

# ServiceMASTER®

## First-Quarter 2015 Earnings Webcast April 28, 2015





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## **Note to Non-GAAP Financial Measures**

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# Q1 Financial and Segment Summary



\$ millions, except per share amounts

	First Quarter			
	2015	2014	Var.	
			\$	%
Revenue	\$571	\$533	\$ 38	7%
Adj. EBITDA	133	115	18	16%
<i>% of revenue</i>	23%	22%		
Adj. Net Income <sup>1</sup>	45	23	22	98%
<i>% of revenue</i>	8%	4%		
Adjusted EPS <sup>2</sup>	0.33	0.25	0.08	34%
Pre-Tax Unlevered Free Cash Flow <sup>3</sup>	146	111	35	31%

	First Quarter 2015 vs PY	
	Revenue	Adjusted EBITDA
<b>Terminix</b>	+16m	+11m
<i>% change</i>	+5%	+14%
<b>AHS</b>	+24m	+6m
<i>% change</i>	+16%	+28%
<b>FSG</b>	(1)m	+1m
<i>% change</i>	(2)%	+6%
<b>Other</b>	(1)m	—

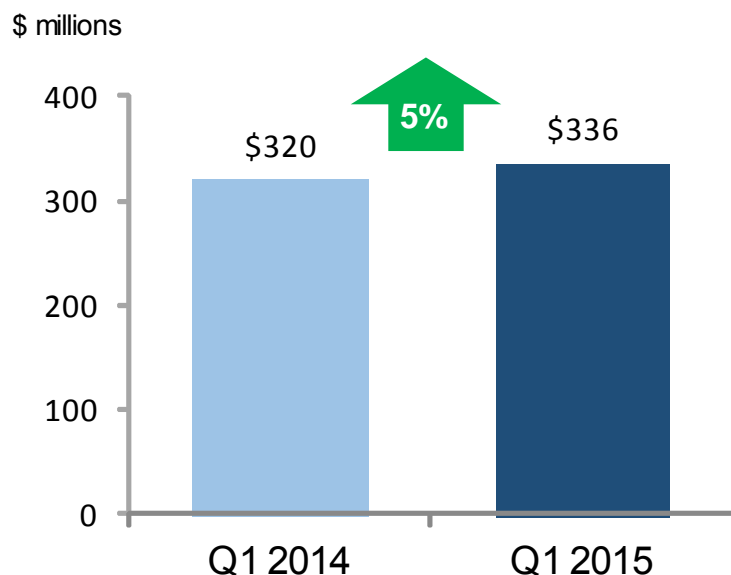
*Strong financial performance*

<sup>1</sup>Adjusted net income is defined by the company as income (loss) from continuing operations before: amortization expense; impairment of software and other related costs; consulting agreement termination fees; restructuring charges; management and consulting fees; loss on extinguishment of debt; and the tax impact of all of the aforementioned adjustments.

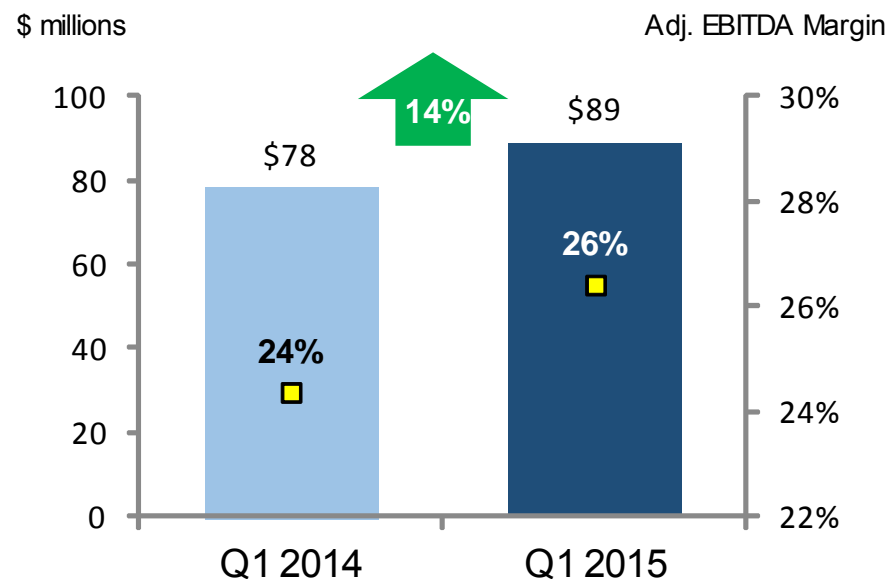
<sup>2</sup>Adjusted earnings per share is calculated as adjusted net income divided by the diluted share counts of 136.1m shares and 91.7m shares for the first quarter 2015 and 2014, respectively.

