me to answer and it really is a super-detailed question. I could ask you a quick quiz. Can you name the three types of termite? However, I will not do that. You are all looking at your shoes now. I would say if you looked at the vast majority of our business and across Rentokil, which of course has done termite but not on a grand scale and of course Terminix as well, the vast majority of claims get resolved very, very cheaply. Very modest and not very much money at all. There is industry standard data out there of 1-2% if you are do it across the board. Certainly the Terminix experience because of the history, because of Mobile, Alabama and because of Formosan in the Gulf States has been materially higher than that. I do not have the number but it would be probably around ten Brett I would guess, give or take but do not plumb that into your models. It gives you a sense.
It is more expensive. The Formosan does more damage and there is more history here that has been resolved. However, the point of me putting those charts that show lines that start in the top-left and move to the bottom-right is to show that the overall exposure to these issues has been declining over recent years. It is very much part of our plan even in the hotspots where we have got Formosan to reduce the cost of handling those. We have now got benefit of scale across the organisation. We are putting R&D and technology into it to come up with better solutions. We have got better buyer power with suppliers. The biggest driver of cost in this piece I think is lumber, wood and of course the cost of wood has gone up through inflation. That is coming down again now. You have got a whole bunch of moving pieces but it is much higher at the Formosan end and much, much lower at the regular end. Over time our plan is to reduce that cost. I think we have got a good handle on it.

Stuart Ingall-Tombs: I think there were two questions. The first one was about the unwind of the exceptional creditors. Yes, that will be almost completely in H1. It is easy to forget we only completed this deal on 12th October so we have got quite a lot of hangover of deal costs and that sort of thing. That is almost exclusively H1. Lease capex is broadly in line with revenue actually because frankly it is mostly in technician vans so maybe an additional £40-50 million on top of the 2022 number.

Dominic Etheridge (Deutsche Bank): Hello, just a couple of questions for myself. Firstly, in terms of the IT and the integration what will the output be for the technicians? Is it fundamentally different to what is going on at Terminix at the moment? What are they seeing? I think in the past rostering in particular was an issue at Terminix. Secondly a question on branding. Obviously Terminix is a very large brand and that is going to be your principle brand but there is about 2.5 states where you have an issue in that you have franchise holders for those territories or maybe on a non-exclusive basis. You have also got some very strong brands in Florida and the Northeast. Can you just discuss how you think about that, particularly with the branch network going from 600 to 400? That is obviously going to be losing 200 branch managers effectively or people will be going. Also that seems fairly aggressive. If you do the geospatial you can see that is fairly aggressive in terms of taking the numbers down. Could you give us an idea of why you have gone that route rather than maybe looking at what Rollins does with Orkin versus its ancillary brands? That may be a better way of gaining share because not everyone loves Terminix as a brand in the US I think it is fair to say. Then lastly just on the termite accounting and apologies for asking on this. From what I understand it is based on the historical accrual ratio based on your claims rates. Over what period of time would your claims ratio have to improve for you to start changing your accrual rates on your current revenues? Thanks very much.

Andy Ransom: Lovely, well Stuart you can take the third of those two questions and I will start with branding. In terms of our approach Terminix is a power brand. It has got phenomenal brand recognition in the United States for pest control, both in terms of prompted and unprompted. It is a genuine power brand. I do not recognise the comment that Terminix is not popular with some customers, if I am honest. I do not recognise that at all. Our belief is that now is the time for us to invest in the brand, and again we are back to the £75 million, and to put real muscle and oomph behind that. We have not said we end up with one single brand or two brands. We have said we end up with a small number of brands and therefore you are quite right, things like Florida Pest Control, Western Exterminator and even Ehrlich up in the northeast are probably brands that are going to be around for some considerable time and maybe forever. However, there are a lot of small brands that are very local and they do need to be harmonised because they soak up a lot of resource. If you are going to support that many brands you have got to support them on the web. You have got to support them through uniforms and trucks and all the rest of it. I am really excited about the branding piece and the opportunity it brings.

In terms of how we got to 400 and looking at it this way, I can tell you we have looked at it every which way. We have spent an enormous amount of time, effort and some money trying to work out not just a fit-for-purpose structure that works for the first 12 months but we have designed a structure that will work for the next good few years because we need to grow onto these structures as well. The philosophical bit in there is how big should a branch be? We have got branches in many, many parts of the world and in America which are battleship branches. Very significant and they work perfectly well. We have got tiny branches as well. Our conclusion is to use a span of control methodology that we have the right number of techs, the right number of tech managers, the right number of supervisors, the right support from field biologists, etc. We have created not a perfect structure but an optimum structure and we will move to that over three years. We will change the brand, change the employee terms and conditions and change the customer offering. That is a lot of change that we have to put through over the three years. I think around 400 is the right number. What other competitors choose to do is entirely up to them. They have different strategies and they have different execution, including a different approach to branding.

