

Rentokil Initial

Growth gap to Rollins gets wider by the day – down to Neutral

Rating Change: NEUTRAL | PO: 445.00 GBp | Price: 402.30 GBp

Near-term integration disruption weighs on org. growth

We take a more cautious stance on N. America (>60% of revenue) and downgrade Rentokil (RTO) to Neutral from Buy with a PO of 445p/\$29 from 660p/\$40. Although RTO looks better placed to reduce the quality gap to Rollins over time after the Terminix deal, in the near term we see higher integration risk. Supporting our view, since deal closing in Oct-22, the organic growth gap to Rollins has widened to 610bps in 3Q23 from 250bps in 2022. RTO trades at c.18x P/E (24E), >20% below history. Yet, we see limited scope for re-rating over the next year given negative EPS revisions and slower de-leveraging.

Up to 12% downside risk to consensus for 24E PBTA

Operational challenges could be a further drag on N. America Pest Control organic growth in coming quarters (BofAe 0%/4% in FY24/25), especially as the company enters the more complex branch co-location/integration phase in 2024, which will be taken state-by-state. This might lead to back-end loaded cost synergies (we assume 30:70 phasing in 24E/25E vs 50:50 before) and higher-than-anticipated investment (opex and capex) in Terminix's (historically underinvested) digital marketing channel. We cut our adj. EPS (24E/25E) by ~10% and are 5% below consensus. However, should the integration be more complex and lead to negative organic revenue growth in N. America in 24E, our sensitivity analysis indicates up to 12% downside to adj. PBTA (Exhibit 11).

Headcount in N. America declining faster than Rollins'

Pest Control is labour-intensive, hence headcount evolution is usually a good indicator of demand patterns/organic revenue growth. The latest Revelio Labs data suggests that: 1) the recent headcount decline is more pronounced for Rentokil (in North America) and Terminix on a combined basis than at Rollins (Exhibit 12); 2) Rollins has been more successful in recruiting and offered on average better salaries than Terminix (Exhibit 13).

Slower de-leverage but no covenants and ample liquidity

We now estimate a slower de-leverage trajectory on disruption from the integration, with net-debt/EBITDA reaching 2.1x only by 25E, versus 1-1.5x across Business Services. On a positive note, RTO has no debt covenants, limited near-term refinancing needs (only a €400m bond expiring Nov-24) and an undrawn RCF of £787m (\$1.0bn).

Estimates (Dec) (GBp)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	18.1	21.3	22.1	22.8	26.5
EPS Change (YoY)	17.5%	18.2%	3.6%	3.1%	16.1%
Dividend / Share	6.39	7.55	7.89	8.03	9.19
ADR EPS (Adjusted Diluted - US\$)	1.24	1.32	1.41	1.45	1.68
ADR Dividend / Share (US\$)	0.44	0.47	0.50	0.51	0.58
Valuation (Dec)					
P/E	22.3x	18.9x	18.2x	17.6x	15.2x
Dividend Yield	1.59%	1.88%	1.96%	2.00%	2.28%
EV / EBITDA*	21.1x	17.0x	11.4x	10.9x	9.96x
Free Cash Flow Yield*	4.37%	3.86%	3.93%	4.80%	6.51%

* For full definitions of *IQmethod*SM measures, see page 12.

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Refer to important disclosures on page 13 to 16. Analyst Certification on page 11. Price Objective Basis/Risk on page 11.

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Timestamp: 24 January 2024 12:00AM EST

24 January 2024

Equity

BofA

Data Analytics



Key Changes

(GBp)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	660.00	445.00
2023E EPS	22.75	22.10
2024E EPS	25.84	22.80
2025E EPS	28.70	26.46
2023E DPS	8.13	7.89

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Stock Data

Price (Common / ADR)	402.30 GBp / 26.21 USD
Price Objective	445.00 GBp / 29.00 USD
Date Established	24-Jan-2024 / 24-Jan-2024
Investment Opinion	B-2-7 / B-2-7
52-Week Range	387.80 GBp-663.80 GBp
Market Value (mn)	10,110 GBP
Shares Outstanding (mn)	2,513.0 / 502.6
Average Daily Value (mn)	27.25 USD
Free Float	96.7%
BofA Ticker / Exchange	RKLIF / LSE
BofA Ticker / Exchange	RTO / NYS
Bloomberg / Reuters	RTO LN / RTO.L
ROE (2023E)	13.3%
Net Dbt to Eqty (Dec-2022A)	72.2%
ESGMeter TM	High

iQprofileSM Rentokil Initial

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(£ Millions)					
Sales	2,954	3,714	5,356	5,503	5,729
EBITDA Adjusted	665	825	1,236	1,291	1,411
Depreciation & Amortization	(224)	(254)	(375)	(385)	(401)
EBIT Adjusted	442	571	862	906	1,010
Net Interest & Other Income	(95.7)	(139)	(331)	(382)	(312)
Tax Expense / Benefit	(61.9)	(64.0)	(94.1)	(98.8)	(140)
Net Income (Adjusted)	336	427	555	573	665
Average Fully Diluted Shares Outstanding	1,858	2,002	2,513	2,513	2,513
Key Cash Flow Statement Data					
Net Income (Reported)	263	232	341	395	558
Depreciation & Amortization	224	254	375	385	401
Change in Working Capital	23.4	(3.00)	(33.9)	(26.3)	(35.3)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	56.9	117	132	227	187
Cash Flow from Operations	567	600	814	981	1,111
Capital Expenditure	(153)	(185)	(268)	(303)	(304)
(Acquisition) / Disposal of Investments	(463)	(1,018)	(250)	(250)	(250)
Other CFI	(88.1)	6.00	(108)	(114)	(119)
Cash Flow from Investing	(704)	(1,197)	(626)	(666)	(673)
Share Issue / (Repurchase)	0	(16.0)	0	0	0
Cost of Dividends Paid	0	(122)	(192)	(199)	(210)
Increase (decrease) debt	(1,477)	3,349	44.7	(35.6)	(197)
Other CFF	1,477	(1,888)	(44.7)	35.6	197
Cash Flow from Financing	0	1,323	(192)	(199)	(210)
Total Cash Flow (CFO + CFI + CFF)	(137)	726	(4.46)	116	227
FX and other changes to cash	(1,421)	776	4.46	(116)	(227)
Change in Cash	(1,557)	1,502	0	0	0
Change in Net Debt	80.7	1,848	44.7	(35.6)	(197)
Net Debt (Reported)	1,108	2,956	3,001	2,965	2,768
Net Debt (Adjusted)	1,186	3,226	3,271	3,235	3,038