<sup>3</sup>Pre-Tax Unlevered Free Cash Flow is defined as Adjusted EBITDA plus change in working capital less property additions.

## Revenue



## Adjusted EBITDA<sup>1</sup>



### Pest Control: +4%

- + Pricing
- + Product mix

### Termite & Other: +7%

- + Innovation
- + Pricing
- Completion volume

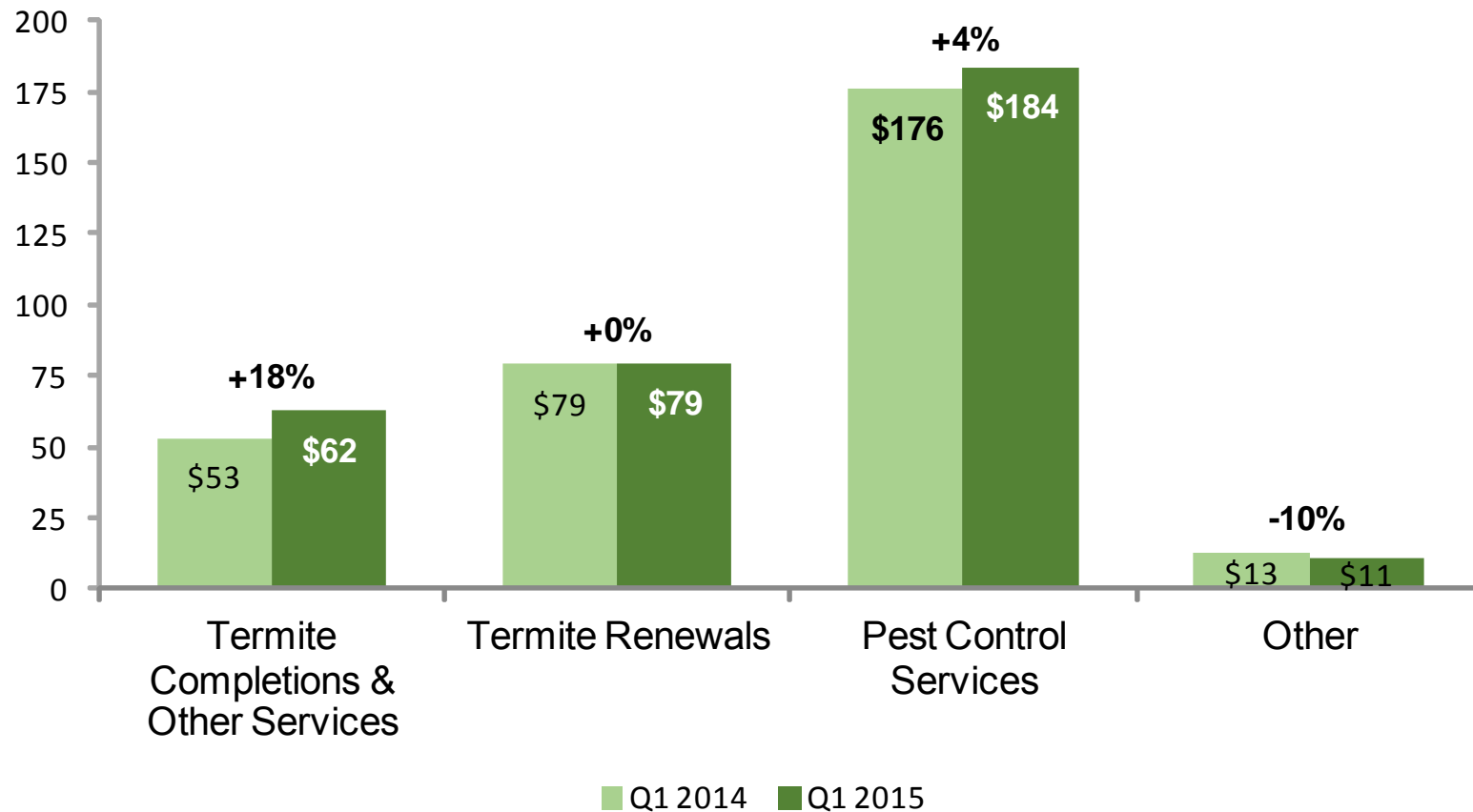
### Adjusted EBITDA: +\$11m

- + Revenue conversion
- + Labor and overhead efficiency

*Innovation Sales Growth and Margin Expansion*

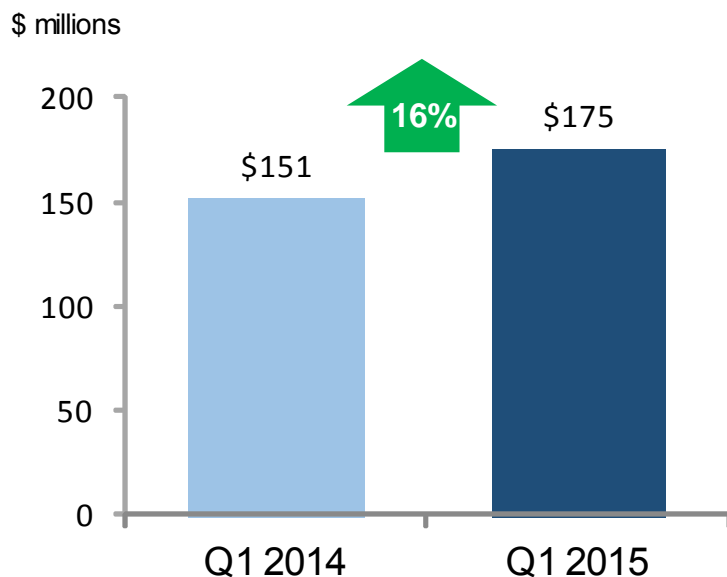
<sup>1</sup>See Non-GAAP Reconciliations.

