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Rentokil Conference Call

Rentokil Initial plc

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CORPORATE SPEAKERS:

Andrew Ransom

Rentokil Initial PLC; Chief Executive Officer

Stuart Ingall-Tombs

Rentokil Initial PLC; Chief Financial Officer

PARTICIPANTS:

Simona Sarli

Bank of America; Analyst

Annelies Vermeulen

Morgan Stanley; Analyst

Sylvia Barker

JPMorgan; Analyst

Suhasini Varanasi

Goldman Sachs; Analyst

James Rose

Barclays Capital; Analyst

Andy Grobler

BNP Paribas; Analyst

Ollie Davies

Redburn; Analyst

Allen Wells

Jefferies; Analyst

PRESENTATION:

Operator^ Hello and welcome to Rentokil conference call. Please note that everyone is joined on mute to avoid any background noise. You will have the opportunity to submit any questions to our speakers later on during the Q&A session. (Operator Instructions)
Thank you.

I'd now like to turn the call over to Andy Ransom, CEO. Andy, you may now begin.

Andrew Ransom^ Thank you very much. Good morning, ladies and gentlemen. As you have seen this morning, we've issued a trading update following lower than anticipated revenue and profit performance in our North America business. We now expect group

Rentokil Initial plc

Rentokil Conference Call

adjusted PBTA to be around GBP700 million for the full year, with a group adjusted operating margin for the year of around 15.5%

There were three main reasons for this. Firstly, whilst we saw some positive momentum in North America sales activity at the end of the second quarter, the trading performance in July and August was lower than expected, and we now expect North American organic revenue growth in the second half to be in the region of 1%.

Secondly, our North America business invested to deliver our planned growth through the peak summer months, with increased labor available in sales and service, increased overtime, and higher materials and consumable expenses. And thirdly, since the interim, sterling has strengthened against the dollar, and if the rates remain at current levels to the yearend, this will result in a full year incremental headwind of around GBP10 million.

Our immediate focus is on the Right Way 2 plan to improve revenue growth through increased lead flow, sales conversion and customer retention. We're taking decisive action to mitigate the cost overruns as we exit the peak season, managing inventory more effectively, managing technician workload and overtime, and we'll right-size the sales resource for the volume opportunity. The rest of the group continues to perform well.

Now, I know you're going to have lots of questions for me and for Stuart, who is in the U.S. at the moment, so let's get into that. I'll hand it over to the operator for questions, please.

Operator^ Thank you. We are now opening the floor for question and answer session. (Operator Instructions) Our first question comes from Simona Sarli from Bank of America. Your line is now open.

Simona Sarli^ Yes. Good morning, and thanks for taking my questions. So a couple of them, you are talking about weaker than expected July and August. But then if I look at your H1 results, we were pretty much already at the end of July. So I would have thought that there was already a little bit of visibility on how July was panning specifically in pest control in North America. So what has been happening since then?

Rentokil Initial plc

Rentokil Conference Call

What has changed in terms of inbound digital flow and overall performance for the business? What has been surprising on the downside, specifically.

And also in light of the new expectations in terms of organic growth and also margin for the year, what should we keep in mind in terms of cash conversion and expected leverage? Thank you.

Andrew Ransom^ Thanks, Simona. I will take the first one. Stuart can pick up leverage. I mean, the situation is this, as we reported with the interims, the back end of the second quarter, we could see positive momentum building. We launched the Right Way 2 plan. We showed you the various elements of where growth comes from, and we were seeing good evidence and positive signs and green shoots that that was coming through. That was based on action that had been taken and a belief that that action would continue to see that momentum build.

And as we said at the interims, the outlook for organic growth in North America for the full year, we said would be at the lower end of that 2% to 4% range. To deliver the lower end of the 2% to 4% range, that would have implied 3% plus it will take organic growth in the second half. And whilst July was okay, the situation has weakened, and the outlook, I would say, is the key thing that is weakened. So we can't see how we get to that lower end of the range now based on what we're seeing.

It's not anything that's cataclysmic. It's not anything that's gone off a cliff. It is simply that the seasonal momentum and as the season unwinds, and we're pretty much at the back end of the season, we haven't seen that momentum continue. We don't think it's reasonable to see that momentum continue into the off-season period.