Key Balance Sheet Data					
Property, Plant & Equipment	398	495	388	305	208
Goodwill	NA	NA	NA	NA	NA
Other Intangibles	2,093	7,223	7,299	7,376	7,453
Other Non-Current Assets	488	965	1,091	1,221	1,356
Trade Receivables	527	832	954	995	1,052
Cash & Equivalents	668	2,170	2,170	2,170	2,170
Other Current Assets	148	237	232	227	231
Total Assets	4,323	11,922	12,134	12,294	12,469
Long-Term Debt	1,395	3,906	3,951	3,915	3,718
Other Non-Current Liabilities	274	1,073	1,037	1,037	1,037
Short-Term Debt	382	1,220	1,220	1,220	1,220
Other Current Liabilities	1,008	1,625	1,686	1,688	1,734
Total Liabilities	3,059	7,824	7,893	7,860	7,708
Total Equity	1,263	4,097	4,240	4,433	4,761
Total Equity & Liabilities	4,323	11,921	12,133	12,293	12,468

Business Performance*					
Return On Capital Employed	10.8%	8.31%	8.10%	8.45%	9.12%
Return On Equity	28.0%	15.9%	13.3%	13.2%	14.5%
Operating Margin	14.2%	11.7%	14.3%	15.9%	17.6%
Free Cash Flow (MM)	327	311	398	485	658

Quality of Earnings*					
Cash Realization Ratio	1.69x	1.40x	1.47x	1.71x	1.67x
Asset Replacement Ratio	1.02x	1.36x	1.28x	1.37x	1.29x
Tax Rate	19.0%	21.6%	21.6%	20.0%	20.0%
Net Debt/Equity	87.7%	72.2%	70.8%	66.9%	58.1%
Interest Cover	15.0x	19.0x	6.38x	6.25x	8.08x

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Business Services

Company Description

Rentokil is a diversified business-to-business (B2B) services group, focused on Pest Control (80% of sales), Hygiene & Wellbeing (16%) and French workwear (4%). The business operates around the world, with the bulk of operations in North America (62%), Europe (20%), Asia & MENAT (7%), and Rest of World (11%).

Investment Rationale

Although RTO looks better placed to reduce the quality gap to Rollins over time after the Terminix acquisition, we currently see the risk reward as balanced given higher risk of integration disruption. This might potentially lead to subdued organic growth in North America over the next few quarters, higher-than-anticipated investments in Terminix's digital marketing channel and back-end loaded synergy realization.

Stock Data

Shares / ADR	5.00
Price to Book Value	2.4x

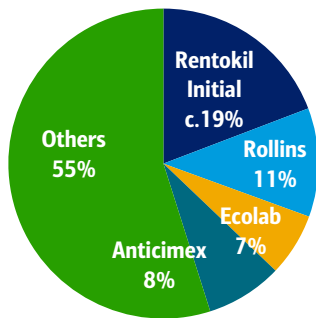
Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	40.00	29.00
2023E EPS	1.45	1.41
2024E EPS	1.64	1.45
2025E EPS	1.83	1.68
2023E DPS	0.52	0.50

Rentokil Initial in 6 key charts

Exhibit 1: Global Pest Control - market shares (based on 2022 revenue)

Following the Terminix acquisition, Rentokil has become the global market leader in Pest Control with a market share almost twice that of Rollins

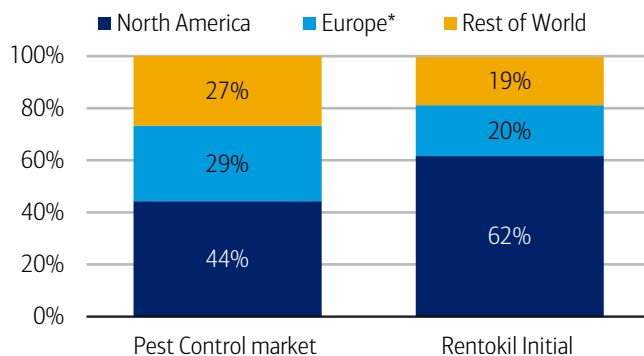


Source: BofA Global Research

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Exhibit 3: Global Pest Control market vs Rentokil Initial by geography

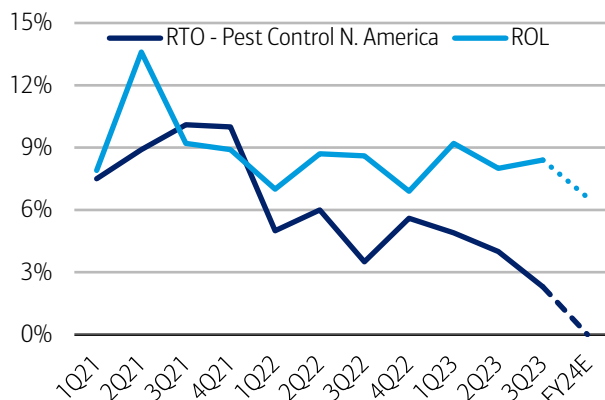
Rentokil Initial is well-placed to capture regional growth trends in the Pest Control market, generating >60% of revenues in North America



Source: Rentokil Initial (revenue breakdown as of 1H23). Note: * For Rentokil includes also LatAm.
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Exhibit 5: Rentokil Pest Control – N. America vs Rollins organic growth

Since the acquisition of Terminix, Rentokil's organic growth gap to Rollins has consistently widened and peaked in 3Q23 at 610bps