# Revenue Growth by Channel



*Innovation and Pest Control Growth Driving Revenue*

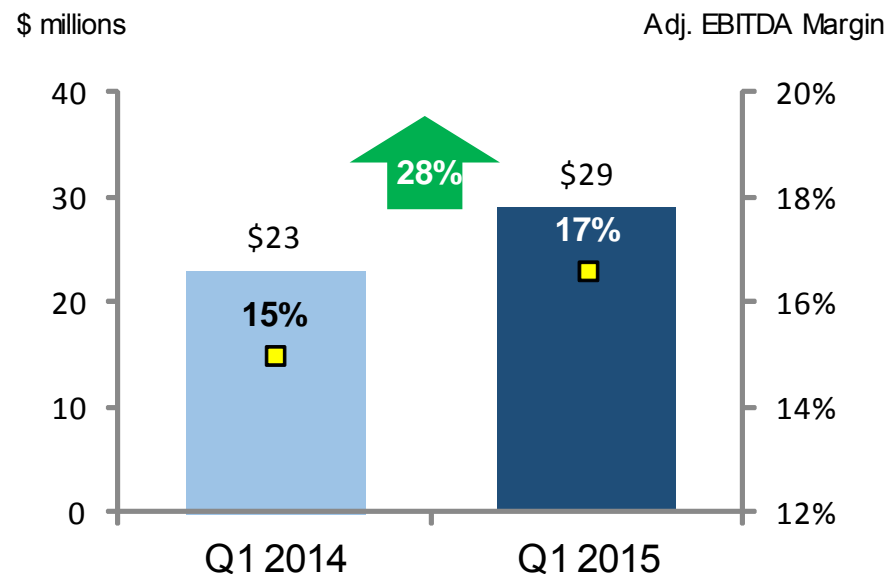
## Revenue



### Revenue: +16%

- + HSA acquisition: \$10m
- + Organic growth: \$14m

## Adjusted EBITDA<sup>1</sup>



### Adjusted EBITDA: +\$6m

- + Organic revenue conversion: \$7m
- + Efficiencies/other: \$5m
- Investment income: \$(5)m
- Marketing: \$(1)m

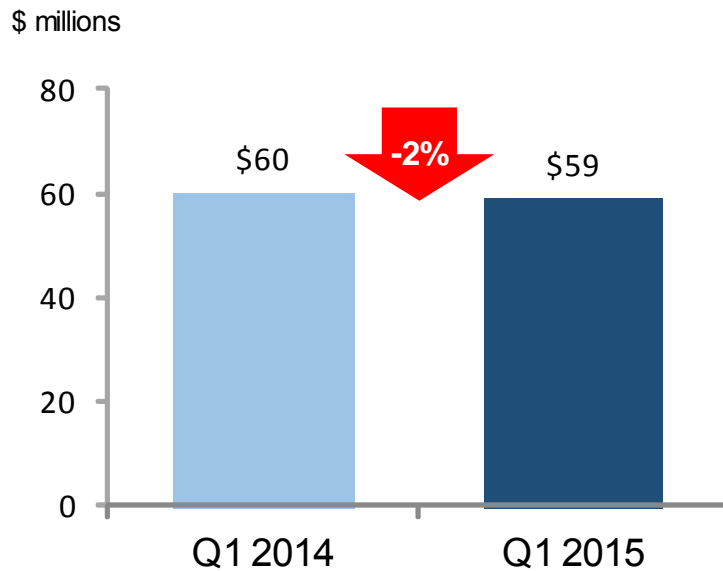
*Increased Customer Count and Operating Efficiencies*

<sup>1</sup>See Non-GAAP Reconciliations.

