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PRESENTATION

John McAdam - *Rentokil Initial plc - Chairman*

Well, good morning, ladies and gentlemen. Welcome to Rentokil Initial preliminary results for 2013.

This morning, as well as the usual overview of our business performance in 2013, which Jeremy will present, Andy will give you an update on our revised Rentokil Initial Group strategy to deliver shareholder value over the medium term.

And, as you will hear, we've just announced the disposal of our Initial Facilities business, so Andy will also give you further details on the deal and the strategic rationale for this change to our portfolio.

But, first, let me introduce the presentation by saying that 2013 has been a year of change. We announced, in April, the sale of our loss-making parcel business, City Link; and, in October, appointed Andy Ransom as Chief Executive, to succeed Alan Brown, who decided to stand down, after almost six years of building a stable platform, to enable future profitable growth.

So, we began a new era under Andy's leadership. One of the key themes that will become apparent in today's strategy presentation is pace.

Speed of execution is central to Andy's approach. Since taking the helm in October, we've completed a thorough review of Group strategy, which you will hear about shortly; taken advantage of favorable market conditions to issue a EUR350 million Eurobond to refinance the Group's EUR500 million bond maturing in March 2014; renegotiated payments to the Company's pension scheme, agreeing with the trustees a significant reduction in annual contribution from March 2014; and, as I have just mentioned, announced the sale of Initial Facilities to Interserve Plc.

Based, therefore, on the progress we've made during the year, the Board is recommending a final dividend of 1.61p per share, to bring the total dividend for the year to 2.31p; a 10% increase year on year.

So now, let me hand over to Andy for the rest of the presentation.



Andy Ransom - *Rentokil Initial plc - Chief Executive*

Thanks very much, John. Morning, ladies and gentlemen, and thank you all for joining us today.

As John as just said, over the course of the next hour, or so, I want to update on three topics. First, Jeremy and I are going to provide you with a relatively brief overview of Group performance, and the results for 2013.

We're then going to talk about a very important announcement we made today, the sale of Initial Facilities to Interserve Plc.

Finally, we're going to share with you the details of The Right Way, which is our new plan to drive shareholder value. And as part of this, we're also going to share with you our medium-term objectives for executing the plan.

Then, there will be an opportunity, of course, to ask questions; and Jeremy and I are happy to stay around for a chat at the end, as well.

So, let me give you a very brief summary of performance highlights for 2013. Overall, we delivered a pretty steady financial performance, despite ongoing economic challenges that we continue to see in Europe, rounding out the year with a very solid fourth quarter with revenue, profit, and cash performance all in line with our expectation.

Revenue rose by 3.2% to GBP2.3 billion, reflecting a strong contribution from the Western Exterminator acquisition. And overall, we saw an improvement in our organic revenue growth in the core businesses, that's excluding Initial Facilities, which was up 0.5% for the year, and just over 1% in the fourth quarter.

As you can see, adjusted operating profit grew by 4% to GBP257 million.

Profit before tax was up 13.2% to GBP122.6 million.

Operating cash flow of GBP141 million, that was down GBP53.6 million, due to working capital outflows, and increased restructuring and CapEx costs, as we flagged last quarter.

Jeremy's going to provide further details shortly on this, and we'll pick up on that theme of restructuring costs later in the presentation.

I'm also pleased to say we've continued to grow our pest control presence globally through a series of bolt-on acquisitions undertaken in the fourth quarter, and in year to date, with a combined revenue of around about GBP16 million (sic - see slide 6, "GBP19 million"). Again, I'm going to come back to the theme of M&A later in the presentation.

So, all in all, a pretty solid quarter, to round out a year of overall steady progress in 2013.

So let me hand over to Jeremy, and he'll take you through the details.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Thank you, Andy, and good morning, everybody. As Andy said, I'll now run through the key financial highlights for 2013. Unless I state to the contrary, all of the numbers are at a constant rate of exchange, and relate to the operations of the Group, excluding City Link, which was disposed in April.

Revenue in the year grew by 3.2%, with organic growth in our core businesses, excluding Initial Facilities, of 0.5%.

Adjusted operating profit before interest for the year was up GBP10.1 million, or 4.1%, with profit growth driven by our acquisition of Western Exterminator in late 2012.

Profit after interest, at actual exchange rates, grew by GBP2.9 million, or 1.4% in the year, with favorable exchange rate movements of GBP2.1 million offset by a GBP9.9 million increase in Group interest cost.

The Group continued to achieve strong operating cash flows in 2013 of GBP141 million, albeit lower than 2012, as Andy said, due to increased CapEx and restructuring costs, as well as greater working capital outflows.

Adjusted EPS increased by 2.2%, reflecting a slightly lower tax rate in 2013.

Looking now at performance by region, the West region achieved 17.9% revenue growth, driven by North America, following the acquisition of Western.

Organic growth of 0.9% in the year was also driven by North America, supported by the Nordics, East Africa, and the Caribbean. This was offset by flat growth in the UK, and weaker performance in the Benelux and our Southern European businesses.

Profit growth in the West region was also driven by the Western deal, with profits in North America up by GBP7.5 million.

The UK also delivered strong profit growth through cost savings, helped by the implementation of our integrated operating model.

Outside of North America, prior acquisitions in the Middle East, North Africa, Turkey, as well as Central and South America, are trading in line with expectation.

In the East region, revenue was down 2.1%; 0.4% on an organic basis. Steady performance in France was offset by a weak performance in the Benelux, reflecting a difficult economic environment and significant pricing pressures.

Germany and Pacific revenues were in line with the prior year. Our German medical waste reclamation business was impacted by a fall in gold prices, and our Pacific business was impacted by cheap -- by weak job sales in pest control.

Profit performance reflected revenue performance, with growth in France offset by lower profits in the Benelux.

The region's made significant investments in restructuring during the year, and the program is now largely complete.

Looking now to Asia, in Asia, revenue was up 7% in the year; 7.2% on an organic basis. Growth in Asia continued in the established Malaysian market, and supported by a very strong growth in emerging businesses in Vietnam, India, and China, albeit off a small base.

The region continues to convert its sales growth into strong profit performance through improved productivity, and the leverage of its regional overheads.

In terms of interest, interest costs were GBP11.4 million higher than the previous year, driven by the requirement to hold sufficient funds to cover our March 2014 bond maturity.

Following a successful bond issuance in October, raising EUR350 million at a coupon of 3.25%, the average cost of our gross debt will fall below 4% from April onwards, once the March 2014 bond has been redeemed.

Looking now at operating cash flow, as I've already said, the Group delivered operating cash flows from continuing operations of GBP141 million in the year, driven by EBITDA levels in excess of GBP400 million.

Working capital outflows of GBP35 million were higher than the prior year, in part, reflecting the phasing of working capital in 2012.

Net CapEx of GBP232 million was GBP30 million higher than the prior year, reflecting increased investment in IT and infrastructure.



Total cash flows for the Group were impacted by a GBP23 million outflow, reflecting to City Link and the disposal of the business.

Moving now into free cash flow and movement in net debt, underlying interest and tax payments were broadly in line with 2012. Pension payments increased by GBP1 million, relating to the funding of the Group's Irish pension scheme.

There was a net outflow of cash from acquisitions and disposals of GBP10 million in the year, compared with an outflow in 2012 of GBP83 million, reflecting the acquisition of Western.

The Company paid GBP38.6 million in dividends in the year; GBP2.4 million higher than in 2012.

And having refinanced our forthcoming maturities, and following the sale of Initial Facilities, we are now funded for the foreseeable future, and I'll talk about this more later on this morning.

Moving now to guidance for 2014, as previously announced, central and divisional overheads will be in the region of GBP70 million, which is GBP10 million below the 2013 half-one run rate.

Interest costs in the profit and loss account will be around GBP50 million, GBP10 million lower than 2013, following the refinancing of the March 2014 bond.

You'll all be aware of the recent strengthening of sterling, and the impact this is having on global businesses. This time last year, we were looking at a potential GBP10 million favorable impact from exchange movements, which ultimately reduced to GBP2 million in the end.

Given this volatility, it's clearly difficult to guide with certainty the impact for 2014. Based on current values, the estimated effects would be in the region of GBP15 million. And this reflects a strengthening of sterling against the euro and dollar, reflecting some of our key businesses, but also some very significant movements against Australian, Asian, and South African currencies. We'll obviously update you on actual impacts as the year progresses.

As Andy said, we'll be spending significantly less on restructuring costs in 2014 and 2013. The P&L impact in 2014 will be around GBP20 million.

Just to note, we're reviewing how best to present these costs going forward; but for the moment, we'll continue to report the items below the line.

And we're planning for a significant improvement in free cash flow in 2014. Working capital outflows, as I've said, in 2013 were, in part, caused by a 2012 phasing. I anticipate a lower outflow in 2014, in the region of GBP15 million to GBP25 million.

I expect net CapEx to be in the range of GBP205 million to GBP215 million in 2014, broadly in line with depreciation.

The P&L impact of restructuring costs will be significantly reduced. And I expect that the cash impact of restructuring costs compared to 2013 will be around GBP30 million lower.

As John has just said, we struck a deal with our pension trustees in relation to the triennial valuation, whereby the amount of pension contributions will be significantly reduced. The valuation of the scheme at March 31, 2010, was GBP80 million. And the implied deficit from the current valuation discussions is nearer GBP80 million, so it's reduced by about GBP62 million.

Given the way the fund is moving, and given our belief, and the trustees' belief, that the scheme will become fully funded, we've arranged with the trustees that we'll pay GBP3 million a year into an escrow account on the basis that when the scheme does -- if the scheme does become fully funded that cash will be returned to the Company.

On that basis, free cash flow improves by around GB12.5 million a year compared to 2013.



Interest and tax payments will be around GBP5 million higher in 2014, largely reflecting the phasing of bond payments on our new bond.

And the cash flow of the sale of Initial Facilities largely balances the impact of City Link when comparing 2014 cash flows with 2013.

Taking all the above into account, I expect free cash flow to be significantly improved in 2014, and I'll cover this later on in the morning's presentation.