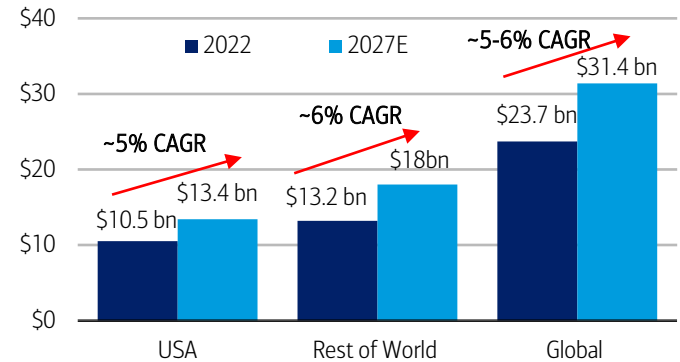


Source: Rentokil Initial, Rollins, BofA Global Research estimates for FY24E

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Exhibit 2: Global Pest Control market growth CAGR (22A-27E)

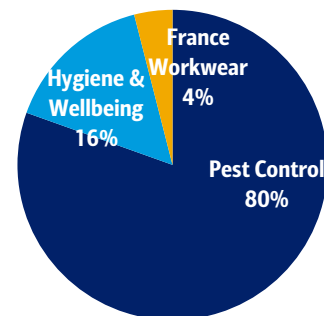
The Pest Control market is estimated to grow at ~5-6% p.a. globally



Source: External 2022 market views have been combined with Rentokil's global market data
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Exhibit 4: Revenue breakdown by division (as of 1H23 revenue)

Rentokil Initial generates 80% of revenue from Pest Control, 16% from Hygiene and Wellbeing, and the remainder from French Workwear

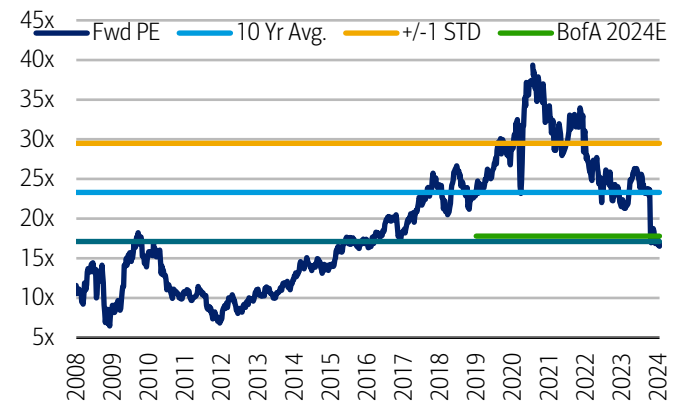


Source: Rentokil Initial

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Exhibit 6: Rentokil Initial – P/E (12M forward) since 2008

Rentokil trades at ~18x P/E (24E) vs >23x on average over the past decade



Source: BofA Global Research estimates; Bloomberg

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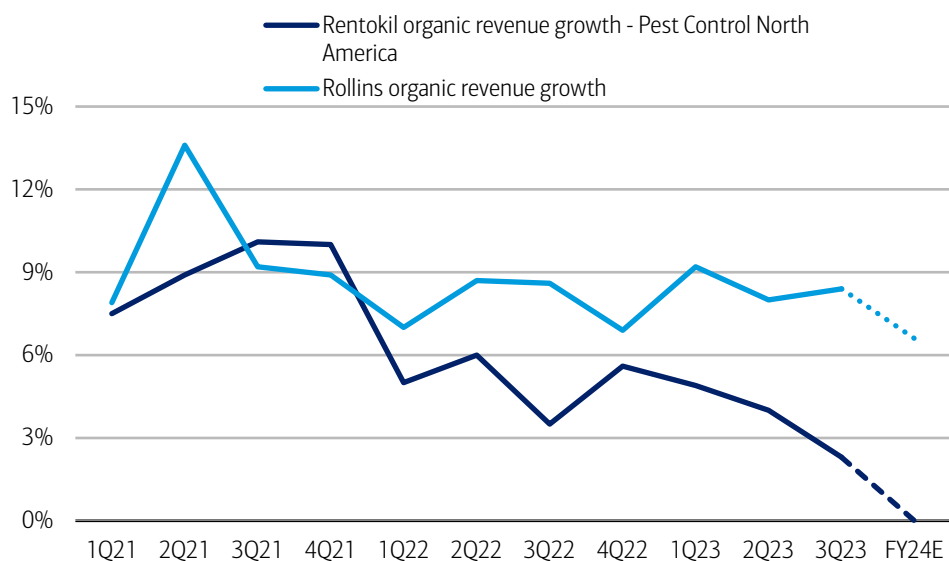
Our adj. EPS (24E/25E) cut by 12%/8%

We cut our adj. EPS for 24E/25E by 12%/8%, respectively, as we take a more cautious view on North America (>60% of Rentokil's revenue).

In 24E/25E, we now forecast revenue in this region to grow organically by 0%/4% (vs 4%/4.5% previously) as we reflect a stronger impact from operational disruption related to the integration of Terminix. Supporting our view, since the deal closing in October 2022, the organic growth gap to Rollins, Rentokil's competitor in North America, has consistently widened and peaked at 610bps in 3Q23 from 400bps in 2Q23 and 430bps in 1Q23 (vs 250bps in FY22).

Exhibit 7: Rentokil Pest Control - North America vs Rollins organic growth (%)

Since the announcement of the Terminix acquisition, the organic growth gap to Rollins, Rentokil's main competitor in North America, has consistently widened



Source: Company report, BofA Global Research estimates for FY24

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We also assume a slower phasing of synergy realization (30:70 in 24E/25E), as well as higher opex/capex investments in Terminix's digital marketing channel, where the target has historically underinvested.