# Q1 Results



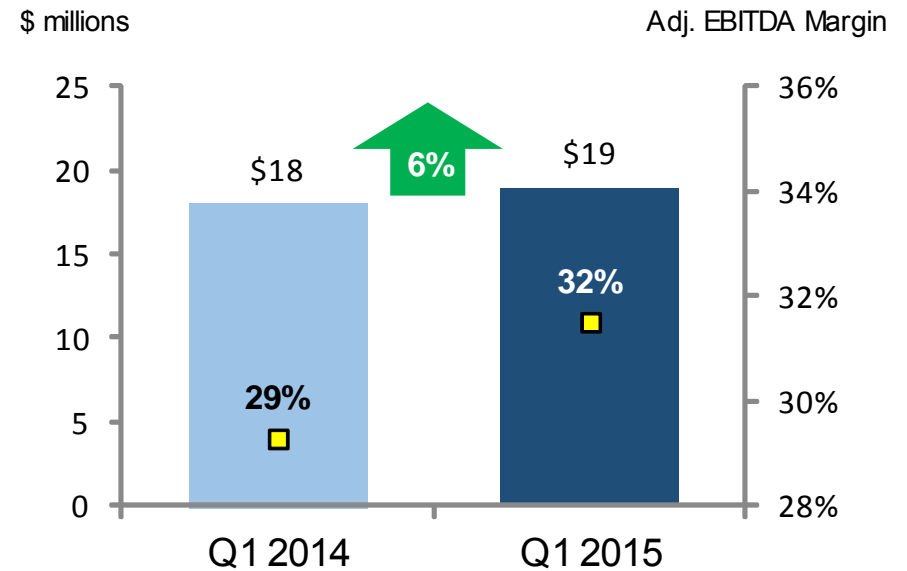
## Revenue



### Revenue: -2%

- + Janitorial national accounts sales
- MM branch disposals

## Adjusted EBITDA<sup>1</sup>



### Adjusted EBITDA: +\$1m

- + Cost reduction initiatives
- Lower revenue/mix

*Lower Margin Revenue Growth/Cost Reduction*

<sup>1</sup>See Non-GAAP Reconciliations.



# Q1 Consolidated Results



\$ millions

First Quarter

	2015	2014	B/(W)
Revenue	\$ 571	\$ 533	\$ 38
<i>YoY Growth</i>			7%
Gross Profit	268	246	23
<i>% of revenue</i>	46.9%	46.0%	0.9 pts
Selling and administrative expenses	(151)	(151)	—
<i>% of revenue</i>	26.4%	28.4%	2.0 pts
Amortization expense	(12)	(13)	1
Impairment of software and other related costs	—	(48)	48
Restructuring charges	(2)	(5)	3
Interest expense	(46)	(61)	15
Interest and net investment income	1	6	(5)
Loss on extinguishment of debt	(13)	—	(13)
Income (Loss) from Continuing Operations before Income Taxes	45	(27)	72
(Provision) Benefit for income taxes	(17)	9	(26)
Income (Loss) from Continuing Operations	28	(18)	46
Loss from discontinued operations, net of income taxes	—	(95)	95
Net Income (Loss)	\$ 28	\$ (113)	\$ 141
Adjusted Net Income	\$ 45	\$ 23	\$ 22
Adjusted EBITDA	\$ 133	\$ 115	\$ 18

# Reconciliation from Adjusted EBITDA to Income from Continuing Operations to Adjusted Net Income



\$ millions

	First Quarter	
	2015	2014
Terminix	\$ 89	\$ 78
American Home Shield	29	23
Franchise Services Group	19	18
Corporate	(4)	(4)
<b>Adjusted EBITDA</b>	<b>\$ 133</b>	<b>\$ 115</b>
Depreciation and amortization expense	(24)	(25)
Non-cash impairment of software and other related costs	—	(48)
Non-cash stock-based compensation expense	(2)	(1)
Restructuring charges	(2)	(5)
Management and consulting fees	—	(2)
(Provision) benefit for income taxes	(17)	9
Loss on extinguishment of debt	(13)	—
Interest expense	(46)	(61)
<b>Income (Loss) from Continuing Operations</b>	<b>\$ 28</b>	<b>\$ (18)</b>
Amortization expense	12	13
Impairment of software and other related costs	—	48
Restructuring charges	2	5
Management and consulting fees	—	2
Loss on extinguishment of debt	13	—
Tax impact of adjustments	(11)	(26)
<b>Adjusted Net Income</b>	<b>\$ 45</b>	<b>\$ 23</b>