Taking together all what I've said, and looking at our outlook for 2014, we are expecting trading conditions to remain challenging across Europe in 2014, and Benelux in particular. But we are looking -- and we do expect that cost efficiencies in our business will offset the margin pressure overall as a Group.

As I've previously explained, we expect a material improvement in free cash flow as restructuring and CapEx costs are significantly reduced.

And the disposal of Initial Facilities, together with the sale of City Link last year, now enables us to focus on our core categories of pest control, hygiene, and workwear, which we'll talk more about this in a moment.

But, in summary, our emphasis on revenue, profit, and cash gives us confidence in making further operational and financial progress in 2014.

I'd now like to hand back to Andy, who's going to talk about the rationale for the disposal of the Initial Facilities business that we announced earlier on this morning.

Andy Ransom - *Rentokil Initial plc - Chief Executive*

Thanks, Jeremy. It was a late night last night, but I'm delighted to say that we did conclude the signing of the contract for the sale of our Initial Facilities business to Interserve. I think it's a really good transaction for us. Let me explain a little bit about the rationale for why we've done that.

We indicated last year that Initial Facilities is not a core business for Rentokil Initial. It's a good business, but it's got a different operating model. It's a site-based business. It's predominantly a UK business, and it operates at a lower margin point than the rest of the Group.

In the latter half of last year we took the opportunity to test the market. And having looked at the benefits for the Group, and the potential to unlock value, I was very clear about the right way forward here and so we entered into discussions with Interserve, which resulted in today's announcement.

The benefits to us of the sale are clear. GBP250 million price; that nets us GBP240 million of cash, which I believe represents a fair value for that business.

Secondly, it allows us now to become very, very focused on our three core route-based categories of pest control, hygiene, and workwear. And I'll talk about the importance of that focus later on in the session.

Third, after the disposal, the key underlying financial metrics of the Group will be significantly enhanced. And that puts us in a great shape to execute the strategy, going forward.

Completion of the deal, of course, remains subject to the agreement of Interserve's shareholders. That will be sought at a general meeting on March 17, and so we hope to be in a position to wrap this up by the end of March.

I've described the deal as a genuine win-win-win transaction. And what I mean by that is I think this is really, really good outcome for our colleagues and our customers in IF. I personally think it's an excellent strategic opportunity for Interserve to take that business forward, and I absolutely believe that this is the right transaction for Rentokil Initial and its shareholders.



Jeremy's going to give you the outline on the financials. And, again, we're happy to take questions on the results, and on this, at the very end of the session. Jeremy.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Thanks, Andy. Just to reiterate Andy's point there, the deal, clearly, is subject to shareholder approval. But assuming the deal does go through, I thought it would be useful just to give you an indication of what the impact would be on our numbers, going forward.

As you will -- as Andy said, the proceeds on the deal are GBP250 million.

To give you a feel for the provisional profit on disposal, we've assumed cash costs in the region of GBP10 million, in line with the City Link disposal.

The business has net book assets of approximately GBP100 million, and that delivers an exceptional profit of GBP140 million, with a cash flow into the business of the cash cost of GBP240 million.

There are no significant deal terms associated with the sale. We've agreed a 12-month transitional services arrangement with Interserve, and we continue to have a good supplier relationship with both Interserve, and with Initial Facilities.

Assuming the deal goes ahead, this has an immediate impact on the underlying financial metrics of the Group. For example, looking at pro forma 2013 numbers, with Initial Facilities removed from the Group, organic growth moves from minus 1.2% to plus 0.5%; net operating margins improve by 200 basis points to 13.1%; and underlying profit growth, adjusting for Initial Facilities, would move from 4.1% to 6.4%.

Given the low cost of debt to the Group, the sale has a short-term dilutive impact on EPS, and the pro forma 2013 numbers reducing by just over 1p.

As well as the P&L, the sale has an immediate impact on our balance sheet; we estimate it reduces debt to around about GBP0.8 billion.

Our credit metrics are further improved, moving us closer to our desired BBB credit rating with Standard & Poor's.

We have agreed with the pension trustees that, given the healthy state of the pension scheme and the Company's covenant, none of the proceeds will be required to be invested in the pension scheme, unless we return any amount to shareholders before the end of 2015 by the way of a special dividend.

With this in mind, and given the plans for the business, which Andy will relay in a moment, we intend to retain the proceeds on the balance sheet. This gives us a capacity to continue to pursue a progressive dividend policy. It also reduces the level of debt.

And, combined with our plan for significantly increasing free cash flow, it's consistent with our previously stated aspiration of achieving a BBB investment grade credit rating.

It also provides us with flexibility for further investment in our core categories of pest, hygiene, and work wear.

In summary, the divestment gives us the flexibility to further invest in our higher margin and higher growth core categories; pursue our progressive dividend policy; and further reduce our debt levels.

I'd now like to hand back over to Andy, who's going to talk to you about our Right Way plan for delivering shareholder value.



Andy Ransom - *Rentokil Initial plc - Chief Executive*

Thanks, Jeremy. This is a jackets-off session, so get prepared. This will take 40 minutes, or so. It's taken a little bit longer than we would normally do, but I do want to take you through the key elements of our new plan; both to drive growth and shareholder value over the medium term.

We call the plan The Right Way. Internally, we talk about the right people doing the right things, that's for customers, in the right way, and that's for shareholders. I'm going to spare you the detail today on the right people and the right things, but we are going to spend a little bit of time on The Right Way plan.

There are three parts to this session. First, I'm going to give you a little bit of context about the platform for profitable growth that we've built over the last five years, and that's despite a pretty challenging economic backdrop.

Second, I'm going to give you quite a bit of detail on the plan itself.

And then, Jeremy will talk to you about the medium-term financial objectives that we're planning to achieve from executing the plan; and you can see those on the slide.

I'm not going to dwell too much on the past. Today is really about the future. But I do think it's important to show, very briefly, what's been achieved over recent years to give both context, but also some confidence, that we've largely addressed most of the major historical challenges facing Rentokil Initial; and that we have established this platform from which to push on and to deliver profitable growth, and create greater shareholder value.

Now, this is a very busy slide, but it reflects a very busy five years. The short point is that we've genuinely transformed the Group from a fragmented conglomerate, lacking focus, lacking clear strategies; with low internal morale; several broken businesses; a poor service culture; a multitude of systems and processes; a weak balance sheet, and we've transformed it to the Group that I'm going to be talking to you about today.

Following a period of essential reinvestment, and really massive change in the Company, we've now got in place a strong business that's based on motivated and well-trained colleagues. It's got a good health and safety record; excellent customer service levels; improved customer satisfaction.

We've got a core suite of common systems and processes; we've got terrific brands, with strong market positions in most countries; we've got more innovation in the business than we've even had before; we've got a significant M&A capability, and a much improved balance sheet.

Just to give you one sound bite, over the last five years we've invested over GBP300 million in systems and in restructuring. And over the same period, we've paid down debt of over GBP300 million. That's a fact that gives me a lot of confidence that we can significantly improve our free cash flows as we go forward.

I'll let you read the detail in your own time. But, as a Company, we've traveled a really long way here. And I'm pleased to say that the era of significant structural change of the last five years is coming to an end and I've got the entire management team at Rentokil Initial focused on how we plan now to build on this platform, moving forward.

So, why do I think we can do this? Well, to start with, there's absolutely no doubt that all of the operational challenges that we faced, and that massive change agenda that we had to complete, it has been a major distraction to the business. Inevitably, we had to be far more internally focused than was ideal for the Company.

We're now in a position to be much more externally focused. And that means we're focused on customers; we're focused on our competitors; we're focused on winning new business; and we're focused on how we're going to run the business differently in the future.

Why else do I think we're well placed to push on now? Well, firstly, we've got some really strong core category businesses, and I'll tell you a little bit about those later.

Second, despite the challenging economic environment, we can still sustain our net operating margins through service productivity; back-office rationalization; and through tightly managing our overheads.

There's an inherently strong cash position in the Company. Ongoing CapEx can be scaled back now as the major restructuring programs are largely complete, and restructuring costs can be significantly reduced.

Today's announcement of the intended sale of Initial Facilities, that's going to give us tremendous financial flexibility, and a strong underlying balance sheet.

Fourthly, we can also accelerate our growth and enhance profitability through focused acquisitions. I mentioned earlier, we've completed a series of really good small bolt-ons. And the pipeline for further acquisitions is very good; it's particularly good for our pest control business.

Then finally, I think we're very well positioned to take advantage of any improvement in the European economy. It's not my job to call whether that recovery is happening. But what I can say is I think we're really, really, well positioned, and well placed, in these markets as and when those eurozone markets being to pick up. The platform's been established, and the opportunity for growth is there for us to take.

What I've said to my team is that we don't need an all singing, all dancing big blue sky new strategy for this business. What we need is a plan that's now about focus. It's about playing to our strengths. It's about delivery. It's about execution of the sales and service basics. And it's a plan, as John has said, based on moving at pace. And that's all put together with a really hard-edged and strong financial discipline in the business.

So, let me tell you about it. Before I describe the components of the plan in detail, let me start by describing what we see as the driving forces that sit behind the plan. In short, what are we trying to do? What are we trying to achieve with this plan?

Our plan to deliver higher revenue growth starts by focusing on our core strengths. It's what we're experts at. We had a fantastic global pest control business, and we've got two excellent complementary businesses in hygiene and in work wear. These are our core categories for growth.

My aim is to free up our local managers to manage their businesses and to drive revenue growth, using different levers that are flexed to match their local environments. And I'm going to tell you more about those drivers, and about our new matrix, in a moment.

Sustainable profit growth is going to come as a result of the completion of that major restructuring phase, with significant reduction in central and divisional overheads; and by leveraging our low cost regional and country operation model; and through being very focused in critical cost areas, such as service productivity, but also looking very hard at pricing and margin management.

Our increased operating cash conversion's going to be delivered by spending CapEx in line with depreciation; by cutting out restructuring costs; and by managing working capital tightly.

Finally, and in my view very importantly, we're also changing the culture at Rentokil Initial. Today, we're becoming one team. We're working together as a group, totally focused on customer service and on shareholder value.