We might be wrong, Simona, and that things may well improve. They could improve because we are taking all of these actions. But in the absence of evidence to prove that the actions are coming through, at the rate that we need them to come through, we've had to call the number down. So that's the position, the first one.

Stuart, do you want to touch on leverage, please.

Rentokil Initial plc

Rentokil Conference Call

Stuart Ingall-Tombs^ Yes, sure. Good morning, Simona. On leverage and cash conversion, I don't think it makes any difference to the cash conversion rate. These are largely a cash drop in profit. So like for like, really.

In terms of leverage, we guided to a modest deleverage in 2024. I think probably leverage is going to be about flat. So I think we were about 2.8 and I would expect it to be in the same sort of ballpark. Plenty of headroom in both our facilities and plenty of headroom too in terms of our current BBB flat credit rating, so gives us no real issues on leverage or debt. Thanks.

Simona Sarli^ Thank you. And if I may just squeeze a quick one in, it's regarding the progress that you're making with the combining branches, because this is something else that you have flagged today in the press releases, so a little bit of disruptions. So is there any update how -- so now, have you proceeded with combining branches adjusting that's in the third state in North America, or where do we stand? Thank you.

Andrew Ransom^ Yes. Thanks, Simona. Yes, I mean, there's no real update on the integration. The integration is going well. As I reported at the interims, we were really pleased with the systems integration, which is the main cutover to move Terminix, branches onto the new single IT stack. That continues to go well. We've continued to put more of the network onto the new systems.

But when you change systems, inevitably, there is some disruption, and that's why we said it would have been neat for me to say none of the organic weakness is coming from the integration. It's more accurate to say a small element of it is, so that's why we include it in the statement. It's not to call anything specific out. It's certainly not to call out any major concerns. And what we've seen so far, we're pretty pleased with in terms of the integration.

Specifically, we've started some rebranding. So your question, have we actually started to merge the branches? We've actually started just a few days ago, some rebranding in branches, to move to single branded branches. That's a start. But the move to the combined routes, et cetera, is still something that will come starting later in the year.

Simona Sarli^ Thanks.

Rentokil Initial plc

Rentokil Conference Call

Operator^ Our next question comes from Annelies Vermeulen from Morgan Stanley. Your line is now open.

Annelies Vermeulen^ Hi, morning, Andy and Stuart. Hope you can hear me okay. I'm at the airport, so apologies for the noise. So just two questions, please. Firstly, given you've announced additional investment and marketing spend, et cetera, and clearly it's not yet bearing fruit and your Right Way 2 plan, do you still have confidence in the plan and in its ability to turn around the organic growth? Or actually, are there things that you've put into place over the summer that haven't worked and you're having to rethink it? That's the first one.

And then, secondly, these are some fairly chunky numbers that we're talking about around the additional costs for overtime and consumables, et cetera. So I suppose my question is why wasn't this budgeted better? I appreciate those things that have been out of your control, but I think, yes, why was that not factored into the full year guidance as a possibility at the interim? Thank you.

Andrew Ransom^ Thanks, Annelies. I'll take the first one. Stuart, second one. I'm very confident. It's difficult to say that in the context of this morning, but I am very confident that the Right Way plan will bear fruit, will work. I've been running pest control businesses for a decade and a half, and the model to generate profitable growth in a network business has not fundamentally changed in that period.

So the Right Way plan will deliver fruit, but it needs to be executed better than we've executed at this point. It is an execution question, not a strategic or model question. So I've absolutely got confidence in the plan.

To unlock the growth and to get the plan working and firing on all cylinders, and certainly firing better than it has been, has got to come from improvements in customer retention. We made announcements at the interims of putting more resource into that. I mean, that's barely started. To your point, the interims were not that long ago. So we believe that the investments that we're making in customer service and in customer saves will bear fruit.

Rentokil Initial plc

Rentokil Conference Call

And that, for me, is to unlock as customer retention should improve, the portfolio value improves, and then the ability to put additional revenue on the portfolio through the marketing initiatives, through better sales conversion will come through. So I'm confident in the plan. I'm disappointed in the execution, and clearly we'll be looking at that. What do we need to do better? What do we need to do more effectively, differently?