Exhibit 8: Estimate changes

Our adj. EPS (24E/25E) cut by 12%/8%, respectively, as we take a more cautious view on the integration of Terminix in North America

	2023E			2024E			2025E		
	Curr.	Prev.	Δ %	Curr.	Prev.	Δ %	Curr.	Prev.	Δ %
Revenue (£m)	5,356	5,384	(1%)	5,503	5,774	(5%)	5,729	6,072	(6%)
% Δ organic yoy	4.6%	5.5%	(91bps)	1.7%	4.1%	(240bps)	4.1%	4.5%	(31bps)
EBITA adj. (£m)	862	884	(3%)	906	1,009	(10%)	1,010	1,080	(7%)
EBITA margin	16.1%	16.4%	(33bps)	16.5%	17.5%	(100bps)	17.6%	17.8%	(17bps)
PBT adj (£m)	740	762	(3%)	769	872	(12%)	893	968	(8%)
Net Income adj.	555	572	(3%)	573	649	(12%)	665	721	(8%)
Adj. EPS - basic (p)	22.10	22.75	(3%)	22.80	25.84	(12%)	26.46	28.70	(8%)

Source: BofA Global Research estimates

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We are 5% below consensus for 24E/25E

Exhibit 9: BofA estimates vs VisibleAlpha consensus

Our EPS for 24E/25E are 5% below VisibleAlpha consensus

	2023E			2024E			2025E		
	BofA	Cons	Δ %	BofA	Cons	Δ %	BofA	Cons	Δ %
Revenue (£m)	5,356	5,361	(0%)	5,503	5,573	(1%)	5,729	5,851	(2%)
% Δ organic yoy	4.6%	4.8%	(17bps)	1.7%	3.2%	(145bps)	4.1%	5.0%	(85bps)
EBITA adj. (£m)	862	875	(2%)	906	953	(5%)	1,010	1,066	(5%)
EBITA margin	16.1%	16.3%	(24bps)	16.5%	17.1%	(64bps)	17.6%	18.2%	(59bps)
PBT adj (£m)	740	753	(2%)	769	813	(5%)	893	950	(6%)
Net Income adj.	555	564	(1%)	573	607	(6%)	665	699	(5%)
EPS - basic adj. (p)	22.10	22.30	(1%)	22.80	24.00	(5%)	26.46	27.90	(5%)

Source: VisibleAlpha consensus (as of 19th January 2024)

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Up to 12% downside to consensus should N. America organic growth in 24E be -ve

We run a sensitivity analysis on the adj. PBTA for the group in 2024E based on different organic revenue growth scenarios for North America (-3%/-1% vs our base case estimate of 0% and VisibleAlpha consensus of c3%) and a drop-through rate on the incremental lost revenue of 30%/50%.

Our analysis indicates that, in the event of an organic revenue decline in North America of 3% yoy, Rentokil's adj. PBTA could be as low as £719m (vs our current base-case estimate of £769m, see Exhibit 8). This is equivalent to potential downside to VisibleAlpha consensus of 12%.

Exhibit 10: 2024E adj. PBTA (£m) – sensitivity analysis

Sensitivity analysis on adj. PBTA (24E) on different organic revenue growth scenarios for North America, as well as different drop-through assumptions on the incremental lost revenue

		2024 organic growth in N. America		
		-3%	-2%	-1%
Drop through	50%	719	736	752
	40%	729	742	756
	30%	739	749	759

Source: BofA Global Research estimates

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Exhibit 11: Downside risk to 2024E adj. PBTA consensus

Implied downside risk to 2024E adj. PBTA consensus of £813m

		2024 organic growth in N. America		
		-3%	-2%	-1%
Drop through	50%	-11.6%	-9.5%	-7.5%
	40%	-10.3%	-8.7%	-7.1%
	30%	-9.1%	-7.9%	-6.6%

Source: BofA Global Research estimates. Note: downside risk calculated based on VisibleAlpha consensus PBT for 2024E of £813m

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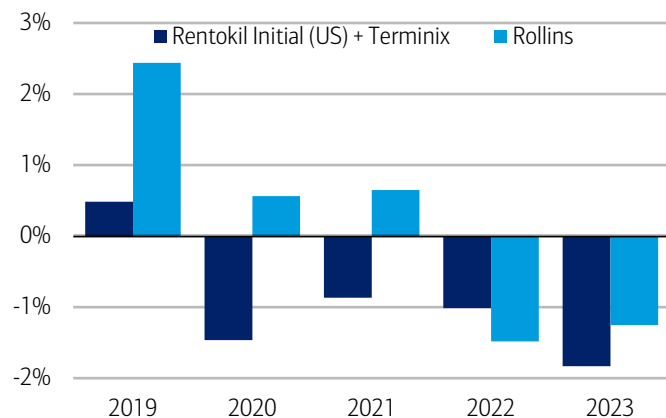
Headcount in North America declines faster and less hiring than competitor Rollins

Pest Control is a labour-intensive sector, so the headcount evolution is usually a good indicator of recent demand patterns/volume growth. The latest Revelio Labs data suggests that:

1. The decline in **headcount** is more pronounced for Rentokil Initial (in North America) and Terminix on a combined basis than for Rollins;
2. Since 2020, Rollins has been more successful in **recruiting**. Its hiring rate in 2023 reached almost 13% on average vs 12% for Rentokil Initial in North America and 8% for Terminix; and
3. Between 2019 and 2022 Rollins has on average paid its employees 7-9% more than Terminix and in 2023 the **salary gap** widened to 11%. However, its average wages are broadly in line with the legacy business of Rentokil Initial in North America.

Exhibit 12: Headcount data on average, y/y change (%)

The decelerating trend in the average headcount number is sharper for Rentokil Initial (US) and Terminix combined compared to Rollins

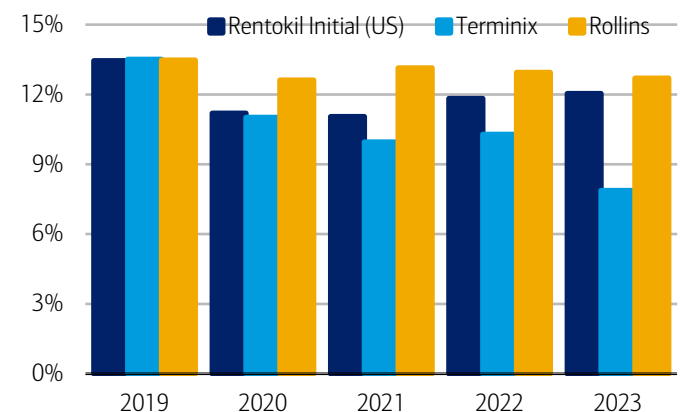


Source: Revelio Labs, BofA Global Research

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Exhibit 13: Hiring rate* (%)