I include the word pace at the end of the slide for good reason. Over the last few months, I've been telling everyone in the organization that we have to up our pace of delivery. Simplifying and focusing the organization is also going to up our pace of delivery. An example of this is today's sale of Initial Facilities. What you're seeing here is strategy put into action, leading to greater focus, and delivered at pace.

Since October, we've also delivered more than 10 bolt-on acquisitions. We've introduced the new organizational structure, which I'll cover. We've reorganized central and divisional functions, and delivered GBP10 million of cost savings. We've negotiated with our pension fund trustees a significant reduction in funding. We've upgraded the management team. And we've built our new Right Way plan. So we are moving, as an organization, at pace.



Let me move now from the what to the how. Our starting point here has been to profile every one of our businesses and our categories into this matrix of growth potential and profit contribution. We've started to use this approach to become very, very, selective about which strategic levers to pull in which markets; where to focus our CapEx; where to focus our M&A investments; what returns we're going to demand in each part of the matrix.

We've identified four quadrants; emerging markets, manage for value, established growth, and protect and enhance market. In short, the strategies that we need to deploy to grow aggressively in the emerging markets are very different to the strategies that we need to deploy in our economically challenged regions, where we need to aggressively manage them for value.

If I take each one of these, very briefly, in turn, the emerging markets, these are our operations in geographies of typically high GDP growth; high population growth; growing middle classes; increase in importance on improving hygiene standards. We're not yet big in these markets, but we are growing fast. And a key part of this plan is to grow aggressively in these fantastic new markets.

By way of significant contrast, if we look at manage for value, these are our operations in highly competitive market environments, typically with tough economic conditions; low or negative GDP; significant pricing pressure. And, as well, we've got some of our sub-scale non-core businesses in this quadrant. Fortunately, we don't have a big chunk of our business in these markets. But we know exactly which markets they are and we've got a very different plan for running those businesses.

Our growth markets are typically in countries with average or above average GDP growth, but they also enjoy good growth in our core categories, particularly in pest control. The great example of these markets is North America, which we see, over the medium term, as a major growth engine for us in the future.

Our protect and enhance markets are typically our higher margin, higher market share businesses, and they are in markets with low GDP growth. As the title of the quadrant suggests, our strategies here are more about protecting what we have, rather than delivering accelerated growth. As you might expect, we've got a big part of our European business which is in this quadrant.

With this approach, we're able to introduce different growth levers to maximize impact. Put simply, the strategies that we need to deploy to grow in Brazil are really very different to what we need to do to protect our business and manage it for value in Greece.

The great thing about this approach is it's highly intuitive. The team really get this right away, and they're now beginning to use this to differentiate strategies within their own markets.

In North America, the guys are able to take this approach and plot every single branch, every single city using the same approach. They can work out where are they growing fast; where do they need to put the investment; which are the underperforming branches; and what are we going to do about it? So very intuitive, and very insightful new way of running the business for us.

Over time, once our emerging businesses have achieved scale, and these businesses are all about building city density, that's how you make money in these businesses, they will become growth markets.

Similarly, we would expect some of our best-performing businesses in the protect and enhance quadrant to move on up into growth.

Ultimately, over time, we want to move those businesses which are in manage for value, either get them into the protect and enhance quadrant. But for some of those businesses, which are non-core, we'll exit them.

In yesterday's version of the chart, I think it's fair to say we would have had Initial facilities in the bottom-left corner; not because it's a bad business, but because of its lower margin profile.

I'm going to come back to this more a little bit of detail towards the end, but I wanted to introduce this part of the model to you up front, as it's a particularly important part of our new plan.

The way that we're going to focus the business now to deliver shareholder value is summarized in the new Rentokil Initial model. It's got three layers. The first layer is our organization. We're now focused on strong geographic businesses grouped into five regions; Europe; North America; Asia; Pacific; UK; Rest of World.

Next to our core competencies, we're focused on our leadership in our three core categories. Vitally important are our colleagues as genuine experts in their field, as well as our lean multi-business operating model.

And then finally, how we manage the business for profitable growth. That's focused on the differentiated model, which I just described a moment ago, and six operational levers for growth, which we will flex according to the market characteristics. I'll quickly go through each element of the model in turn.

On taking up the role of CEO, the first thing I did was spend a lot of time talking to a lot of people in this room; talking to shareholders; analysts; investors. I got lots and lots of feedback; most of it was really helpful.

I particularly enjoyed, I think that's the right word, reading one analyst's note that said we've had 37 content changes within our organization's structure over the last 5 years. And I thought it's a good thing to bring that change to an end. So I'm pleased to say, I've allowed myself one change, so we're going to have 38. But after that, I believe we've arrived on a really, really clear model, and it's one that I don't expect to change materially going forward.

We have a new flatter geographic structure. It's logical, it fits neatly with our integrated country operating model; five geographic regions, each with a regional MD reporting to me. For instance, Europe is now one region, no longer with different countries or categories reporting in different parts of the business. Australia is no longer run out of Europe; something that everyone seems happy with. The Asia region is separated from the Pacific region; these have different cultures and different growth challenges. North America includes the USA, Mexico, and Canada.

The feedback from colleagues in the Company on the new structure has been really positive. It's a structure as well that allows me to get really, really close to my team of excellent operators.

I also got feedback, which suggests that Rentokil Initial is overly complex and opaque. I believe that this new structure, as well as today's announced sale of Initial Facilities, really, really simplifies our Group considerably.

Jeremy's going to give you the details of the regions, including a pro forma analysis about 2013 revenue and our profit performance, under those new regional groupings.

Going forward, if you want to compare our performance, by region, or by category with our peers, I think you'll have all the information and all the clarity that you need to do so. And we're going to report on that new basis from Q1 in May.

I also wanted to highlight, though, briefly, the underlying strength of these five regional businesses that make up the Group. I've included lots and lots of detail on this in the appendices at the back, so, if you're into detail, it's all there for you. I'm just going to pick out a few points, just to highlight why I think we've got five strong regional businesses.

Europe is our largest region; it's a really big part of the business. A very significant generator of our total profit, and that's being delivered at 20% operating margin. We've got market leadership in pest control, we've got strong positions in hygiene and workwear. And we're also seeking to build out our positions in clean rooms as part of the workwear category, because we think that offers really good growth potential.

As you will see later, though, most of Europe is in that protect and enhance quadrant, given the current low growth coming out of the eurozone countries.



North America, for us, is a core growth target market. The integration of Western and the program of infill bolt-ons, that's going really well. We're now the third largest pest control business in what is the world's largest pest control market. But our market share is still less than 5%. There's plenty for us to go for there, both in terms of growth, but also, as you can see, in terms of margin as well.

In Asia, we're typically number one in pest and hygiene, except in the really, really exciting markets that are emerging out of China and India. And there, we're now carefully targeting acquisitions to grow our footprint and to build out that density that I mentioned.

In the Pacific, we're the clear market leader in our categories. And here, we're very focused on driving margin through better price management, and through building route density.

I've made it very clear to the guys and girls in Australia that, over time, I expect this business to move out of protect and enhance and into the growth category.

Finally then, our operations in the UK and the Rest of the World. We've got really strong market positions. And these are the guys who've been the forerunners of our lean integrated operating model. The region's got the highest Group operating margin of 22%, and they're the ones that have driven a lot of the process innovations that I touched on earlier.

Hopefully there, what I've conveyed is that we've got a clear, simple, focused organizational structure; and we've got some very strong regional businesses.

If I turn briefly now to the three core competences; that's our categories, our people, and the lean operating model. Today, I would say, particularly in the light of the sale of Initial Facilities, we can be really, really clear on our core categories. Pest control, hygiene, and workwear; these are our strengths, and these are going to be our focus areas going forward.

Rentokil Pest Control is absolutely our primary category; it's what we're famous for the world over. In my view, this is an outstanding business. It's a truly global footprint. It's got a very strong brand. We've got leading positions in most of our markets, including Europe, Asia, and Pacific. And our expertise in this business is unrivalled, and it's an expertise that's based on science; on technical excellence; on continuous innovation.

We're going to continue to use pest control as the vehicle to enter new markets. And, as I mentioned earlier, we've got a big opportunity over the medium term in the biggest pest control market in the world, which is North America.

Initial hygiene is a complementary business to pest. It's got a very synergistic operating model with pest, and it operates in the same environmental health space. The hygiene business, just like pest, is also very highly cash generative.

In hygiene, we've got market-leading positions in over half of our 43 markets. And, like pest control, we also see opportunities for global expansion in the hygiene category.

Having underinvested in hygiene for years, we clearly lost some ground to the competition. But we're now fighting back very strongly, and I'm genuinely optimistic about the prospects for this business, going forward.

Initial workwear is very complementary with hygiene in our eurozone business countries, where we've got a shared brand, and we've got a linked service and integrated route-based operation. It is a slightly different business model to pest and hygiene, and it clearly does have a higher demand for ongoing CapEx.

Our strategy for workwear is to continue to strengthen the business in Europe, and to seek to expand the niche opportunity in the more technical cleanroom space that I mentioned. But unlike pest and hygiene, we're not currently seeking to expand our geographic footprint beyond our existing European borders.

The business has enjoyed a lot of investment over recent years, which we still need to drive a return on. And we do still have a couple of issues for fixing that business, particularly Benelux; and also in improving our supply chain. And we need to do that before we're going to see the full potential of this business. But workwear is a good business for us, and I think we can make it even better.

So, overall, I believe we've got three excellent core categories, and they're being delivered by strong, regional businesses, employing highly motivated people.

Now, I know every business likes to say that its people are its most important asset. But we really know, in a business like ours, it really is the people that makes the business special.

We call ourselves the experts in pest control; we're the experts in hygiene; we're the experts in workwear, and we really mean it. We live up to these descriptors only by making sure that our colleagues have outstanding training, and they're equipped with the best tools with which to deliver the very best customer service.

I continue to be hugely impressed by the passion and the motivation of our colleagues. In September last year, we measured colleague engagement and enablement, using an independent third party, and the results were very encouraging, placing the Company well above the service industry norm, and in many parts of the Group above the global higher performing norm. And that puts us into a world-class category.