We have to give the investments going into customer retention time to bear fruit. I'm sure they will. And so, I would say it's more pivoting on the execution than starting with a different plan. Now, the plan will deliver the fruit in the fullness of time. Stuart?

Stuart Ingall-Tombs^ Thanks, Andy. Yes, thanks, Annelies. Yes, I mean, just to be clear, it's really not a budgeting issue from our perspective. If I sort of tab through the root causes of the variances we've seen, start at the top of the P&L, the overtime overspend is really about that revenue issue.

So as the guys have sought to get to the last dollar of revenue on the weekend, with clearly underperforming against our objectives, that's been done on a reasonably inefficient basis that's driven over time. As you know, we haven't delivered on the top line, and so we've taken a double hit, really. We've missed on the top line, and we've taken higher service costs as a consequence, quite inefficiently actually, in stretching to deliver those.

Materials and consumables, bit of a mix, so we stock up at the beginning of the summer. We expect to use those materials and consumables as we go through. We haven't. The way we account is very prudent. We expense those materials and consumables as they're issued into branches and technician [branch]. So it may be as we get into the season next year, we see some unwind of that cost, but it would be imprudent of me to make a call on that today.

And then, the sales resource, again, budgeted for reasonably well forecast. But any organization has sales targets ahead of those external guidance that they publish. We had sales targets ahead of that, and we resourced up to deliver that. And so, we've really had a double hit on revenue and that we've got the flow through of the revenue GBP20 million that we mentioned in the note.

Rentokil Initial plc

Rentokil Conference Call

But also then the overrun on sales resource, that was intended to deliver a much higher revenue number. So it really is that double impact. Clearly, as we exit the season, we're working really hard to deliver reductions, get on top of overtime, make sure that that's appropriate and proportionate to the volume of work we've got, and make sure that our sales force is right-sized relative to the volume of leads as we exit the season.

So we're working really hard, and that's a big focus for the business right now. But as I say in the round, for the most part, that's a revenue shortfall issue rather than a cost budgeting issue.

Annelies Vermeulen^ Understood. Thank you, guys.

Operator^ Our next question comes from Sylvia Barker from JPMorgan. Your line is now open.

Sylvia Barker^ Thank you. Hi, morning, everyone. A few for me as well, please. So just going back to the last point, obviously, the issue is one of the volume of leads rather than the cost. So how do you think about then the rest of H2 and into full year '25, would you keep a lot of this cost on and just work on improving the volume of leads? And how will you get about doing that? What's the impact been of that second \$25 million spend on marketing and growth. Will you put any more behind that? So first question, just around driving that volume of leads up and what's the plan.

Second question, the full year '25 PBT impact, maybe Stuart, can you comment on how much of that -- because obviously nearly 20% cut to the second half PBT versus consensus, so how much of that should we be carrying forward into next year? You've identified some items that might reverse, et cetera.

And then, finally, on the integration of brand too, you were meant to start this rerouting from October. What's happening to the timing around that? Thank you.

Andrew Ransom^ Thanks, Sylvia. I should say Stuart can take the one in the middle, and I'll take first and the third.

Rentokil Initial plc

Rentokil Conference Call

In terms of the plan in the marketing spend, it's a little bit early to say. If you recall, the additional 25, 15 was due toward in this year, with 10 into next year. We've not changed that at the moment. What is fair to say is that we're working doubly hard on driving up organic lead flow.

We're overreliant, as we sit here today, on paid search, with the search engines. And because we haven't had the level of organic search coming from our websites, we've had to put more effort into the digital piece. And as you do that into the paid piece, that pushes the price of leads up as well, so you pay more money for fewer leads. So very, very much in focus in the second half is to drive up organic lead flow. That means revising websites. It means fixing backlinks. It means making sure that the websites are localized to the branch locations more effectively.

So too early to make any calls as to the effectiveness of the spend and the implications or not, but fair to say that we need to drive up the organic side and indeed technician lead flow to offset the need, to keep putting money into the paid search, and that will be the shape of the plan, and that's what we're working on. And we've put additional expertise and resource to make that happen.

