

# A glimpse into the financial workings of Rentokil Initial

## 2019 at a glance Interim results

- Revenue up 8.8% to £1,298.9m
- Ongoing operating profit up 11.6% to £152.1m
- Organic revenue growth of 4.2% equals the highest growth rate in the first half for over a decade.

On 31 July 2019 Rentokil Initial held a conference in the City of London for members of the press and financial analysts where the company revealed its very credit worthy interim results – as shown right. Whilst **Pest** was not at the event, it was broadcast live via webcam so it was possible to pick-up on the nuances in the presentation and hear what questions the analysts asked. Recorded here are some of the points we thought readers would be interested to hear about.



Chief executive, Andy Ransom

Chief executive, Andy Ransom, led the presentation, ably supported by Jeremy Townsend, the company's chief financial officer, who was in command of the financial figures.

Within these pages we have commented before on the significance of the pest control division. This is the company's shining star and, alone, accounts for 64% of group revenues (compared with 29% in 2013) clocking-up £818m in revenue and £135m of profit. This division achieved spectacular ongoing revenue growth of 11.4% of which 4.8% was organic growth.

The hygiene side of the business accounts for

22% of revenue and what Andy refers to as 'low margin business', Protect & Enhance (basically France workwear, Ambius and UK Property Care) accounts for 14%. A long way from the days when Rentokil was very much 'all things to all men' in the services sector.

### Mergers and acquisitions driving growth

Much of the growth within pest control comes, and will continue to come, from mergers and acquisitions. During the first half of the year, 17 businesses were acquired, of these 12 were in pest control and five in hygiene. Of the 12 pest control acquisitions, seven were in North America – obviously a key target market. Andy revealed that £250m was earmarked for the full year for acquisitions. He explained that the company, as a whole, has a team of seven to eight global staff working on mergers and acquisitions saying: "We have huge experience in acquisitions and we adopt a very disciplined financial approach. We have a templated and systemised process that we work to. A 'budget' of £250m may be earmarked for acquisitions but it doesn't mean it will be spent simply to spend it, nor is this the limit should the right business come along."

Neither in the presentations, nor in the subsequent questions from the audience, was there a single mention of the acquisition of Mitie Pest Control Ltd, nor was there any comment about the likley outcome of the ongoing investigation by the Competitions and Markets Authority.

The attraction of pest control as a business sector was explained by Mr Ransom saying: "Pest control is a non-cyclical, sustainable growth market which we estimate to be worth c. \$20bn

by the end of 2019, growing at c. 5%. Rising consumer expectations, growing middle classes, urbanisation, increasing workplace and food regulation, climate change and increasing pest pressures assure a rosy future for commercial pest control."

Yet it is a highly fragmented industry, one often described as a distress purchase, it is estimated there are 40,000 companies, 50% of which are in North America. Rentokil's global presence is quite astounding, as it estimates it is the number one pest control company in over 50 of the 80 markets in which it operates. He proudly declared: "Our powerful Rentokil brand is one of the world's top 50 most valuable and recognisable brands," as identified in the Brand Finance Report 2017.

The company's plans for North America remain bullish with a revenue target of \$1.5m by 2020 and net operating margins of 18% planned for delivery by the end of 2021. To give these figures some scale, this would in fact be double Rentokil's existing revenue in the US and equal to that of the second largest pest control company in the US (Terminix), according to the figures presented in the annual PCT Top 100 company report.

Andy stated that Rentokil national accounts were the 'sweet spot' of the company's North American business when compared to 'jobbing' work, but did admit that season dynamics could lead to higher margin work. "Sometimes we are so busy and we can't get everything done, so we operate a dynamic price schedule," he explained. No surprises there then!

Whilst the company's low cost operating model by which it is managed, known colloquially as 'the machine' was referred to, two specific sectors were highlighted. First company staff, or as Andy described them,

the primers of the business. He explained how every meeting at Rentokil, right from board to branch level, starts with SHE (Safety, Health and Environment): "There is nothing more important than every single one of our 40,000 people goes home safe every day. In my view there is a clear and direct correlation between a business that attains the highest safety standards and one that delivers excellent financial performance. We have made dramatic improvements over the last five years and now our safety performance is at world class standards."