Equally, I'm really pleased to see our safety performance continues to improve. And this is linked to engagement of colleagues, and also good line management. It also has a direct impact on cost and effectiveness. As a rule, if you have a business that's got a good safety record it's typically a well run business as well.

Finally, I've introduced a monthly leadership forum, bringing together the senior 25 leaders of the Company; expecting them to take a greater personal ownership for the performance of the business, and the introduction of a more entrepreneurial, hard-edged culture in the business.

I'm convinced that it's the expertise and the commitment of our people that's going to be the most important differentiator for our business, going forward.

The last of the core competences is this lean operating model you've heard me mention. We've identified a very clear target operating model for each country to adopt. The model has got single country management teams, leading integrated multi-service operations. We've got combined back-office functions; they're all underpinned by common systems and processes.

This chart is from the UK business. We've got there a single country team operating six multiple service lines. We've got a single sales and service academy; single marketing team; single admin function; one IT system; one branch network, all being enabled by modern technology and modern ways of working. And this is the model that we have been rolling out throughout the Group.

Finally then, I've decided to operate a smaller central function in RI; a function that's focused on centers of excellence, it's focused on Group governance, and it's focused on sharing best practice. So, we're going to work more to the pull of the markets, and what the markets need to serve their customers, rather than a central pushdown from the center.

During the years of restructuring and capability building, we needed more people centrally, and we needed more contractors. We don't need that now. Over the last four months, we have already taken the actions to reduce central and divisional costs by GBP10 million.

Underpinning those core competences is our new one Rentokil Initial culture. Not one for today, but this is all about creating a one-team mentality with a common set of behaviors, and focused on delivering great customer experience, and really focused on hard-edged delivery of shareholder value.

I'm now going to cover the growth drivers, and then hand over to Jeremy to talk about the objectives.



At the beginning of this, I said over the last few years we had to do a lot of capability building. The next phase is all about execution, and leveraging the capability that we've put in place. I can't possibly do justice to this subject in the time that I have today, but I want to give you just the essence of what this is all about.

We've got six operational growth levers we've identified, and we're going to apply them differently according to different countries ability to grow. I call these back to basics, because what we're talking about here is really just good old fashioned sales and marketing execution.

Rentokil Initial is a portfolio business. And a portfolio business you grow, yes, you grow by selling new business to new customers, of course you do, but it also comes from better customer retention; better price management; better up-selling; and better cross-selling. To illustrate how these levers can impact revenue growth, there's some examples on the right-hand of the slide there.

First, we're going to target our offers appropriately, ensuring we're providing the right offers to the right customers; but also, that we are masters of our markets, adapting our thinking to the local needs of the customers and to take on the local competitors.

Equally, smarter targeting of our sales force, and incentives for our sales force, focusing on new customers on existing routes. That's how we build density. That boosts revenue and profitability.

We're also focused on sales effectiveness, in both building a sales pipeline, but also what I call sales brilliance, or sales execution.

The sales process is far more effective when a sales person already has a pipeline of warm prospects, and the web is the primary example of that for us. The web already accounts for more than two-thirds of all inbound enquiries for our pest control business. There, we're continuing to invest significantly in our online capability.

Finally then, we're going to ensure a sharper focus on customer retention. And that covers delivering on our promises to customers, and improving the way that we'll engage to build long-term relationships. This is a really great example of back to basics thinking. And I'm determined that we're going to do an even better job at looking after our existing customers, adding value to them through service innovations, and instilling a far more pro-active approach to customer relationship management.

I can't really quantify the overall impact of executing these plans. But what I can say, with confidence, is absolutely the right operational revenue agenda to drive up our revenue performance over time.

So, finally then, pulling this together; pulling these strands together through the differentiated matrix. As I mentioned earlier, we've undertaken this analysis across the Company in order to group our categories and our geographies into this matrix of growth potential and profit contribution.

Here, on the slide, you can see the various countries and the categories applied to the matrix. If you look, for example, in the emerging markets, you'll see we're focused on pest control first, then hygiene. We're focused on the existing presence we have in Asia and Brazil, in the Middle East, Turkey, North Africa; but we're also beginning to focus on new markets, additional markets in Latin America, and other parts of Africa, Nigeria, Uganda, Mozambique.

If you look at the chart on the right-hand side there, you'll see -- just note one statistic here. In 2013, we only had 7% of our revenue in the emerging markets, yet these markets delivered almost half of the organic revenue growth in the Group; the rest coming from the growth markets. So you can see how we're focused on these markets, going forward.

In the emerging markets, the aim here is to build leading positions in both pest control and hygiene services. These have got very high potential growth. And having established the platform in many of these markets, there's clearly a great opportunity for us here. This quadrant is all about high growth, and it's demanding relatively high investment from us.

The growth leaders in this quadrant are about targeting that density building in target cities; increasing the number of customers on each route; and up-selling to those customers. We start by building up our enquiry pipeline, investing in the web, investing in the brand, and then we build



these city networks for pest control. Once we've got those, we'll introduce hygiene services, and then gradually build out our national account capability.

Rentokil Initial's already got a terrific position in many markets in Asia. But, in my view, we have a huge opportunity still to grasp in China, and in India, and that's part of the plan as well. Given the strategic importance of this quadrant, we will set lower hurdle rates for investment in these very exciting markets.

By way of complete contrast, the manage for value quadrant has got very low, often negative GDP growth. Our revenues and our margins are declining in these markets, typically driven by tough economic environments in markets like Portugal, Spain, and Greece. Our plan for these markets is all about aggressive cost management; productivity; efficiency; and maximizing our customer retention focus growth levers.

If we do buy businesses in these markets, or for any CapEx that we put into these markets, we set higher hurdle rates of return. And, as I said, for some non-core assets, we'll look to divest those assets and reinvest the proceeds in other parts of the matrix which give us greater growth opportunities.

In the growth quadrant, these are established businesses with long-term customer relationships, strong brand awareness to build upon. And these are markets where typically we're seeing good GDP growth, and good sector growth opportunity.

Our aim here is to focus on investing to take market share, and to develop existing customers who are filling in gaps in our geographic footprint, through organic and acquisition growth.

This quadrant accounts for about 40% of our Group revenues, and 38% of our profits. Clearly, we see these countries, particularly North America, but also UK, Germany, at the heart of our future growth prospects.

If you just look at North America alone, this accounts for 50% of the world's pest control market, and it's still growing above GDP. So by investing in national accounts and in M&A, we plan to take a much bigger share of this great market.

For our investments in this quadrant, again, we're going to set slightly lower hurdle rates, given the long-term importance of the market to us. We'll also be pulling hard on those six growth levers, given the higher potential opportunity in these markets.

Finally then, in the protect and enhance quadrant our aim here is to preserve what we've already got. This is about building profit and cash contributions. The quadrant accounts for 45% of Group revenues, and over half of our Group profit. So, clearly, incredibly important to protect what we've already got here.

We'll pull on the full range of growth levers, but with an even greater focus here on customer retention, on price discipline, and other self-help measures; and somewhat less focused on driving new business. We'll be very, very focused here on margin protection initiatives in these markets.

CapEx and M&A will be given a slightly higher hurdle rate, given the lower level of growth potential in these markets.

Finally then, by way of demonstrating how the M&A strategy fits into this differentiated approach, we've mapped out the bolt-on acquisitions that we've announced today, delivered in Q4 and early this year; again, trying to show you strategy interaction here.

What you can see from this is the majority of our spend is going into the growth sector to infill and boost density in North America. It's the same for the UK, too.

We've been very busy scouting in the emerging markets. We're working on some late-stage pest control acquisitions down in Latin America, but also in the Middle East, as well as in Africa, and in Asia.



And we've also recycled cash proceeds. We've sold three businesses, generating about GBP5 million over the last few months, and we've taken that money and reinvested it into the growth quadrant. Obviously, you can now add the announced sale of Initial facilities to that as well.

I think it's finally worth noting that we've also built a very strong M&A capability, and we've rebuilt it within the Company.

Most of you know, I have a strong M&A background. But we've been able to put in place a terrific M&A team in the business with really good international reach; an excellent range of contacts; good pipelines; good processes. So I'm confident that this increased activity is also accompanied by appropriate financial and risk management disciplines, and that our focused M&A program is going to be a very important part of our overall growth story, going forward.

So, you'll be pleased to know, there you have it; that's The Right Way plan. And Jeremy will give you a few details now on what the medium-term performance objectives coming from the plan are.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Thank you, Andy. I'll just, as Andy said, take a few minutes to set out how the plan that Andy's articulated will drive profitable growth and shareholder value.

Firstly, looking at revenue growth, Andy's already explained how we intend to reorient the culture of the business to be externally focused on customers and competitors.

Now we're through the internally focused transformation stage of the last five years, we've identified six operational sales levers, which will be differentially applied between the quadrants to drive organic growth. We'll also use the quadrants to rebalance the portfolio for the higher growth markets and segments that Andy's described. Based on these initiatives, we are targeting mid-single digit revenue growth, supported by our M&A strategy.

Looking at profit, we're looking to deliver high single-digit profit growth, leveraging our revenue growth ambitions.

Our businesses remain under significant margin pressure, particularly in Europe, and particularly in the protect and enhance quadrant. Following the significant levels of restructuring investment over the last five years, we'll now be looking to a number of self-help measures to maintain margins. I've listed a few of these here; for example, ensuring that our sales teams are focused on margin delivery, as well as revenue growth.

We'll be looking to drive further increases in service productivity, particularly in our European businesses.

Across the globe, we'll be continuing with our program of branch admin rationalization, with a particular focus on the US, given the margins there.

We'll be looking to reduce the depreciation drag on the P&L through the reduced CapEx that we've already described.

And again, as Andy's set out, we'll be looking to maintain a low level of central and divisional overheads, with the GBP10 million reduction plan for 2014 already well underway.

As I noted on the previous slide, we're looking to leverage the significant investments we've made over the last five years. Now to cover all of these would take an investor seminar in its own right. But on this slide, I've just set out a few examples to give you -- just to demonstrate some areas that we've developed over the last two or three years that we now plan for leverage across our markets.