Stu, do you want to cover the question from Sylvia on full year '25?

Stuart Ingall-Tombs^ Yes, sure. Thanks, Sylvia. I think the answer is it's too early to say. More obligations mean we've had come out very quickly on this, as you appreciate. So we're still working through that.

Clearly, as you say, our position is that a large proportion of these costs are related to a mismatch between resource and revenue, and we would expect resource and revenue to be right-sized in 2025, as we would in any other year. But quite what that looks like and what we would guide to in 2025 for margin, I think, it really is a little bit early to say, and we'll be giving further updates both at Q3 and the prelim. So work in progress, Sylvia.

Andrew Ransom^ Your question on integration, as I said earlier, the integration activity is on track. If I wasn't, unfortunately, doing this today and tomorrow, I would have been in America with the team, working through the next stage of the integration. As I say,

Rentokil Initial plc

Rentokil Conference Call

it's on track. We're planning to go live -- when we were planning to go live. Most of the feedback from what we've done so far has been really good, really positive.

I mentioned at the half year, that we're looking at, are there any ways in which we can change the cadence, the pace which we get integrations done? That's something we're continuing to look at. But at the moment, there's no new news on that. So we're on track to do as we said we were, into Q4 where we'll start. I don't recall the precision of October, but certainly Q4 where we'll start the branch integration as planned. So no new news, nothing to share on that.

Sylvia Barker^ Thank you very much. Now, just a quick follow-up just on the volume of leads, can you actually just comment on that then? Because you commented a little bit around some of these softer metrics around leads and technician leads, et cetera, just update us as to how they're trending now.

Andrew Ransom^ Not really, Sylvia. That's getting into real -- very, very deep in the weeds. I mean, sufficient to say that we've not driven the volume of the leads, and we've not driven the quality of the leads and the value of the leads. And I would say as much of the issue that we're unpicking here is, as I think I shared that half year and before, when you get leads in, you need to sell them. They need to be good quality leads. And there's difference between [jobbing] leads, and contract leads, and termite leads, and residential pest leads.

And if you're pushing harder and harder to get the leads, then the sales guys will tell you, well, they're not all as easy to sell. They are not -- not all leads are created equally. So I think the challenge we've had is as much on converting the leads that we've generated as it is on lead flow. So what we need is more leads, yes, but we also need better quality leads, yes, and we also need better conversion of those leads by our sales force.

And we've talked about we made an investment in the sales team and we've geared up for incremental lead flow. Sales teams take quite a bit of time to get productive. You have to bring them in, you have to train them, and then you have to put them to work. And in their early period, like most people in a new job, you're not very good. You're not very effective at your new job. It takes you months to get effective and productive.

Rentokil Initial plc

Rentokil Conference Call

So I think the challenge we've got is, yes, lead flow, as I said, we got to get more organic lead, not just paid lead. But we've got to get the sales conversion rate up, and that will come from a function of two things, better quality leads of the right sort, but also a more experienced sales force, and which is why I've spoken at length about the importance of driving up colleague retention and we've continued to see good improvements in colleague retention.

So I can't give you the detail blow by blow which leads, which sectors, which months, but as I say, it's lead volume, lead quality and sales conversion that need to improve.

Sylvia Barker^ And thank you both.

Operator^ Our next question comes from Suhasini Varanasi from Goldman Sachs. Your line is now open.

Suhasini Varanasi^ Hi, good morning. Thank you for taking my questions. My first question is on this incremental weakness that you saw. Was that mainly from resi termite, or was that broad-based including commercial. The second and relating to that, customer retention is something that you mentioned on the call. Has that gotten worse compared to the end of last year? And was there a specific resi element that got worse? And if true, do you need to add more resi expertise in senior roles in North America?

The second question is on the medium-term targets, given you've seen in three, four quarters, actually more than that, of weak organic trends, is this something that needs to be revisited as well on the medium-term margin targets? Thank you.

Andrew Ransom^ Thanks, Suhasini. I'll attempt the first one and Stuart can talk to targets.

I think it's fair to say that within residential, commercial termite and more broad-based, the weaker of the three has been termite for us. I don't think there's a particular story there, but since you asked the question, I think we need to improve our termite performance.