Since 2020, Rollins has achieved on average a superior hiring rate than both Rentokil Initial in North America and Terminix

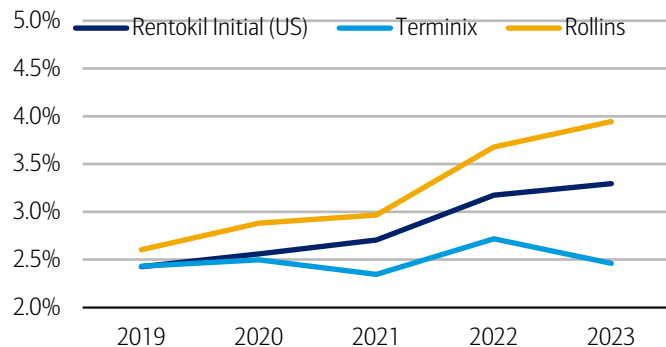


Source: Revelio Labs, BofA Global Research, * Hiring rate is the 12-month moving sum of inflows divided by the 12-month moving average of headcount.

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Exhibit 14: Salary offered, y/y change (%)

Rollins has been offering higher salary increases since 2019; +3.9% y/y vs +3.3% at Rentokil Initial (US) and only +2.5% at Terminix in FY23

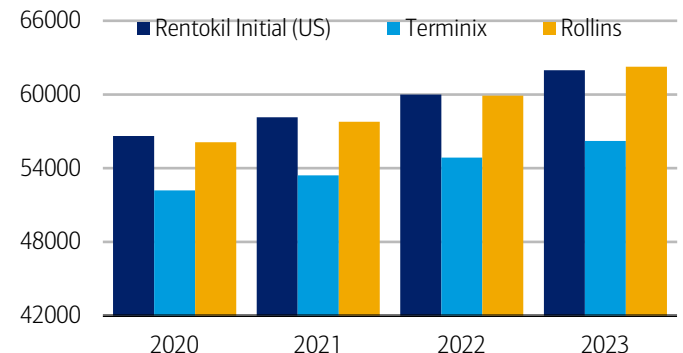


Source: Revelio Labs, BofA Global Research

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Exhibit 15: Average salary offered, on an absolute basis

Between 2019 and 2022 Rollins has on average paid its employees 7-9% more than Terminix and in 2023 the salary gap widened to 11%



Source: Revelio Labs, BofA Global Research

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Leverage at upper limit but FFO/debt >20%...

Though the company's leverage has recovered significantly post the Terminix acquisition, its credit ratings headroom remains limited, in our view. In our estimates, the S&P 2023 adjusted gross leverage is close to 4.0x, but the company's adjusted funds from operations (FFO) remain above the 20% requirement for its BBB rating. We note S&P is willing to be lenient in the near term as leverage levels recover but is likely to act if operating performance continues to deteriorate (especially in the North American business) and adjusted leverage levels move sustainably above 4.0x.

Exhibit 16: S&P and Fitch – upgrade & downgrade scenarios

Rentokil Initial is currently rated BBB with stable outlook

Agency Rating		Upgrade scenario	Downgrade scenario
S&P	BBB (Stable outlook)	Rebound stronger than anticipated.	Weaker operating performance or capital allocation; capital allocation decisions resulted in weakened credit
		Continued operating growth supported by quicker than expected synergy realization	Adjusted debt to EBITDA deteriorating toward 4.0x
Fitch	BBB (Stable outlook)	FFO stays above 30%	FFO to debt decreasing toward and staying at 20%
		Adjusted debt to EBITDA below 3.0x	Group's financial policy considered more aggressive
Fitch	BBB (Stable outlook)	Continued strong execution on Terminix integration and synergies. Maintenance of market positions and service quality	Weakening operating performance. Deteriorating customer and colleague retention rates
		EBITDA net leverage below 2.0x	EBITDA net leverage sustained above 2.8x
Fitch	BBB (Stable outlook)	EBITDA margin above 20% on a sustained basis	EBITDA interest coverage below 7.0x
		Post-dividend FCF margin in mid-single digits	Low single digit post-dividend margin on a sustained basis
Fitch	BBB (Stable outlook)	EBITDA interest coverage above 9.0x	

Source: Bank of America Research, S&P, Fitch

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...and ample liquidity

Rentokil has only one bond of €400m expiring in the next 12 months (in Nov-24) and can rely on a committed undrawn RCF of £787m (\$1.0bn) maturing in October 2027. The company also has no debt-related covenants.

In addition, the group has a hedging strategy which is to hold foreign currency debt in proportion to foreign currency profit and cash flows, which are mainly in EUR and US dollars. As a result, the Group has swapped a portion of the bonds it has issued into US dollars, thus increasing the effective hedged interest rate.

Exhibit 17: Rentokil's debt distribution by maturity

Rentokil has only one bond of EUR400m expiring over the next 12 months

	Amount (£m)	Maturity	Interest rate
Bond (EUR 850)	730	Jun-27	Bond coupon: 3.88% / effective hedged interest rate: 5.06%
Bond (EUR 600)	516	Jun-30	Bond coupon: 4.4% fixed / effective hedged interest rate: 4.56%
Bond (GBP 400)	400	Jun-32	Bond coupon: 5% fixed / effective hedged interest rate: 5.2%
Term Loan (USD 700)	551	Oct-25	5.9% end of 1H'23
Bond (EUR400m, a portion swapped in USD)	344	Nov-24	Bond coupon: 0.95% fixed / effective hedged interest rate: 3.62%
Bond (EUR500m, a portion swapped in USD)	431	May-26	Bond coupon: 0.875% fixed / effective hedged interest rate: 2.82%
Bond (EUR600m, a portion swapped in USD)	516	Oct-28	Bond coupon: 0.5% fixed / effective hedged interest rate: 2.25%
Revolving credit facility (RCF) - Undrawn (~1\$bn)	787	Oct-27	Risk free rate + margin (0.4%)

Source: BofA Global Research, Rentokil Initial

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RTO downgraded to Neutral, PO 445p/\$29

We downgrade Rentokil from Buy to Neutral with a new PO of 445p/\$29 (from 660p/\$40) on lower forecasts (see Exhibit 8) and target multiples. While our valuation methodology is unchanged, our target EV/EBITDA and P/E multiples are now in line with the average for business services companies with similar growth and margin profiles (eg Testing, Inspection and Certification peers). Previously, we applied target multiples in line with Rentokil's mid-cycle valuation, which was historically at a premium to the sector (30% above the S&P 500 index) owing to its compounding, resilient and cash-generative business model.