So, for example, in revenue, we have a tablet-based advantage program, which allows salesmen to significantly improve their win rate; the customer communications; and it helps us manage pricing and margin delivery across the Group.

In the bottom left-hand corner there, our new signature range in the hygiene category helps us generate new customers, as well as, importantly, drive up the average number of services provided to current customers.

Looking at profit, in the top right-hand corner we've got our routing systems. Our bespoke routing systems help us drive customer service, as well as staff productivity.

And in the bottom right-hand corner there, our internally built profitability models are helping us to control pricing, and manage customer yield.

As well as driving improved revenue and profit growth, Andy and I are committed to consistent and transparent reporting of our financial performance. Andy has already taken you through his organizational model -- organizational structure. As he said, this is now locked down and we do not expect any further significant changes.

Following the sale of Initial Facilities and City Link, we now have five core regions and three core categories, and we plan to report consistently using this structure from now on.

As well as a lock-down structure, we will also seek to reduce the complexity of our communications. I have to say, this isn't straightforward, given that we are in 60 countries with multiple currencies and markets. To achieve this we will seek, especially in Q1 and Q3, to have a few less numbers in our announcements, but with our reporting focused on really explaining the key drivers' performance.

Andy has introduced the quadrant analysis as a key part of our new strategy, and we will be using this to provide color in our reporting going forward, especially at the half year, and the year end. However, we do not plan to complicate matters further by reporting our results in this framework, as well as the category and region framework.

As Andy has also said, we've built a very strong M&A capability over the last five years, and we really plan to leverage this capability, going forward.

One of the reasons for our success in M&A has been our control over acquisitions, with stretching hurdle rates for investment typically at a post-tax internal rate of return of 20%, or more.

In adopting a quadrant approach to our M&A, we will be prioritizing our investment through the use of differential hurdles for each quadrant, with lower hurdles in the growth in emerging businesses, and higher hurdles for the managing for value and protect and enhance segment.

We've recently carried out a review of all of our deals over the last 18 months, and this has shown that the returns for all of our acquisitions have been either in line or ahead of our expectations. But importantly, the performance of our businesses acquired in the emerging and growth segment have been particularly strong.

But we'll be using the quadrant to do more than prioritized M&A. We have already used the framework to prioritize capital in our 2014 plan, helping us to deliver a GBP20 million reduction. As Andy described, the businesses are already using it to allocate resources and differentiate focus; investing in areas of high growth, and focusing on cost cutting, where growth is more challenging.

I don't intend to dwell on this slide too long. I will provide you with details of the re-cut numbers, but it's really just to help you map at a high level from the old structure to the new structure.

As you will see, most of the countries and component parts remain the same. The main difference is that we have included a number of European countries that were previously labeled as Rest of the World within the European division.

As well as targets for profit and revenue, we are planning for a significant and sustainable improvement in free cash flow from 2014, onwards.



Again, in the middle of the night I've had to restructure this slide slightly for certain events, and so there's perhaps a spirit level of accuracy in the numbers. But if you take the overall context that the sale of IF largely offsets the GBP23 million from City Link, you can see that, until about 5 o'clock in the morning, we were looking at a pro forma free cash flow of around about GBP100 million for 2013.

But given the guidance I've given you in terms of restructuring costs, in terms of working capital, in terms of net CapEx reduction, and given the discussions we've had with the pension scheme, what you can see from the chart is a significant increase in free cash flow on a pro forma basis, looking at the 2013 numbers, with around about a GBP60 million improvement year on year.

As I previously noted in terms of the results, we've made significant strides in strengthening our balance sheet over the last five years, reducing the amount of net debt; the cost of our debt; and improving our credit rating in the process. The sale of Initial Facilities reduces the amount of leverage further.

And we now have a pension scheme that is better funded than most of the defined benefit schemes in the FTSE 350.

The planned increase in free cash flow will further improve our credit metrics, and the relative costs of debt.

The strong and strengthening balance sheet gives us increased capacity for investment in our core categories; capacity to pursue our progressive dividend policy; as well as providing the opportunity for further incremental reductions in net debt, going forward.

I'd now like to hand back to Andy, who will wrap up the presentation.

Andy Ransom - *Rentokil Initial plc - Chief Executive*

Thanks, Jeremy. One last slide from me. I'd like to conclude with three points, before we move to the Q&A. First point is we've got a focused plan. We've got a logical, simplified organization structure; it's got three core categories, based on a lean operating model.

We're building a strong, one-Rentokil Initial culture as well, and that's going to enable us to leverage our strengths and really drive up the use of best practice across the Group.

Second, we're very clear about where we can grow profitably, which markets we're going to drive hard for growth, but also, which markets we need to protect and to enhance; and we've got different approaches for different countries with different growth potentials. And this is all backed up by a strong M&A capability and pipeline.

Finally, this plan is about delivering shareholder value and strong financial discipline.

We're entering a new phase. We're moving away from restructuring and capability building, and we're moving into an era which is focused on execution and on delivery, and on putting strategy into action with energy and with pace.

So, thank you for your attention. Jeremy and I will be happy to take any questions on the results; on the deal; on the strategy; or, indeed, anything else you'd like to quiz us on. Thank you.

QUESTIONS AND ANSWERS

Jane Sparrow - *Barclays - Analyst*

Jane Sparrow, Barclays. Just on your quadrant structure, can you just talk about how you'll incentivize the different people running those different bits of the businesses? So, for example, if I'm running hygiene in France, which is probably quite low growth prospects, how would I be incentivized, compared to some way, say, running pest in North America?

Andy Ransom - *Rentokil Initial plc - Chief Executive*

Yes, let me answer that in two parts. First, the incentives structure that we have for me, Jeremy, and for the top team we've flexed slightly to put more emphasis on getting more growth out of the areas that we think we can get growth. So we've got a differentiated bonus plan, if you like, at our level.

The way we address your question there, Jane, is essentially through the target setting approach that we've taken by country, and how we set the budget.

We don't set a one-size-fits-all, expecting similar levels of growth. We've got some budgets which have been set, for example, in some of our Southern European markets, where we know that the revenue is going to be slightly lower in 2014 than 2013, so we set the budget appropriately. But we still typically look to incentivize our managers this year on two key measures; one is revenue, and one is profit.

The big change we've made this year is that we've actually made it, I'd say, slightly tougher to make your bonus. We've put cash as a gateway. What we're saying is delivering cash is your job. We are not going to pay you more money for driving more cash, but we're going to set a gateway, so to get your bonus for revenue and for profit you've also got to deliver your cash.

So we're taking the same structure, revenue and profit across the board, but very different targets, based on what we see as the opportunity in those markets.

Jane Sparrow - *Barclays - Analyst*

Thanks. And then just a second one on the restructuring costs. Obviously, you've talked about moving away from this phase of restructuring. You've still got GBP20 million this year, which, I assume, some of that relates to that central overhead program, but my reading of the statement was that it's GBP20 million ongoing. Can you talk about, if I'm wrong on that interpretation, or if I'm right, what that ongoing restructuring spend is likely to relate to?

Andy Ransom - *Rentokil Initial plc - Chief Executive*

I'll give you half the answer, then I'll hand it over to the numbers man. We genuinely see a significant reduction in restructuring on an ongoing basis, partly because we're largely at the end of that phase of restructuring. So we don't need to do that level of restructuring. We don't have that many things that we can restructure.

The GBP20 million is a 2014 figure. And the element of that is very clear. We know exactly what it is. And an element of that is just simply to give us the flexibility as the year goes through, if we see really, really good hard-edged projects that are going to deliver shareholder value then we will put them through restructuring. So there's a little bit of a hedge in there, if I'm absolutely honest, on that GBP20 million.

I would not assume that we will be spending GBP20 million on restructuring every year into the future. We'll give you much clearer guidance on that as we track through this year and we'll see actually well what do we need on an ongoing basis? But I would expect it to be less than GBP20 million on an ongoing basis.

Jeremy Townsend - *Rentokil Initial plc - CFO*

If I just confirm that answer. And just to note, from a cash point of view, there will be some cash over run from 2013 into 2014, so cash impact will slightly be higher than P&L.

I think just getting into the detail of it, we've largely finished restructuring. There's probably still a bit to do in Benelux in terms of the structure there. Most of the restructuring I think then, going forward, is more in the overhead category, whether it's at the central, or in the branch office, rationalization divisional overhead.

But I think Andy's said it very eloquently. We'd expect that number to come down over time. So I think we'd be disappointed if it were GBP20 million in 2015. Equally, 2015's quite a way off, so you don't know what opportunity's going to come up. But I think everything being equal, it should come down over time.

Jane Sparrow - *Barclays - Analyst*

Thanks.

Mike Murphy - *Numis Securities - Analyst*

Mike Murphy, Numis Securities. Just following on, first off, on the restructuring, the cash impact. Because you announced it last year, can you give us a more definitive figure in terms of the cash element of the restructuring plans that you had in place in 2013, and as well as the GBP20 million? We can make some assessment of the GBP20 million.

Jeremy Townsend - *Rentokil Initial plc - CFO*

About GBP25 million.

Mike Murphy - *Numis Securities - Analyst*

GBP25 million for the current year. Thank you.

Second question, clearly, we've got a new strategy today. But did the Board consider being much more radical in terms of the strategy; i.e., did they consider a demerger and the focus purely on pest control and have a global pest control business than two separate businesses?

Andy Ransom - *Rentokil Initial plc - Chief Executive*

One of the benefits, I think, of getting the job once you've been in the business for a few years is that you come with a lot of knowledge about the business. Perhaps one of the disbenefits is, perhaps, your thinking's not as radical as someone who's completely brand new to it. The approach I took was a complete drains up, let's have a really good think about where we want to take the business going forward.

No sacred cows; only one job here, and that's to create shareholder value. So I looked, and my team, Jeremy and I looked, at all sorts of alternatives, and we took some of those to the Board. And we were unanimous that the plan that I've outlaid for you here today was really the very best plan for the creation of shareholder value.

So, yes, is the answer. We've looked at lots of different alternatives, and we'll continue to do so. That's part of the ongoing strategy process. But real, real assurance that the Board looked at this hard and were very happy to endorse this as the best plan for the organization.