Rentokil Initial plc

Rentokil Conference Call

Customer retention, you recall we talked about this many times. Customer retention is a dollar value concept as measured and customer retention has been stable. So no real big story on customer retention. But in terms of changes, nothing to call out here this morning in terms of changes in customer retention.

But as I mentioned and answered to one of the earlier questions, on a customer basis, we have to get customer retention up. So whilst it's not a significant contributor to this morning's discussion and it's been broadly stable at similar rates to prior periods, it is a key unlock to driving the future growth. So that's why it's absolutely critical that we make that investment in customer retention resource.

You made a question about do we need more resource? Do we need more expertise? We have got 22,000 people in our North American business, and the vast majority of whom have been in pest control for a number of years. We have vast experience of residential pest control. We're clearly not doing the job as well as we need to, so we'll obviously look at whether we need additional expertise and resource. But I don't think that is the challenge that we're facing, Suhasini. I don't think it's a competency challenge. It's an execution of the plan challenge.

Stuart, medium-term targets.

Stuart Ingall-Tombs^ Yes. Thanks, Suhasini. I think our overall position is nothing that we've seen, nothing that we're experiencing today, whilst disappointing, changes our view of the medium-term margin opportunity. We would expect to have market-leading margins once we get through the integration, once we've got the sales engine turned around. But it's clearly taking longer than we anticipated.

And in the end, if we're getting circa 1% growth, that means we are seeing net volume decline, and we have to stabilize and start reversing that volume decline in order to deliver on our margin objectives because in the end, we're a business that relies on density of customer routes, technician routes. So we've got to get that going. So in the medium term, I've got no reason to doubt that the targets we've put out there, but it's taking a little bit longer. And as I said, I think it was just (technical difficulty) and what this mean for '25 and what does it mean for '26 (technical difficulty).

Rentokil Initial plc

Rentokil Conference Call

Suhasini Varanasi^ Thank you.

Stuart Ingall-Tombs^ So we'll come back to you in due course, on how we see those.

Suhasini Varanasi^ Understood. Thank you.

Operator^ Next question comes from James Rose from Barclays. Your line is now open.

James Rose^ Hi there, good morning. I've got three, please, if I may. Firstly, going back to branch disruption that you've called out. Within the second half assumptions you've got, can you sort of detail what impact from integration disruption you have in there, and have you had to revise your own assumptions down within the budget to get there? What precisely are you seeing there?

And secondly, in the first half, we talked about the contract-based, the sort of subscription-based building ahead of revenue recognition from leads. Is that still the case over the last few months?

And then, lastly, again, looking to FY25, the question on how you think about prioritizing growth versus margin into next year. Obviously, this is a trade-off between volume ambitions and resourcing. You've been called out in Q3 last year and peak season this year. So for FY25, does the business become more margin-orientated rather than sort of volume growth-orientated? Thank you.

Andrew Ransom^ Thanks, James. In terms of branch disruption, I guess all I can say is that we've not moderated. The reason for the call down this morning is not because we've added additional risk into the model from integration disruption. I called it out simply because it would be incorrect to say we've seen nothing. It's been modest. It's been broadly what we would have anticipated. So we're not calling the number down because of worse than expected integration activity. So that's probably all I can say on that one.

In terms of the question on the contract basis, as Stu said, this is a new experience for me, but these things move very, very quickly when you have to update the market on new news. I honestly don't have the answer to your question in terms of the contract-

Rentokil Initial plc

Rentokil Conference Call

based and whether that's continued to grow in the way that you referred to there. Simply haven't had the moment to check on that, but clearly we will do.

In terms of 2025, as Stuart said, James, it's too early to call where this all shakes down. But I think as a directional point, growth has to be the primary driver. I mean, margin is important. But you don't -- you never slim yourself to glory in business. You've got to grow here. And so, we have got the right plan. We are clear that the plan will deliver. It's got to be executed to a better degree and more effectively.