Exhibit 19: PO calculation

Our price objective of 445p/\$29 is based on a combination of EV/EBITDA and P/E multiples and discounted cash flow analysis WACC)

PO calculation (GBP)	
DCF valuation	496.2
EV/EBITDA	408.6
P/E	418.5
PO (GBP)	445.0

Source: BofA Global Research estimates

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Our trading multiple-based methodology yields a fair value per share of 409-419p

Exhibit 20: Multiple-based valuation

Based on 2025E financials and discounted back to the PO date (7.5% discount rate)

PE Target multiple	16.0x	16.5x	17.0x	17.5x	18.0x
Implied Valuation (GBP/share)	423	437	450	463	476
Fair value discounted back to 23E (GBP/share)	394	406	419	431	443
<i>Upside/Downside</i>	-2%	1%	4%	7%	10%
EV/EBITDA target multiple	9.0x	9.5x	10.0x	10.5x	11.0x
Implied valuation (EV)	12,696	13,402	14,107	14,812	15,518
Less debt, pensions (2025E)	3,068	3,068	3,068	3,068	3,068
Equity value	9,629	10,334	11,039	11,745	12,450
No. of shares	2,513	2,513	2,513	2,513	2,513
Implied valuation (GBP/share)	383	411	439	467	495
Fair value discounted back to 23E (GBP/share)	356	383	409	435	461

Source: BofA Global Research estimates

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Our DCF analysis yield a fair value per share of 496p

Exhibit 21: DCF analysis

Our DCF analysis yields a fair value per share of 496p

Discounted Cash Flow (€m)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenues	5,356.1	5,503.1	5,728.7	5,957.8	6,196.1	6,413.0	6,637.5	6,836.6	7,041.7	7,252.9	7,434.3

Exhibit 21: DCF analysis

Our DCF analysis yields a fair value per share of 496p

Discounted Cash Flow (€m)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Growth %	44.2%	2.7%	4.1%	4.0%	4.0%	3.5%	3.5%	3.0%	3.0%	3.0%	2.5%
Adj. EBITA	861.5	905.9	1,009.7	1,056.0	1,104.5	1,149.5	1,196.4	1,232.3	1,241.1	1,249.3	1,189.5
Margin %	16.1%	16.5%	17.6%	17.7%	17.8%	17.9%	18.0%	18.0%	17.6%	17.2%	16.0%
Cash tax	(122.3)	(108.7)	(139.5)	(147.8)	(154.6)	(160.9)	(167.5)	(172.5)	(173.8)	(174.9)	(166.5)
Tax rate (of EBITA) %	14.2%	12.0%	13.8%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
NOPAT	739.2	797.3	870.2	908.2	949.8	988.6	1,028.9	1,059.8	1,067.4	1,074.4	1,023.0
Growth %	49.6%	7.9%	9.1%	4.4%	4.6%	4.1%	4.1%	3.0%	0.7%	0.7%	(4.8%)
D&A	374.9	385.2	401.0	417.0	433.7	448.9	464.6	478.6	492.9	507.7	520.4
D&A/Revenues %	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Capex (incl. leases)	(376.0)	(416.2)	(422.9)	(439.8)	(457.4)	(473.4)	(489.9)	(504.6)	(514.9)	(522.7)	(520.4)
Capex/D&A (%)	100.3%	108.1%	105.5%	105.5%	105.5%	105.5%	105.5%	105.5%	104.5%	103.0%	100.0%
Capex/Revenues (%)	7.0%	7.6%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.3%	7.2%	7.0%
Acquisitions	(250.0)	(250.0)	(250.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Working Capital Change	(33.9)	(26.3)	(35.3)	(35.7)	(37.2)	(38.5)	(33.2)	(34.2)	(28.2)	(14.5)	0.0
Change in working capital as % of revenues	-0.6%	-0.5%	-0.6%	-0.6%	-0.6%	-0.6%	-0.5%	-0.5%	-0.4%	-0.2%	0.0%
Free Cashflow	454.3	489.9	562.9	849.7	889.0	925.7	970.4	999.5	1,017.2	1,044.9	1,023.0
Growth %	(180.8%)	7.8%	14.9%	50.9%	4.6%	4.1%	4.8%	3.0%	1.8%	2.7%	(2.1%)
% FCF Conversion	36.7%	37.9%	39.9%	57.7%	57.8%	57.9%	58.4%	58.4%	58.7%	59.5%	59.8%
Period		0.9	1.9	2.9	3.9	4.9	5.9	6.9	7.9	8.9	9.9
Year end		Dec-24	Dec-25	Dec-26	Dec-27	Dec-28	Dec-29	Dec-30	Dec-31	Dec-32	Dec-33
Discount factor		0.93	0.87	0.81	0.75	0.70	0.65	0.61	0.56	0.52	0.49
Discounted Cashflow		457.7	489.3	687.0	668.6	647.5	631.4	605.0	572.8	547.2	498.3
Terminal value											20,459.1

Source: BofA Global Research estimates

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Exhibit 22: DCF assumptions

Our DCF analysis is based on a WACC of 7.5%, a terminal growth rate of 2.5% and EBITA margin of 16.0%