Mike Murphy - *Numis Securities - Analyst*

Okay, thank you. And then a further question, can you say what the incentive plans are now for management, going forward, at the senior board level, in terms of LTIP?

Jeremy Townsend - *Rentokil Initial plc - CFO*

Well, there's no change. The LTIP arrangement for 2014, in terms of its scale, is not changed from the type of 2013 change. What we are looking for is a slightly different mechanism in terms of the way the LTIP will work, partly TSR and partly EPS. But in terms of the size of the deal, it's not changed 2014 versus 2013.

Mike Murphy - *Numis Securities - Analyst*

Okay. And finally, just on acquisitions, you mentioned the post-tax return on capital of 15%, which suggests that post-integration it'll work out about 5 times EV/EBITA. I assume, in some of these areas you'll be paying a much greater figure than that, possibly up to 10 times plus in terms of EV/EBITA. Are you saying that all of the profit improvement will come from integration and getting economies of scale of putting acquired business, which are generally going to be quite small, I would have thought, into the existing network?

Andy Ransom - *Rentokil Initial plc - Chief Executive*

It's a very good, but a very technical, question. The answer is we'll look at every single acquisition on its own merits. And you're quite right, that if we're going into, say, emerging markets, the new market that we don't have any presence in, there are very few synergies.

There are some synergies. There's some hard back-office synergies; some marketing synergies; some revenue synergies that we bake into the case based on implementation of our best practice and roll out of our existing services from other parts of the business. But, typically, one of the reasons we're setting a lower rate of return in those emerging markets is that we are picking up largely stand-alone businesses.

So, our modeling's really quite simple; we take the ongoing business that exists and its financial profile, and then we model what do we expect to do with that business over a 10-year period. And we factor various assumptions into that. Clearly, if we're doing synergistic deals, they're always easier to bake those hard cost synergies into the model.

We've just done a really detailed piece of analysis over the last 18 months to look at every single acquisition we've done. We've laid it out on the quadrant, and just see are we doing as well as we think we are? The results were really quite interesting.

What they actually showed us was that the rates of return that we were generating out of the emerging market acquisitions were comfortably beating the targets that we had set. The only parts of the model which hadn't delivered fully on plan was where we'd done some small deals in some of the troubled markets, where we had assumed that revenue performance would be better than it was.

So, in actual fact, the model that we've worked with for the last few years seems to be working very, very, well. Every case on its own merits; synergies where they exist. But we're really modeling for what do we expect to do with the business once it's in our hands, which is different from what we would see that business doing if it remained in independent hands.

Jeremy Townsend - *Rentokil Initial plc - CFO*

I was going to make the same point, Andy, that while we're looking at potentially relaxing the minimum hurdle rate, doesn't mean we're relaxing it in every single instance to 15%. We'll be still looking to drive as high returns as possible. The returns in those growth and emerging markets are well ahead of the 20% hurdles rates we've been setting.

Again, the insight that we've had from looking at the post-investment review is we're tending to drive more profitability than we'd expected in the business case pretty early on. So, while the 15% hurdle becomes --the minimum threshold comes down, we'll still be looking for higher returns than that.



Robert Plant - JPMorgan - Analyst

Robert Plant, JPMorgan. I'm just wondering about the rationale behind putting the UK in the growth, rather than the protect area. My thinking would be that the UK's one of the more mature markets. You've already got leading market positions, and it's already one of the highest margin businesses.

Andy Ransom - Rentokil Initial plc - Chief Executive

Very good question; one we spent a fair bit of time discussing and debating. The way we place these businesses in that matrix, it's clearly got some subjective judgment in there. We really looked at two factors. One, what was the market doing for us? And secondly, what was our business doing for us?

Actually, the UK market isn't such a bad marketplace for us. I'm not saying it's driving forward at double-digit growth rates. But the UK market, particularly in the last year, or so, certainly has more than bottomed out. We're seeing a little pick up, and there's a lot more optimism in the UK market.

The main factor, though, that we put it into the growth quadrant is we've got a really, really good business in the UK, and we've got a really, really good business team. So, in a sense, it was also partly a vote of confidence that I believe that this team, running this business in a reasonably good market, is going to get better growth out of that business than, perhaps, you would expect simply because it's just the UK business.

But it's a really good question. We did spend a long time debating whether it should be there or there, but we concluded it was the right play.

And these are not fixed for ever, I will say. It's not a new model. This model's been used in the past, and my Chairman and I remember it well from our ICI days.

One of the interesting things about the model is some of the guys don't like being put in that bottom left-hand quadrant. They just don't like it. Why have you put me there? Well, it's simple guys; if you don't want to be there, do something to get out of it. And this is not fixed forever, so if you can show us that you can get growth of these businesses we'll move you across there.

Similarly, some of the businesses feel that they should be not in protect and they should be in growth. Absolutely fantastic. That's the mindset I want to get the guys all excited about, and prove to me that I've put you in the wrong quadrant; in the right way, of course, not the other way.

So, yes, that's -- it's subjective. But there's a lot of thinking gone into it.

Andrew Ripper - BofA Merrill Lynch - Analyst

Andrew Ripper, Merrill Lynch. I've got two. First of all, on redeploying the IFRS proceeds, I think you'd been originally thinking about spending GBP50 million per annum. How big's the M&A pipeline? And what's the opportunity for redeploying the proceeds in the shorter term?

Andy Ransom - Rentokil Initial plc - Chief Executive

Well, I'll go for the first half, you can [complementary]. M&A is an opportunistic sport, as you know, Andrew, so you get periods of feast and periods of famine in M&A. What we will not do is, because we have got more financial muscle than we had, go out and spend this rashly because we can. We'll be very, very financially disciplined, as we've been for the last few years.

If the deals are there we'll execute them, and we'll execute them at pace. But if the deals are not there, we will not push our models to say, come on, we need to be spending this money. Because I don't want to stand up in six months' time and say, sorry, guys, we didn't do any deals. If the deals are not there, or they're not good enough, we won't execute them.

I will say we've got more in the pipeline than we've ever had before. And that comes as a function of putting in place a proper rigorous process in every one of those five big regions. The most advanced process is in North America, where we are absolutely all over the marketplace in terms of which businesses would we like to buy, which cities, which categories.

And then, we have a very structured contacting program. Some people we've been calling on for years, and we hope that when the day comes, that when dad retires, or whatever, they call us.

The reason the pipeline's fuller now than it's been is because we've been pushing this structured process in each market. Really clear. I can pull out a spreadsheet. There are 19,000 pest control companies in North America. I can tell you every single one that we've contacted in the last three years; who's contacted them; what did they say to us; did we get a warm reception, or did we get shown the door; who's going to call them back; when are they going to call them back?

So, it's a structured, rigorous process. But it is an opportunistic sport. If the deals are not there, we can't execute them. But we will not be rash with this just because we've got more flex in our balance sheet than before; that wouldn't sit well with me at all.

Jeremy?

Jeremy Townsend - Rentokil Initial plc - CFO

Yes, I think in terms of -- as we showed on the slide, the opportunity here to recycle that money over time to drive higher net operating margins, expose ourselves to higher growth, and drive that profit growth.

But equally, we said, the last three or four years, our aspiration is to be BBB rated. This puts us in that model. I think that, clearly, this gives us a quantum jump there, and we'll look at where Standard & Poor's leave us. We've got some refinancing to do in 2016.

So, for the moment, what I'm happy with is the flexibility that the cash gives us. But also, it just takes that little bit of leverage out of the balance sheet that we've been aspiring to for some time.

Andrew Ripper - BofA Merrill Lynch - Analyst

Just a quick secondary on that. I noticed, on the capital structure ratios you seem to be stripping out the one-off costs and the restructuring costs. Do the rating agencies look at it that way as well?

Jeremy Townsend - Rentokil Initial plc - CFO

It's a good question. They have up to now. That may change over time. But clearly, Andrew, as we head into 2014, 2015, we're expecting those restructuring costs to come down significantly anyway.

Andrew Ripper - BofA Merrill Lynch - Analyst

And then, the second question I wanted to ask was about the financial targets, the medium-term objectives. Obviously, high single-digit profits growth, mid single-digit sales growth, and [price] margin improvement.

I'm just wondering, aside from the shorter term GBP10 million coming out of central and divisional overheads, what do you think's most important for you to execute on to drive margins up on an ongoing basis? Is it the connection with the improvement in revenue growth, and the density, and the leverage that you get? Or are there any other things that you're baking into that medium-term objective?

Jeremy Townsend - *Rentokil Initial plc - CFO*

I think given margin pressure that we've got in the business, I'm not looking on a like-for-like basis, country to country, category to category to be driving margins up significantly. I think most of what we're looking to do, from a productivity point of view, and a yield management point of view, is to hold those margins in country.

What I think, the growth gives us opportunity to drive more leverage across our overheads, and drive our margins up that way. So where we're getting growth and where we're investing, that's what's going to drive that margin improvement.

But on a like-for-like basis, if we weren't growing and we weren't acquiring, so for example, in the protect and enhance quadrant, everything else being equal, I think what we'd be looking to do is hold margins flat. It's in the growth areas and the emerging markets, as we build density into those markets, those Asian businesses, those US businesses, that's where we'd be looking to take the margins there.

A really good example of it, I think, is our UK business, where we've got this integrated operating model working. We're actually driving net operating margins at 22% through getting that density and that leverage. That's the model, I think.

Andrew Ripper - *BofA Merrill Lynch - Analyst*

Obviously, the starting point for North America and Asia's a lot lower, so if you're getting higher revenue growth there, there's a negative mix effect, although you'll be growing within those countries.

Jeremy Townsend - *Rentokil Initial plc - CFO*

We'll grow the margins up. Group-wise, and that's why it's a complicated model, they're diluted, but actually you're growing those margins in those areas as they come up. So the slight aspiration, I think, is to get all the margins in the business up to that UK 20%, over time.

Andrew Ripper - *BofA Merrill Lynch - Analyst*

One of the common observations over the years, I think, particularly in the pest control business, is that the North American margin's been a lot lower than the European margins. Is there a structural component to that?