So clearly, we'll pivot. Clearly, we'll look at where we've made missteps and where we need to improve. But I think the primary focus needs to be getting growth up from where it is and on that onward trajectory. Now, at the same time, we're going to look very hard at the cost, because with a mismatch between a revenue model and a labor model, we have to bring those back into line. But it's fair comment that we haven't got this right and we need to get it right. But I don't think you'll see a fundamental change in direction for 2025, prioritizing margin over growth. We have to get growth moving back up then to the right.

James Rose^ That's it for me.

Operator^ The next question comes from Andy Grobler from BNP Paribas. Your line is now open.

Andy Grobler^ Hi, good morning. Just two from me as well, if I may. Firstly, just to clarify the weakness in growth relative to expectations in the second half is a Rentokil issue, not a market issue. Is that the case?

And secondly, just going back to the visibility, how quickly does kind of this news flow feed through to you, guys? Because I guess a lot of those costs were set at the beginning of the period in terms of your sales headcount. You would have known what you were going to do. And as Stuart mentioned, the consumables were already acquired. So at what point did you see that the plan just wasn't quite coming together and the growth wasn't coming through? What is that feedback loop? And could it be improved now across an enlarged business? Thanks very much.

Rentokil Initial plc

Rentokil Conference Call

Andrew Ransom^ Thanks, Andy. I'll take the first. Stuart, you can deal with a second.

Look, I don't think -- we're still in the moment here, Andy. But I don't think it would be reasonable for us to point any of this at the market. I've certainly not seen evidence, nor heard anecdotally, evidence of market specific weakness. It's, for sure, spotty, and there's plenty of people talking the economy down, but we're not seeing that. So I can't point to that.

This is a manifestation of execution challenges, need to improve our execution. It's not a market phenomenon, as we can see at the moment. If you know further information comes to light, I just reserve the right to change that answer. But I don't think it's market. I think this is on us, Andy.

Okay, Stuart?

Stuart Ingall-Tombs^ Yes. So thanks, Andy. I mean, we've got reasonably good visibility, but all these real cost item is set for overtime, I think. That you've set your stall out, you've recruited the people, you've acquired the stock, and therefore you either get the revenue to deal with that or you don't. And if you don't, then clearly you've got the sort of issue that we've got. So that's not really a visibility issue.

I think what we have got is still -- because we've got two separate businesses which are largely at an operational front end, not integrated yet, you have got a little bit of friction in the system as we take two data flows and bolt them together, and then feed them back and understand what's going on. So as we emerge and get through the branch integration, we're going to get better and better at having earlier visibility of exactly what's going on in the business, and therefore being able to respond to it earlier.

But keep coming back to it really -- this is a fact that the revenue just hasn't turned up for us to support a level investment that we committed to. And that's on us, but that's the core. This is not a visibility issue. But we do have a lot of work to do to get these systems integrated as we go through the next two years, which will enable us to have a much more holistic view of the performance of the business, rather than having to sort of bolt-it together at a corporate level and getting better feedback into the operational leads in the business. So in summary, yes, I think it's a fair summary.

Rentokil Initial plc

Rentokil Conference Call

Andy Grobler^ And so just following up on that, because there seems to be a slight disconnect, I guess, between having reasonably good visibility and then having a quite a big profit earning again in Q3. Can you give a bit more detail about that? In terms of the timing of that visibility, at what point did you say, right, we needed to grow at three or so percent to get to the targets for the year, and said, right, we're not -- it's not going to happen? Was that just something that happens very recently, or was that becoming apparent through July and August?

Stuart Ingall-Tombs^ Well, as I think Andy said, through July and August, we haven't had the run rate that we needed to get, and it's a level of confidence about looking forward on the trajectory. So the statement we're making today is as much about our view of what the future looks like, as well as it -- as much as it is about July and August performance in isolation and the trends that we've seen coming through the P&L in that period.

So I'd say we've still got sort of three and a half months of the year to go. So this is our call as much for that three and a half months as it is for the two and a half months that we've experienced. So, yes, look, there's a difference between visibility and commitment to the investment, and you have to resource up at the start of the season.