DCF Assumptions Summary	2024-2030	Terminal
Revenue growth	3.5%	3.3%
EBITA margin	17.7%	16.0%
Capex/D&A %	7.0%	7.0%
FCF Conversion %	52.6%	59.8%
WACC		7.5%
Terminal growth rate		2.5%
DCF Calculations		
PV of cashflows		5,804.7
PV of terminal value		9,966.0
Enterprise value		15,770.7
Net Debt 2023E		3,271
Pensions		30.0
Equity Value		12,470
# of shares		2513
Fair value per share (GBP)		496.22

Source: BofA Global Research estimates

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Exhibit 23: Sensitivity analysis – fair value per share (GBP)

Fair value per share based on different terminal EBITA margin and terminal growth rate assumptions

Sensitivity analysis: Terminal EBITA margin vs. Terminal growth					
	14.0%	15.0%	16.0%	17.0%	18.0%
1.5%	383.3	405.0	426.7	448.4	470.1
2.0%	411.0	434.7	458.3	482.0	505.6
2.5%	444.2	470.2	496.2	522.2	548.3
3.0%	484.7	513.6	542.5	571.5	600.4
3.5%	535.3	567.9	600.4	632.9	665.5

Source: BofA Global Research estimates

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Business services trading comparables

Exhibit 24: Business services trading comparables

Based on December year-end

Calendarised	Report	Share	P/E (x)			EV/EBITDA (x)			FCF Yield (%)			Dividend Yield		
Food Services, Benefits & Rewards	Cnrcry	Price	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Compass	USD	2,109.0	24.0	21.9	19.7	13.9	12.3	11.3	3.3	3.7	4.1	2.0	2.3	2.5
Sodexo	EUR	101.8	16.2	14.9	13.3	13.1	11.5	10.4	2.6	3.0	3.5	3.0	3.2	3.5
Aramark	USD	28.6	17.2	17.3	13.2	11.0	12.2	10.7	4.2	5.2	6.8	1.5	1.4	1.7
Edenred	EUR	56.5	28.5	24.2	20.8	14.3	12.6	11.4	5.4	6.0	6.7	2.0	2.2	2.4
Average			21.5	19.6	16.8	13.1	12.1	10.9	3.9	4.5	5.3	2.1	2.3	2.5
Calendarised	Report	Share	P/E (x)			EV/EBITDA (x)			FCF Yield (%)			Dividend Yield		
FM, Hygiene, Pest Control	Cnrcry	Price	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Elis	EUR	19.7	10.8	10.0	9.3	5.4	5.0	4.8	6.1	7.9	8.5	2.5	2.7	2.9
ISS	DKK	131.9	10.0	9.0	8.2	7.3	6.1	5.7	5.9	8.2	10.8	3.0	3.9	4.3
Rentokil	GBP	402.3	18.2	17.6	15.2	11.4	10.9	10.0	3.9	4.8	6.5	2.0	2.0	2.3
SPIE	EUR	29.9	13.9	12.0	11.2	7.7	7.0	6.7	6.0	9.4	9.1	2.9	3.5	3.8
Average			13.2	12.2	11.0	7.9	7.2	6.8	5.5	7.6	8.7	2.6	3.0	3.3
Calendarised	Report	Share	P/E (x)			EV/EBITDA (x)			FCF Yield (%)			Dividend Yield		
Distributors	Cnrcry	Price	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Brenntag	EUR	79.4	14.2	13.0	11.6	9.0	8.5	9.6	9.6	4.4	4.6	2.1	2.1	2.1
Bunzl	GBP	3,178.0	17.4	17.2	16.7	11.2	11.0	10.8	4.3	5.7	5.9	2.1	2.2	2.3
Average			15.8	15.1	14.1	10.1	9.8	10.2	7.0	5.0	5.2	2.1	2.2	2.2
Calendarised	Report	Share	P/E (x)			EV/EBITDA (x)			FCF Yield (%)			Dividend Yield		
Outsourcing	Cnrcry	Price	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Teleperformance	EUR	149.55	11.4	10.2	9.2	5.8	5.4	5.0	9.5	11.3	12.2	2.7	3.0	3.3
Average			11.4	10.2	9.2	5.8	5.4	5.0	9.5	11.3	12.2	2.7	3.0	3.3
Calendarised	Report	Share	P/E (x)			EV/EBITDA (x)			FCF Yield (%)			Dividend Yield		
Credit Bureaux	Cnrcry	Price	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Experian	USD	40.8	28.2	25.7	22.8	17.6	16.2	14.6	2.9	3.5	4.1	1.4	1.6	1.8
Average			28.2	25.7	22.8	17.6	16.2	14.6	2.9	3.5	4.1	1.4	1.6	1.8
Calendarised	Report	Share	P/E (x)			EV/EBITDA (x)			FCF Yield (%)			Dividend Yield		
Staffing	Cnrcry	Price	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Adecco	EUR	36.2	12.4	10.8	9.2	8.9	8.6	7.7	3.4	7.2	8.4	7.0	7.1	7.1
Randstad	EUR	51.1	12.6	12.7	10.8	7.5	7.8	6.9	12.2	10.8	11.0	4.0	4.0	4.7
Average			12.5	11.7	10.0	8.2	8.2	7.3	7.8	9.0	9.7	5.5	5.5	5.9
Calendarised	Report	Share	P/E (x)			EV/EBITDA (x)			FCF Yield (%)			Dividend Yield		
Testing & Inspection	Cnrcry	Price	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Bureau Veritas	EUR	24.3	20.3	19.0	17.8	10.9	10.4	9.8	6.2	6.5	6.8	3.2	3.4	3.7
Intertek	GBP	4360.0	20.0	18.3	16.9	10.9	10.4	9.8	4.9	6.3	6.8	2.5	2.7	3.0
SGS	CHF	75.1	19.5	18.3	17.1	10.9	10.3	9.6	4.8	5.5	6.1	4.3	4.3	4.3
Average			19.9	18.5	17.2	10.9	10.4	9.7	5.3	6.1	6.6	3.3	3.5	3.6
Coverage - Average			16.1	14.9	13.5	9.6	9.0	8.5	6.1	7.0	7.7	3.0	3.3	3.5

Source: BofA Global Research estimates

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Price objective basis & risk

Rentokil Initial (RKLIF / RTO)

Our price objective of 445p/ADR PO \$29 is based on a combination of trading multiples (66% weight) and discounted cash flow (DCF) analysis (33% weight) with a higher weighted-average cost of capital (WACC) of 7.5%.