Andy Ransom - *Rentokil Initial plc - Chief Executive*

I'll take. Yes, and no, Andrew. I mentioned earlier, that the way you make money in these businesses, in the route-based businesses, is about density. One of the reasons we did the Western acquisition was we had nothing on the west coast, and that whole piece.

We can now go after national accounts. We are now going after national accounts. But you've got to have the cities in place before you can go after the national accounts. Once you've got city density, you can lay, on top of that, national account density. That's how you start to build margin improvement in North America.

There are two big players in North America, both with revenues of about 1 billion-plus, both of them currently operating at higher margin points than we are. And no disrespect to those companies, they're fine companies, but they're not Rentokil pest control. So it's not something that they're doing which is different, or certainly not better to us. What they have is density and geographic footprint.



So the structural issue is nothing to do with the North American market per se, it's to do with have you got the density; can you build the scale? That's why we're so focused on building out North America, doing those bolt-on acquisitions.

There is a little bit of a structural difference for the North American market itself in that -- and you've all been to America, but most people, many people, have residential pest control as a service. Hot countries, lots of bugs. People buy it as one of the things they buy.

Most markets outside North America, you call for a residential pest control when you've got a problem. You might buy an annual service. But North America, residential customers, very, very often they will have a residential pest control service. That's the structural difference.

And there is a price point difference between resi pest control and commercial pest control.

So, overall, that mix for pest control margins in North America is probably a bit lower than when you compare globally, because there's more resi within that mix.

But there's no reason why our margins, over time, shouldn't get up to, and I would hope ahead of, the other two big players, over time. But that will only come through bigger density, and a bigger footprint.

Andrew Ripper - BofA Merrill Lynch - Analyst

Understood. Thank you.

George Gregory - UBS - Analyst

George Gregory, UBS. Three questions; I'll take them one by one. Firstly, in terms of the workwear business, there's clearly quite a lot of complementarity and strength in both the pest and the hygiene businesses. You mentioned this point, I think in one of the slides, that you would expect European consolidation. Would that necessarily take place within Rentokil? Or would that be an asset that you would consider splitting out of the Group, please?

Andy Ransom - Rentokil Initial plc - Chief Executive

I joined the Group nearly six years ago, and the first conversation I had with the general manager of this business said, European consolidation in textiles and workwear is inevitable; it's going to happen. And six years on, it hasn't happened.

There are four big players across continental Western Europe, we are one of them. I think consolidation in the market probably will take place, but I have no personal view on what sort of timeframe that may be.

All I can genuinely, honestly say to you on that question is two things. Right now, that business is one of our core businesses. Absolutely no intention to sell that business, and we think we can drive better performance from the business.

But like I said in the presentation, we are absolutely focused on shareholder value. And I would say the same, to be honest, on any of our businesses. If someone were to offer a sum of money which demonstrably created more shareholder value than our plan for running that business ourselves, I would look at that very, very closely, because that's the job that I have.

So, no plans. I think we can run the business better. I think if the European markets do pick up that would be good. I think there will be consolidation in the marketplace, but I have no view as to when that might be. And if other assets came to market, we would look at it; but again, only if it demonstrably created shareholder value.

As I've said, I have no plans to build out the textiles business beyond our European borders, but we will look at deals and transactions which would enhance that business in Europe. And specifically, I've said we'd look at cleanroom acquisitions, which is a different type of business within workwear.

George Gregory - UBS - Analyst

Okay, thank you. Second question, perhaps, is one more for Jeremy. In terms of the central cost line, as a proportion of sales, even after the reduction it's still a big number relative to peers. How much of that is due to something structural within Rentokil? And how much of that is due to accounting, say, allocation of country costs, relative to peers in that 0.3% to 0.4%? It strikes me as very high.

Jeremy Townsend - Rentokil Initial plc - CFO

So the -- I think Andy and I would agree that that's the number that we're focusing on. We've already, as we've said, committed to a GBP10 million reduction.

I think the issue for us is, now that we've sold the facilities management business and the City Link business, to have another look at the way the Group is organized, and look at whether there's a more efficient way of driving that; other services that we're providing at the center that could more easily be delivered in the regions; what does the model look like? So, we'll be going around that again.

We accept your point, and I think we'll come back to you in due course, now that we've done the deal that we've done, and have a look at it. But it's high on our mind.

And what we've given to you, I think, in the model is a model that's more regionally and locally delivered, with much more pull and much less push. So, we see that as an opportunity, [you see]. But, for the moment, we have to go back and look at that and come back to that.

Andy Ransom - Rentokil Initial plc - Chief Executive

[There's obvious] (inaudible). There's a bit of apples and oranges in these numbers as well. And we benchmark ourselves against other companies, saying, how on earth are they doing -- how can they do that? Well, the answer is their costs are stacked within the division.

So, it's something we look at all the time. And we're going to look again in the light -- assuming the sale goes through mid-March, we're going to look again at that and we'll keep it under review.

And we'll also look at the model. Well, maybe, some of the costs we have in the center, or some of the activity, might be better done in some of the businesses.

But trust me. This is an area -- I've worked in centers, I've worked in businesses. And the reason I went on about this one-Rentokil stuff is, for me, having the whole concept of a corporate center and businesses is an unhelpful one. It's one team. I can't have two parts of the organization competing with each other, or not communicating.

For me, my message for the guys and gals is it doesn't matter whether you're in the business, or in the center; it's one team. And I know it sounds a bit airy-fairy, but it's really, really important in terms of how this organization is going to work in the future.

So, for me, my message to the guys and gals is it really doesn't matter, as long as we've got a joined up plan and we're all agreed what we're trying to do, whether you work in the center or the business.

I'm sort of going to fuzzy this boundary a little bit, but I do think, when you compare us with other companies, you do need to go and ask them, well, what resources have you got in your divisions, because they've probably got what we've got sat in the center.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Yes, a lot of IT costs, for example, are held in the center, as opposed to recharge the division. So, technically, that's one of the reasons we are benchmarking (inaudible).

George Gregory - *UBS - Analyst*

And my final question, in terms of that manage for value quadrant, you specified that you had the Ambius category in there. Roughly, what else is in there? And if you were to add up all the loss-making businesses how much, in absolute profit terms, do you think there is in terms of the loss-making assets in that quadrant?

Andy Ransom - *Rentokil Initial plc - Chief Executive*

I'll let you think about the answer to that. I'll do the Ambius bit, first. We've got a good Ambius business in America; in Australia; in Holland; and in the UK. That probably accounts for more than 80% of our Ambius business.

It's a root-based business. It plugs right into that low cost operating model, and we are managing that business for value, absolutely. We've done a few little deals, and we are demanding a very high internal rate of return, for example, there.

So, just because it's sat in that quadrant does not, let me make it really clear, mean that those businesses are for sale. But I did say we've sold some businesses and raised GBP5 million in recent weeks. One of those businesses was our Ambius business in Denmark. And it was loss-making. It wasn't hugely loss-making, but it was losing GBP100,000, I think it was, GBP50,000/GBP100,000 a year. It had been loss-making for some time.

We looked to that and said, right, what are we going to do? Are we going to improve it; are we going to fix it; are we going to invest in it; or are we going to sell it? So, for that one, very hard-edged, we sell it, and we move on.

Just because they're in there doesn't mean we're going to sell them, at all. But it does mean, guys, you're really going to have to run these businesses very, very differently, because you're in tough markets, your revenue's going backwards, and your profit's going backwards.

In terms of how much is in there which is loss-making, I --

Jeremy Townsend - *Rentokil Initial plc - CFO*

There's very little loss-making. Andy mentioned the Danish Ambius business, and that's one of the few businesses we have loss-making customers. I've showed you the customer profitability chart there. Within our portfolios, we've got some very detailed information now that helps us manage our yield [manage].

But in terms of actual categories within the business that are losing money, especially when you apply the overhead to it, there's very little there. It's really about the shareholder value that we use in that quadrant [information].

Mike Allen - *Panmure Gordon & Co. - Analyst*

Mike Allen, Panmure Gordon. Just a quick question on future dividend strategy. With the business clearly becoming more cash generative, might you look at the payout ratio of the Group 2014, and beyond?

Jeremy Townsend - *Rentokil Initial plc - CFO*

Thanks, Mike. Clearly, we've increased the dividend at the end of 2013, reflecting the progress we've made in the year. We'll continue to look at that.

The cover actually comes down a little bit, technically at least, with the FM deal. We're going to take this -- it's a progressive policy, and what that means is we're going to continue to look at it half year on half year. What I've said in the presentation, given the strong cash flow, and the sale of FM, we've got more capacity, more flexibility to do that.

But we'll continue to look at it over time; look at what happens in terms of the growth of the business, and take it as it comes. But I think the quick answer to your question is, yes, there's clearly an opportunity to do that over time.

Mike Allen - *Panmure Gordon & Co. - Analyst*

Can I just go to page 20 in the pro forma earnings per share? It appears that you've taken out the GBP25.8 million for Initial Facilities Services on the EBIT line, but if we're looking at pro forma, shouldn't there have been a credit for interest?

So, on a pro forma basis, you looked as though you received that GBP250 million at the beginning of the year and, therefore, you'd have saved 5%, so roughly about GBP12 million, GBP12.5 million, though. My initial reaction this morning was earnings dilution of about 0.6p, but you've got it at 1.2p.

Jeremy Townsend - *Rentokil Initial plc - CFO*

You're right, Mike, and I've just explained the rationale. At the moment, the cash is sitting on the balance sheet, ahead of paying down debt, and the money we're making on the cash is relatively small.

So this is an incremental EPS, so we've taken a relatively harsh approach to it. We could have taken a number of approaches; you could have recycled some of it into M&A. So it's a reasonably harsh measure.

What we'd like to do, obviously, and that's why we're saying it's a short term, it's genuinely a short-term assessment, that's -- we're hoping that, that dilution very quickly erodes as we repay the debt, and as we invest the money. But, so that's the immediate impact of [this now].

Andy Ransom - *Rentokil Initial plc - Chief Executive*

That's exactly the same answer that he gave me when I asked him the same question.