You've got to train your sales people. You've got to train your technicians. You've got to commit to the number of people you got to on the ground. You've got to plan your routes based on some assumptions about the volume you're going to be pushing through those. And at a point in time, you come to a conclusion with whatever visibility you have, which may be perfect or imperfect, that you're not going to meet the targets that you set out and the consequences of that for the P&L. So it's not a sort of a light bulb moment. It's an evolution of a view that we've taken over the last few weeks. So that's, I think, how I --

Andy Grobler^ Okay.

Stuart Ingall-Tombs^ Yes.

Andy Grobler^ Okay. Thanks very much.

Rentokil Initial plc

Rentokil Conference Call

Operator^ Our next question comes from Ollie Davies from Redburn. Your line is now open.

Ollie Davies^ Yes, morning, guys. Just a couple for me. Firstly, on customer retention, you aren't really seeing much improvement here, despite employer retention continuing to rise. So, I guess, is there a reason for this, or is the lag between the two just a lot longer than you expected?

And then, secondly, given your comments about the sales force productivity and I guess the issues that you've had here in terms of lead conversion, is right-sizing the sales force not going to prevent any possible improvements in growth into FY25? Thanks.

Andrew Ransom^ Thanks, Ollie. It's not a binary science between colleague retention and customer retention. It's born out of years of experience in the business. And all I can tell you is provided colleague retention continues to improve, customer retention very typically follows.

It's not easy to say that there's a six-month or nine-month lag between the two. But it's pretty basic if you think about it because if you've got a consistent experience with your technician and you're getting consistently good service, most customers are quite happy to continue with their service. If you're getting an inconsistent service, if you're getting constant change in technician, if the company is letting you down, you have a very different view.

So I'm very clear and confident that the colleague retention improvement is the most fundamental corner piece in the jigsaw puzzle here, and it's moving in the right direction and continues to improve. So that will feed into customer retention.

But at the same time, the investment we talked about the half year is really to get into a much more fundamental understanding of the customer life cycle journey, from the first moment we target customers, which customers are we trying to win, to the very last moment in the life cycle when a customer terminates us. There are dozens of opportunities to improve the service, the moments of truth. I mean, when you get to

Rentokil Initial plc

Rentokil Conference Call

the back end of the life cycle, there are plenty of opportunities to save customers, even when they get to the point that they want to leave you.

So this is a multi-faceted program. It's not as simple as get colleague retention up, customer retention magically improves, but it does improve. But there's a much more holistic program that we're working on and needs to work on. So I think that's the key there. Apologies, Ollie, in the moment, I can't remember your second question.

Ollie Davies^ It was just about the sales force productivity and I guess the --

Andrew Ransom^ Yes.

Ollie Davies^ -- issue you've had on lead conversion and sort of right-sizing that.

Andrew Ransom^ Yes, I think --

Ollie Davies^ The sales force now, I guess the balance.

Andrew Ransom^ Yes, and it's a fair -- it's very fair question. I mean, the way it works in most organizations, your best salespeople are brilliant. And the more and more you give them, the more and more they sell. And it's just if you Pareto it, you're always going to have some very high performing salespeople, and they always have capacity to sell more. You're also going to have some underperforming salespeople.

And I guess what we're saying here on the right-sizing of the sales force, we're going to look very carefully at, well, who is not currently making the grade and not likely to make the grade. And we'll make decisions about replacing people as they leave as well. So I think we don't have to be brutal in the way in which we go about right-sizing the sales force. But it is certainly we cannot afford to carry passengers who are not productive, and so we will address that at the end of the curve. We'll try and get our best salespeople to be even more productive. And as we come off the season, we clearly will not be replacing salespeople at the rate that we might otherwise have done. So it's a balance like all of these things.

Rentokil Initial plc

Rentokil Conference Call

Now, if in the meantime, we see improvements coming through in the balance of the year, and we see improvements in leads now and we see improvements in the quality of the leads, and improvement in organic leads, in addition to (inaudible) lead, then it may be that we can get more productivity out of that sales force.

But the reason for the call down is without that confidence looking forward to the balance of the year, we're overresourced in sales, so we do need to make that. We clearly, as the earlier question suggests, got to try and make sure we don't get the seesaw on this run the other way and end up with inadequate number of salespeople. But we think we can address this over the next few months.

Ollie Davies^ Okay. Thanks, Andy.