On IT a big part of what we are trying to do is we make a lot of investment in IT and we are trying to do one of two things generally with our IT budget. We are either trying to give the customer the same service but delivered in a way which is more efficient for us the provider, which basically means productivity, efficiency and making it easier for the technician to do their job. Giving them the materials so that when they open their phone it is all there. They know which customer to go to and they know what to do when they get there. The history of the customer's record is all there. We talk a lot about what is in it for me. What is in it for me the technician? If all we have got is technology that just represents change. Nobody is interested in that. We are giving them technology which will make them more efficient. With that efficiency you get one of two benefits if you are a tech. You either get to go home a little bit earlier or you get paid a little bit more because you are doing more work which is bonusable. That is the main part of that bit of technology.

The other part of the technology is really investing in customer offerings to give the customer a better service. In terms of the support we are giving technicians we are broadly going to use the technology base, the platform that we have just spent in Rentokil the last three years putting in across the businesses. The pest control industry standard backbone. Then on that we are taking apps if you like, APIs from Terminix and from Rentokil, cool stuff that helps the sales people sell more effectively, helps the upsell story that Brett shared in terms of, 'You are a customer for Pest. Would you like us to give you a quote for Mosquito?' That is the approach to tech.

The third question, Stu, I think was for you.

Stuart Ingall-Tombs: Yes, back to termite accounting. Let me do this and then I have got another question online actually around why we do not get any accounting benefit after 2024. Let me step back. At 12th October we took on a book of termite customers with Terminix who had an existing contract. Under IFRS we would have provided for claims on those customers at the point of inception of that contract. What that means is that we have created a provision reflecting what it would have been under IFRS at 12th October. We then have a cash outflow against that provision. That element of the provision at those existing customers only ever gets smaller and it is based on two things. It is based on claims rate and it is based on customer retention. It drops quite quickly and then it is a very long curve because it can go out up to 20 years actually. It is a very long tail and quite a steep decline. At the same time from 12th October for new customers we are making a provision at that point for those new customers and that element of the provision builds. There is a point at which our new customer provision is above the old customer provision. They cross over and it is P&L neutral at that point.

he $50 million benefit cumulative in 2023 is the high water mark of accounting benefit that we get and thereafter cash comes more in line with P&L as that provision declines. That is the maths of how it works. Clearly because it is on a reducing balance we have got to make some judgements around what the claims rates are on those customers and what the propensity of those customers is to renew. We have got a very high level of confidence around that. We have done lots of economic modelling and statistical modelling. We have got about a 90% confidence and our 90% confidence says you can be +/-10% in either direction. We have made a judgement. We think it is the right broad judgement but that is subject to a little bit of movement as we move through the subsequent years. Hopefully that is a reasonably clear explanation of how that dynamic works and because of that cash headwind that is the major impact on our reduction of our target cash conversion rate from 90% to 80% for the next couple of years. Thereafter because it comes more in alignment that will be close enough that we think we can sustain a 90% cash conversion rate. However, that is the major dynamic around termites.

Ollie Davies (Redburn): Hi, just a couple of questions. Can you talk about the current gap between the pricing strategies of Rentokil and Terminix in the US and the potential revenue benefit you could drive there? Then secondly on pricing, how do you think about it this year? Should we expect similar levels to what you put through in the US last year? How is that split between Rentokil and Terminix? Then I guess following on from that, in terms of improving employee retention what are you seeing on the wage pressure front and labour availability from technicians? Thanks.

Stuart Ingall-Tombs: Shall I go? I think the gap in pricing is one of methodology more than it is principles. Neither business seeks to increase margins through pricing action. We seek to recover cost inflation. We do not particularly see a gap there and I think it is fair to say that our brands in the US broadly are mid-market brands, whereas in much of the world Rentokil is a premium provider. That is less true in the US than it is the rest of the world. What that means is that we do not really have a premium difference between the two. The methodology is really because of history. The Terminix business is a large homogenous customer base of very similar customers both in Residential, Commercial and Termite which means that they can take a quite centralised approach to pricing and pull levers. Some of the capability around web pricing is stronger than Rentokil's is. Whereas Rentokil has very strong local ownership so a lot of our pricing strategies are bottom-up because our commercial hinterland is about local ownership of a P&L in a branch. You can see actually Terminix is very strong in Residential pricing, Rentokil really strong in Commercial pricing and we think we can bring those two methodologies together to really get some value out of those complementary skills.