### People are key

A second initiative, begun two years ago was also detailed – known as Employer of Choice. This is the second agenda item at meetings. "For this we also have a set of consistent measures. People will have heard me say before – Our people agenda is the most critical strategic imperative we have in Rentokil Initial – or put simply, if we get our people agenda right, we have a fantastic opportunity to execute our plan and to create value for our shareholders. If we don't get our people agenda spot on, then it doesn't matter how good our plan is we wouldn't be able to execute it."

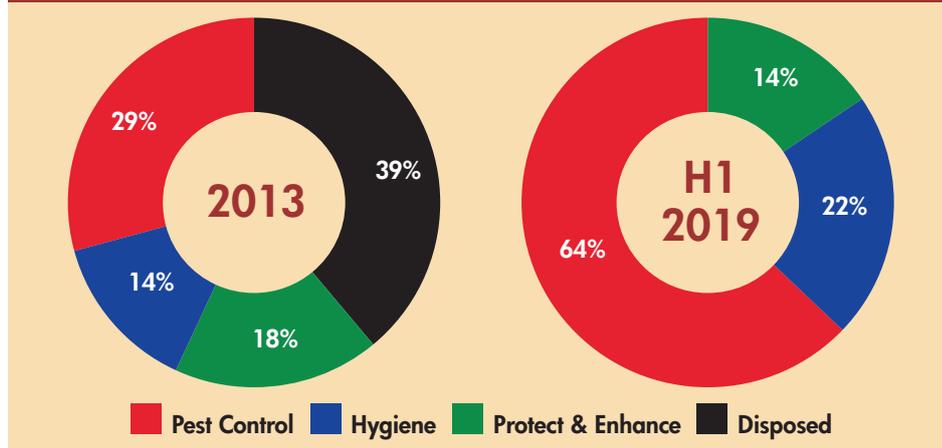
Fine words indeed, let's just hope the local Rentokil technician sitting alone in his van, on which the execution of the business rests, recognises this sentiment.

Rentokil's advances in digital technology were covered. The company claims to be the leader in this sector and Andy quite unashamedly said the aim was to improve productivity, so reducing costs. He sees pest control as an ever more sophisticated market with higher barriers to excellence, so digital applications offer a means of protecting core markets, differentiating service and responding to customer needs. Examples quoted were the range of Lumina LED insect light traps where Rentokil was first into the market (now sold in 42 markets worldwide), plus a series of remote monitoring rodent systems, such as Dual AutoGate Connect.

Now with two directors in place responsible for digital products and artificial intelligence (AI) there appears to be much on the horizon with a whole series of trial products using AI underway. One of these is known as PestID, an image-based smartphone App that allows a technician to take a photo, send it in for identification, then PestID will recommend the best means of control, plus sending a training or safety video.

But, is this not what trained and qualified professional pest technicians are supposed to be able to do for themselves?

## Rentokil Initial business sector split – 2013 v 2019



Rentokil's growing presence in the vector and mosquito market was detailed. Andy said: "Mosquitoes are the biggest killers on the planet. There are over 3,500 mosquito species. The vector market is estimated to be worth \$4.4b and is growing at 7% per year. Rentokil is ideally placed to grow our presence in this market. In the last two years we have acquired two companies in the US (VDCI and Mosquito Control Services) and one in Brazil (Multicontrol) and just last month Ecovec, also in Brazil."

### Lucrative mosquito work

In the Q&A session more was revealed. Andy said that the mosquito vector market, whilst huge, was complex and he saw it very much as a medium-term prospect. He explained how in the US it is very 'lumpy and sporadic' – the company's fleet of planes might do nothing for weeks, but then after heavy rain when mosquitoes are breeding be called upon as an emergency situation and work around the clock. In such situations the margins were very lucrative.

He estimates the company only has a 1%

share of this sector and if all Rentokil vector revenues globally were put together the total was around \$50m, but growing at 10% organically. He said there were few companies with the expertise and global reach to address this market. Agreed. What he did not say though was that whilst financially rewarding, the market Rentokil is most involved in is the high value control of mosquitoes for e.g. via aerial application, whereas the greatest demand for control lies in the less developed and financially strapped markets where aid-funded and WHO managed work proliferates.

For those readers with an interest in the fortunes of Rentokil, listening to this hour long webcast is highly recommended. At no other time would you have the opportunity to hear, first hand from the captain of the ship when he is putting his best foot forward to impress the financial markets with details about how the company functions. It can be found on the Rentokil Initial corporate site at [www.rentokil-initial.com](http://www.rentokil-initial.com) where listeners first have to register.