Andrew Ransom^ Thanks, Ollie.

Operator^ Our next question comes from Allen Wells from Jefferies. Your line is now open.

Allen Wells^ Hi, good morning, Andy and Stuart. A couple from me, please. You obviously talked about kind of the converting of leads as being part of the issue here. But is there anything that we need to know about servicing the leads? Anything on the technician side? I guess this kind of comes a little bit from the disruption from the branches, but maybe you can just comment on the ability to service the leads that you do have, and if that's having an effect at all.

And secondly, just on the commercial versus whether you -- you flagged termite has been particularly disappointing. But I guess as part of this whole process is slightly disappointed growth. I've always slightly struggled with exactly what's going on in your commercial business. I know it wasn't outperforming the market pre the Terminix deal, but it was always growing reasonably strongly.

So I just wonder if you can maybe talk a little bit about what's going on in the commercial side of the business, to what extent is your customers being impacted there? Why would lead and lead flow be changing on the commercial side to drive such

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Rentokil Conference Call

a weak performance in that business as well, if it is indeed as weak as the rest of the group? Thank you.

Andrew Ransom^ Thanks, Allen. Yes, there's not really any part of the story in our ability to service leads. So work order completion rate is one of the key KPIs in the business. As you correctly call out, having got the lead, having sold the lead, you then need to install the lead. And you do need to install it quickly, particularly in a residential business, otherwise the customer will go somewhere else. And that's not an issue. The install rate is good. We are getting the work done that we're booking and we're selling.

There is an element, though, that we've pushed the organization very hard to drive revenue, and I think we're probably driving some marginal revenue calls. We're probably -- and we know for a fact, for example, we've pushed hard through the season to get work done at the weekend. Now, weekend work in North America pest control has always been a phenomenon, but we've pushed extra, extra hard this year because we're trying to get that revenue in. And I think some of that, where you're paying overtime for Saturdays and even Sunday work to get the work installed is not efficient.

You're paying a lot of overtime to get work done. It's not on a dense route. It tends to be sort of more one-time available work. So I think the inefficiency on the service side, Allen, is not the ability to service leads. It's not the ability to schedule work and get it done. What we have seen is some discipline efficiencies of chasing revenue hard, which probably has not done a great job on density, but has also meant we've been doing extra work on weekends and that's coming at a cost, and you're seeing some of that cost coming through this discussion we're having this morning.

In terms of commercial business, yes, it is frustrating. It's frustrating to me. I think it's quite a broad brush to talk about commercial. If you split it into national account commercial, big customers, and then you split it into SME commercial, I think broadly, national account business continues to perform fine, well, subject to one caveat, and that is Terminix had national account customers as well. And the quality of the Terminix national account business is never as high as the Rentokil bit.

So there's a bit of a transition going on in the commercial bit as we try and we have moved the national account customers from Terminix national account into Rentokil

Rentokil Initial plc

Rentokil Conference Call

national account, where they should belong. We've certainly lost some Terminix national account customers. But at its core, the Rentokil market leading commercial big ticket national account business is in good form. So we should expect to see that improve as we get through this sort of transition period of migrating the Terminix national account business over to Rentokil.

The second part of commercial is really SME. So it's the restaurants. It's the coffee shops. It's the pubs. It's the high street, effectively. And the high street finds its pest control provider in exactly the same way as a residential consumer would. So if you're running a pub and you need a pest controller, you go onto the Internet. That's where you will go. So in a sense, in that way, lead flow for SME commercial and the need to generate leads from the Internet, and the need to generate from paid search and from organic search is pretty much identical.

So where we've seen weakness in residential and termite on the lead side, from the digital side of the business, clearly that flows into the SME as well. So fix the lead flow, fix the websites, do an improved performance on paid for residential and for termite, you'll get the improvements in SME as well. So I know it's frustrating as it's frustrating to me, but it is logical why you'd see that same challenge on the SME side. And the SME side of the commercial business, it is a big part of the commercial business. The national account part is performing well in Rentokil.

Allen Wells^ Cheers. Thank you.

Operator^ Thank you. We will now bring the call to an end. Thank you so much for attending today's call. You may now disconnect. Have a wonderful day.