Risks to our price objective are management execution, integration risks from the acquisition of Terminix, unexpected changes in economic growth and inability to pass-through wage inflation.

Analyst Certification

I, Simona Sarli, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Business & Food Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bureau Veritas	BVRDF	BVI FP	Simona Sarli
	Compass Group	CMPGY	CMPGY US	Simona Sarli
	Compass Group Plc	CMPGF	CPG LN	Simona Sarli
	Elis	ELSSF	ELIS FP	Simona Sarli
	Experian	EXPGF	EXP LN	Simona Sarli
	Experian	EXPGY	EXPGY US	Simona Sarli
	Intertek Group	IKTSF	ITRK LN	Simona Sarli
	Intertek Group	IKTSY	IKTSY US	Simona Sarli
	ISS	ISFF	ISS DC	Simona Sarli
	Sodexo SA	SDXOF	SW FP	Simona Sarli
	SPIE SA	SPIWF	SPIE FP	Simona Sarli
	Teleperformance	TLPPF	TEP FP	Simona Sarli
	Teleperformance	TLPFY	TLPFY US	Simona Sarli
NEUTRAL				
	Brenntag	BNTGF	BNR GY	Simona Sarli
	Edenred SA	EDNMF	EDEN FP	Simona Sarli
	Edenred SA	EDNMY	EDNMY US	Simona Sarli
	Rentokil Initial	RKLIF	RTO LN	Simona Sarli
	Rentokil Initial Plc	RTO	RTO US	Simona Sarli
	SGS SA	SGSOF	SGSN SW	Simona Sarli
	SGS SA	SGSOY	SGSOY US	Simona Sarli
UNDERPERFORM				
	Adecco	AHEXF	ADEN SW	Simona Sarli
	Adecco	AHEXY	AHEXY US	Simona Sarli
	Bunzl	BZLFF	BNZL LN	Simona Sarli
	Bunzl	BZLFY	BZLFY US	Simona Sarli
	Randstad	RANJF	RAND NA	Simona Sarli

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$
Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

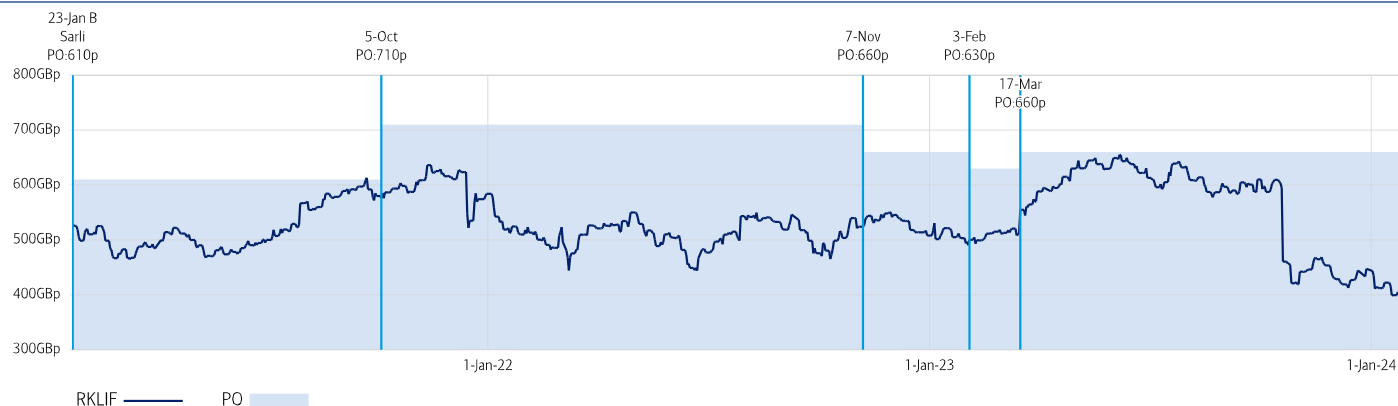
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Disclosures

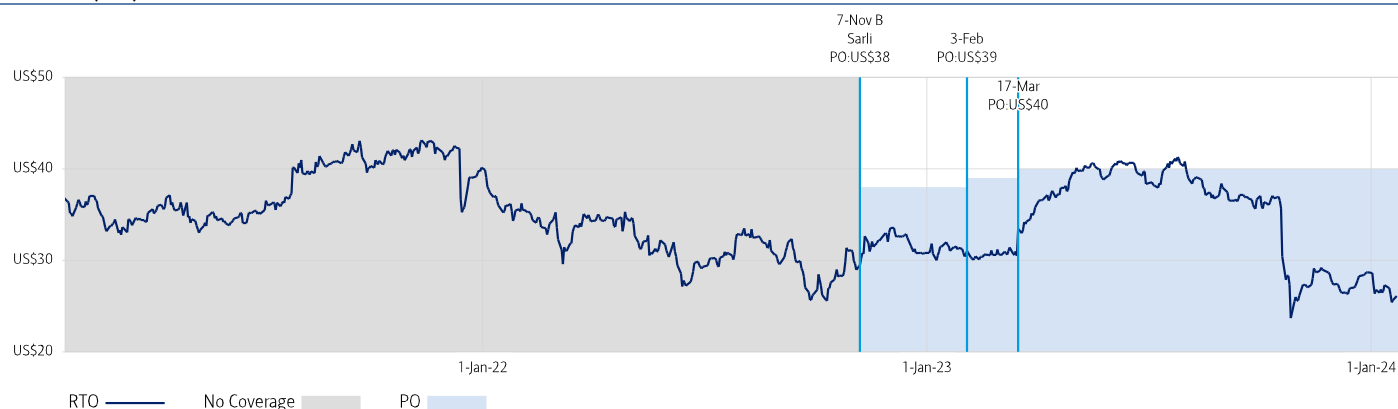
Important Disclosures

Rentokil Initial (RKLIF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Rentokil Initial (RTO) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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