Mike Allen - *Panmure Gordon & Co. - Analyst*

The only thing I'd say is that it lowers the base. Will you use that 7.2p as your base, then, for the figures in 2013?

Jeremy Townsend - *Rentokil Initial plc - CFO*

I think everything else being equal, based on current consensus and what the deal does, that's what happens to the EPS in the -- you have to work out what your 2014 number would have been, and then take out roughly 1p, I think, from that number to get to that the dilution (inaudible).

Mike Allen - *Panmure Gordon & Co. - Analyst*

I'd observe it the other way, actually. I'd have been -- I'd have done it on a pure basis and assume that the average interest rate for the year, because it is actually, as the name implies, a pro forma basis, but, anyway. Thank you.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Just in terms of guidance, then that could have been misleading, because I think guidance, we're not -- we're only going to get 1%, or so, on the cash [flow].

Sylvia Foteva - *Deutsche Bank Research - Analyst*

Sylvia Foteva, Deutsche Bank. I want to ask you, in terms of your medium-term targets, you're, I guess, implying about 2% to 3% organic growth. And just looking at 2014, where might we land within that plan? I guess that's more of a five-year thing. You're, obviously, saying that Europe you're not seeing an immediate recovery. What are your views on the rest of the regions, please?

Andy Ransom - *Rentokil Initial plc - Chief Executive*

I'll go first, Jeremy. Thanks for the question, Sylvia. To be clear, the reason we said these are medium-term targets is because they're medium-term targets. We clearly don't want you just simply to say, right, I'll take these numbers and I'll put them into 2014.

The current rate of organic revenue growth, I'll have to stop calling it the core now, it's the business post-IFS, in Q3 it was 1%, in Q4 was 1%. What I can tell you is, internally, I don't find that remotely acceptable as a level of organic revenue growth for our business. What I'm not going to say is where do I think it's going to be in 2014; nor do I want to get tied down to specific numbers here.

We have a very clear plan. We clearly want, and need, to drive up organic revenue growth. The levers that we've talked about will help with that. The focus on the quadrants is going to help with that. The getting out of businesses which are going backwards is going to help with that. If Europe picks up, it's going to help with that. So there's a lot of things that we're really focused on here.

But it is a medium-term plan. And I think we do have to reflect that we're coming from a period, in Q1 of 2013 we had negative organic revenue growth in the core. We've now exited the year at just over 1%. Clearly, we want to do better than that, but I don't want to get tied down to a number, or a timeframe. That's why we've said medium term.

And back to the question about M&A, some years I think that's going to be adding quite a bit; some years it might not add very much.

But this is the first time RI has put revenue targets out there at all, ever. So, for us, I think this is a demonstration of what we think the plan will deliver, and it'll deliver over the medium term.

So not trying to avoid the question, but don't want to get tied down to specifics on 2014 and 2015 organic revenue.

Sylvia Foteva - *Deutsche Bank Research - Analyst*

And the other one, I guess, for Jeremy. In terms of the 2013 numbers, what was actually the benefit from cost savings? And what was the profit contribution from M&A, please?

Jeremy Townsend - *Rentokil Initial plc - CFO*

In terms of cost savings, we hit our targets. So we hit -- [taking] (inaudible) account of those, we delivered the GBP40 million of cost saving targets we demonstrated.

Just to make a point on that, going forward, we aren't going to look at cost savings in their own right, going forward, now that we're through the transformation program.

Where Andy and I are focused, on managing net margin delivery by region. So that's going to tend to be the focus; are we maintaining net margins; are we are growing it through improved density? But we will be focusing on the GBP10 million delivery within the central divisional overheads.

And then, the impact of the acquisitions, you basically see the impact of the Western acquisition in the North American results. North American results were up GBP7.5 million, and a large portion of that was the Western deal. We said when we bought the business we were expecting GBP6 million profit from it in 2013, and we were slightly ahead of that within the year.

Just flagging for 2014, we did a couple of small disposals in the year, Belgian textiles business, and we sold a Korean JV; relatively small, but that impacts 2014 to the tune of a couple of million pounds. And we'll be flagging with you the impact of the smaller acquisitions we've done as we head through the year in terms of any impact that they're having on the P&L.

Sylvia Foteva - *Deutsche Bank Research - Analyst*

Thank you. And just in that category, where you're obviously considering trying to move businesses towards the better doing categories, or exit, do you actually have any businesses where you're currently considering exiting them, seriously?

Andy Ransom - *Rentokil Initial plc - Chief Executive*

Yes. Yes, the whole basis behind the model is it's not a model; it's how we're running the business. So there are a number of businesses in that bottom-left quadrant where, again, we'll look very hard.

If the view is we'll make more shareholder value by exiting those -- and that's about what price would we get from them as well, and do they leave us with stranded overheads, all of those factors go into it.

We've looked at a couple recently, and the case came up last week and I rejected it. And I said we're not -- if that's all we can get for that business, we won't sell it. That's just -- that's shareholder value destruction. So we look at it really, really closely.

There's not lots and lots of businesses in there, but that's part of the continuous evolution of the model. Again, I come back to the phrase it's opportunistic. Sometimes we get people coming in saying, we'd love to buy such and such a business and we'll pay you a ridiculous sum of money, and those conversations we tend to look at quite aggressively.

So, yes, there are some businesses there. You shouldn't expect big divestments coming out of there. But we will prune the portfolio, all the time, yes.

George Gregory - *UBS - Analyst*

George, again; just to clarify a couple of things. In terms of the IT spend, GBP20 million, GBP25 million, is that within the CapEx being in line with D&A, ultimately?

Jeremy Townsend - *Rentokil Initial plc - CFO*

It is, yes.

George Gregory - *UBS - Analyst*

Okay. And is that GBP20 million an ongoing figure, or is that 2014 figure?

Jeremy Townsend - *Rentokil Initial plc - CFO*

It's a 2014 figure. I think it's a reasonable number to pencil in for ongoing level of investment.

George Gregory - *UBS - Analyst*

Second question. In terms of the credit metric -- the credit rating, pardon me, BBB, why, out of interest, BBB and not BBB minus? Why do you need to be one notch above investment grade?

Jeremy Townsend - *Rentokil Initial plc - CFO*

It's an area we could debate forever. But I think our feeling is we need to have a balance sheet that provides us with flexibility in good times and bad times.

I think, at the moment the economies are relatively strong, and we're pretty comfortable with our cash flow. But I think the lessons of 2008 were you've got to be careful not to get too close to the line.

So, it's a judgmental issue. But my feeling is having a couple of grades to spare gives you access to the capital markets. We've demonstrated super results, I think, in terms of the financing we've done in the last couple of rounds. And, really, we've achieved funding levels that were more BBB rated than BBB minus. But I've been through the markets in the mid-2000s, where if you were BBB minus you couldn't get access to any capital at all.

I think if you're going to GBP800 million, GBP900 million of debt you need to have access to the capital markets, and you can't run the risk that you come round to refinancing in three or four years time and the markets are closed. So, I think BBB is the right place to be. Any higher would be potentially too conservative. But at BBB minus, you do run the risk in a downturn you can't access.

George Gregory - *UBS - Analyst*

And just one final one, if I may. The restructuring cost, ultimately, what's going to determine whether you include that within continuing profits, or below the line?

Jeremy Townsend - *Rentokil Initial plc - CFO*

We'll continue to look it up. I think, over time, I'm keen to put it above the line. What I'm keen to avoid is any implication, for example, that we're getting profit growth through a big reduction in restructuring.

The key issue, for us, is a bit less around whether it's above the line or not than managing it and significantly reducing it to a level that's commensurate with an ongoing level. We're signaling the end of a significant investment program, we're signaling a level of underlying restructuring, and a level of prioritization around it, but whether it's above the line or below the line, frankly, I don't think is too big an issue.

Andy Ransom - *Rentokil Initial plc - Chief Executive*

It's a little bit back to Jane's question, and we'll know much more, six months' time, what the ongoing basis will be. And once we're much clearer, then we can make a call on it.

But, as Jeremy says, I don't think, really, it makes that much difference. But we're going to be very transparent, and the numbers are going to be a lot lower.

Karl Green - *Credit Suisse - Analyst*

Karl Green, Credit Suisse. Just back to the categorization of business units into the individual quadrants, in terms of gross profit momentum of any of those businesses, was that a key decision in terms of where things sat? And if it was, would changes in that momentum trigger changes in allocation?

Andy Ransom - *Rentokil Initial plc - Chief Executive*

I'm going to be brutally honest and say, no, it wasn't. I don't want to suggest, for a minute, we don't look at gross profit all the time, but it wasn't one of the key criteria that we used to place them. It was more about the market potential, and the net profit contribution.

But one of the things that I've introduced to the business, and I've said I'm very, very reluctant to introduce lots and lots of new initiatives, I'm trying to do the opposite and de-clutter and get this really, really operational, is an initiative for a branch-based store card. So every single branch that we have across the world, we will be able to benchmark it against its sister branches within country.

And one of the key metrics there we're looking at is that gross profit, gross margin dynamic. And this all comes back to, again, this thing about density, etc.

So, the neat thing about the branch-based store card is, and it sits with the quadrant as well, you can look and say I can tell you exactly which are the five worst-performing branches in, you pick a country; now what are we going to do with them? So is the problem with our branch it hasn't got scale, it hasn't got density? Right, let's go and do an acquisition in Barcelona to beef that up, to address that issue.

This issue -- this branch has got a service issue. Right, well, we're not going to put any new structures, let's go sort this service issue.

So that is more one layer down, I would say, in terms of how we're looking at it. But the key change for me is to stop looking at it on a global, or a divisional, or a country basis and look at it by city, by branch and then we can really see what's going on in the business. That's why I keep saying this is it's a local business.

At the end of the day, this is how we make our money, is locally. So, pulling those levers down in the weeds, that's how we're going to improve our gross profit and gross margin.

We're very focused on it, but it wasn't, honestly, one of the factors we used for the Group.

We're not going anywhere -- well, we are, ultimately. We're very happy to have a cup of coffee, cup of tea; anyone who wants to grab us. But thank you very much, indeed, for your attention, and for your excellent questions. So, thank you very much.



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