We have got a couple of questions around inflation expectations and pricing in 2023. Again I will come back to methodology. We price on a daily, weekly, monthly basis. We look at the inflation we are seeing today and we will make a judgement about what price increases we have to put through to reflect that. I am not going to sit here and you guys out there will have a much better view of what the latest view of inflation is in the US or indeed anywhere else in the world. I am not going to make a judgement on that. I do not need to make a judgement on that because whatever we are seeing in front of us at the time and also what we are seeing around wage cost pressures, which most our wage inflation comes through at the half-year, then we will adjust accordingly through the year. We will respond. We will protect margins as we have demonstrated over the last two years but I am not going to make a judgement today because I do not need to. I am just confident that we will manage it. Of course it feels like it is going to come off what we saw in 2022 but at what rate is I think frankly anybody's guess.

Andy Ransom: On the employee piece it is the biggest chunk of our costs but we made a move in the middle of the pandemic to move our typical pay increase date from 1st January to 1st July. That lucky decision has actually proven to be quite helpful because it gives us a few months in a year to see what everyone else is doing and how the markets are going. What I will say is we have not seen very significant pay rises going through in our industry or in our peer industry. We have seen reasonable pay rises going through. We will take a decision on exactly what we are going to do for most people in a few months' time and therefore we have got time. Based on that wherever we end up we will set the objective for what we need to do in terms of price in the second half of the year to recover it. At this stage I would say not just in America but this is something we have to do right across the group. We are pretty experienced at doing it and I think we do a pretty respectable job.

Coming back to colleague retention at the end of 2021 colleague retention in Terminix was 61% and at the end of February was 65%. Four percentage points of colleague retention is meaningful. That is not irrelevant. That is a significant move and if we can have done that between us over the last months during incredibly hot labour markets in part of the States and inflationary environments yet still been able to move up four percentage points then that I think is quite an encouraging fact. That is probably all we have got on that one. Thanks.

Stu do you want to pick a couple or more?

Stuart Ingall-Tombs: Yes, sure. I will start with whether there have been any developments in the litigation issues around Terminix's business in not honouring their warranties on pest control contracts. What percentage of revenues do these litigation costs represent in the Terminix business? That is from Sam from Evenlode.

Andy Ransom: I think I dealt with the second half of that question. The first part, the thing to understand with cases is many customers have had contracts for five, ten, 15, 20, 30, 40 years and so when a claim comes in it could be in relation to a property where the contract was taken out a couple of decades ago. Then you get into, have we got the paperwork? Have we got the original inspections? Have we got the appropriate contractual documentation? Like with most warranty covers, you will all have a warranty cover on, I do not know, your washing machine or whatever, customer's view of what is covered versus the supplier's view of what is covered will differ from time to time. Then the facts to support the claim will be up for discussion. I do not think there is any new news. I have shared all the new news that I have on the subject of termite litigation and termite trends but for sure when customers get unhappy that they have got termite problems and they want to bring a claim under a warranty from time to time the company will have a different view. That it is not covered or it is only partially covered and that is when you get into some of these disputes which is when you get into some litigation as to who is at fault and why the situation has occurred. However, I do not think there is any new news or new trends which I think was the gist of the question.

Stuart Ingall-Tombs: Yes. From Max at North Rock, with the site rationalisation what are the moving parts between the cost savings per site closed, please? SG&A synergies, what were the specific areas where you saw scope to raise this part of the synergies? Pricing a major contributor next year and rats do not read the FT so what is holding organic below 5% next year?

Andy Ransom: I am glad you read that out. I thought you were going to answer it.
Stuart Ingall-Tombs: I can do that if you like. Let us start with site rationalisation and the moving parts behind the cost savings per site closed. I think there are three levels, as Andy described, to the branch consolidation. One is co-location, bringing branches together, organisational branches, and putting them in the same physical site. In that way we save property costs. The second is bringing the management of that branch together. Putting effectively two teams under a single operational leadership. Thereby we save operational leadership and management costs, if you like. Then the third element, as again Andy has described at some length, is around the root density under a single brand on a single operating system such that we can deliver one truly integrated business. Those three come through over time and actually it is the third element that gives us the biggest opportunity frankly which is why the operational synergy benefits are back loaded for the operations piece.

SG&A, what are the specific areas? I think we broadly just upgraded it across the board honestly. There is not a single area where we have had a eureka moment that we thought, 'Gosh, we did not realise that was going to come through.' I think it is fair to say obviously we delivered more synergies earlier than we were guiding to but they are the synergies around marketing, around procurement, around vehicle management that underpin a whole bunch of 2023 but they are not really additional. They are just early delivery of the synergies that we were expecting. Really it is just nudging it up across the board, feeling more comfortable with the targets we have set across the various central functions.
No, rats do not read the FT. Pricing should be a contributor. What is holding organic growth below 5% next year? Well, as Andy said, we have not given any guidance on organic growth for 2023 so I do not feel the need to respond to that again.

Can you talk about the price tailwinds into 2023? This is from Andy Grobler at Exane. Can you talk about price tailwinds into 2023 by end market? I have sort of answered around price. We will respond as we think fit and clearly we get some tailwind from our contract pricing in 2022. However, also we have to respond to jobs pricing and especially in pest control jobs can be 20-40% of our revenue in any given market. That can have quite a significant impact on our organic growth and our pricing growth in any particular period. What has been the competitive response to the deal in the US?

Andy Ransom: In a market that has got 18,000-20,000 competitors, most of them very, very local, and of course the big change in the deal is in the Residential and Termite space, it is incredibly difficult to see there has been any competitive response. What would you do as a competitor? What would you do differently? These have always been very competitive local markets. Pick a town in the United States and google pest control near me and see how many come up. Is it one or two? Or is it 15? Well, it is 15. There are always a tonne of local competitors. There always has been and always will be. If you want to target us differently what are you going to do? What is your strategy? I have heard this question from Andy and others before. I do not really understand what it is that the competitors would do? You could drop your price but I doubt that. No, I have not seen any competitive response nor could I honestly hand on heart tell you if I were able to see it because you are talking about transaction values of $1,000 down in a branch in Nebraska. If we see it we will tell you we see it but we have not seen it. On the Commercial side again we have not seen it. It is a very competitive marketplace, always has been, I suspect always will be. We try and differentiate on quality. We try and differentiate on service. We try and differentiate on important things which we think are important like the planet and sustainability. Other competitors are entitled to their strategies and their tactics but I have not noticed that we have been targeted. No, I have not seen it.

Stuart Ingall-Tombs: Then Andy's final question is on cash conversion. Apart from exceptional working capital what are the moving parts on capex depreciation and cash P&L tax to get you to your target? Our target is 90% in the medium-term. It maintains that so the only question for us really is in the short-term why would we not get to that target? Terminix is a pest control company. Rentokil North America is a pest control company that has good cash generation characteristics. Really the only two things that dilute that in the short-term are the much-discussed accounting adjustments for termite warranties where we have got a bit of a headwind and a little bit higher capex, as you can imagine, as we are bolting these two businesses together, both in IT, vehicles, signage, all those sorts of things. We will have a little bit of capex there but that is really reflected already in the guidance we have given. We are very confident about the cash generation in the medium term. It is just going to be slightly softer in the short term.

Andy Ransom: Stu, I am going to suggest you take one more from here, reading the room. Any that are really critical here we will try and get back to those who have asked them or they can give us a call. I think we have had a good session today. We have provided a tonne of information, answered a lot of questions and there is a train strike. With that in mind we will take one more. Take your pick. Make it one for you would be my preference.

Stuart Ingall-Tombs: I will do that. This is one that is a sensitive one so I think it is worth dealing with. From James Beard at Numis. Can you confirm that your updated free cash flow conversion targets are pre-cash exceptionals? You appear to have changed your free cash flow definition from last year to exclude cash exceptionals. Does your current free cash flow definition include cash payments for termite damage remediation? Then some questions around Termite accounting which I think I have covered.
Yes, our free cash flow does include the cash payments for termite damage. I think that has been clear. We have moved our free cash flow definition to exclude the exceptionals but that is really because of the cost to achieve. Historically we have been at about £20 million or so run rate on one-off type costs so we have been very comfortable. It does not distort the year-on-year number but clearly we are going through a period of a couple of years where disclosing free cash flow generation including those exceptional costs does not feel like the right thing to do. I think we have been fairly clear in the documentation and that is the decision we made.

I think, therefore, that is it, Andy.

Andy Ransom: Alright, thank you very much for your interest in the company, your excellent questions. We will be hanging around here for a little bit so happy to chat further and look forward to seeing you again in six months' time. Thank you all very much.

[END OF TRANSCRIPT]