# Q1 Simplified Cash Flow



\$ millions

	First Quarter	
	2015	B/(W)
<b>Cash at Beginning of Period</b>	<b>\$ 389</b>	<b>\$ (95)</b>
Adjusted EBITDA	133	18
Change in working capital	21	11
Property additions	(8)	6
<b>Pre-Tax Unlevered Free Cash Flow</b>	<b>\$ 146</b>	<b>\$ 35</b>
Interest payments	(67)	25
Cash taxes	(1)	1
Acquisitions	(12)	29
Other	9	(22)
Debt repayment	(211)	(200)
TruGreen contribution / Discontinued operations	(5)	43
<b>Cash at End of Period</b>	<b>\$ 248</b>	<b>\$ (184)</b>
Pre-tax Unlevered Free Cash Flow / Adjusted EBITDA	110%	13 pts

Generated \$76m of cash for debt pay down

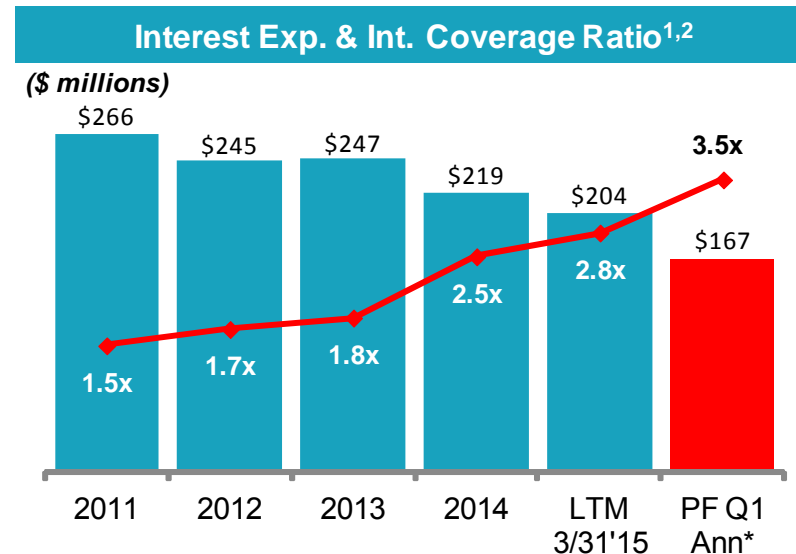
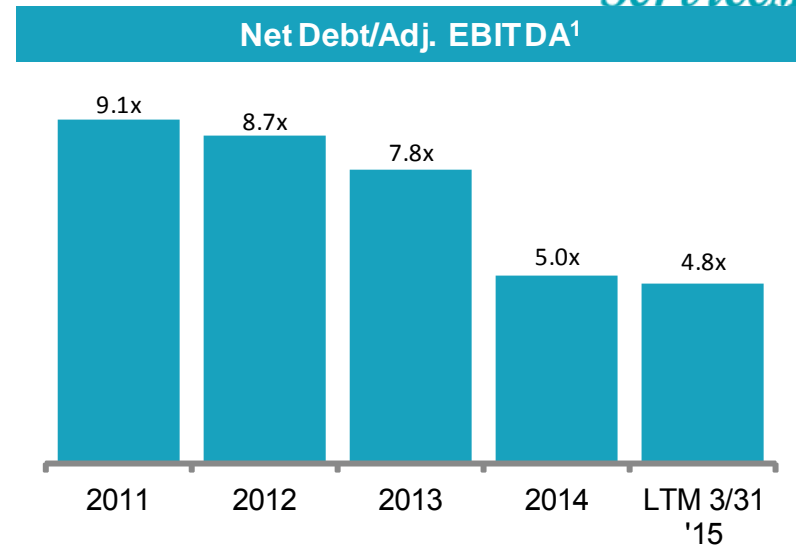
# Deleveraging the Balance Sheet



✓ Accelerated deleveraging with improved operations, growth and strong cash flow

✓ Cash interest continues to decrease with debt pay down and refinancing at lower interest rates

✓ Paid down and refinanced remaining \$200 million of 8% Senior Notes on 4/1/15 – Net \$9 million in annualized interest savings



<sup>1</sup>Interest expense calculated using Q1 2015 interest expense of \$46m less \$4m of interest expense associated with the financing transactions associated with the pay down and refinancing of the 8% Senior Notes. Interest coverage uses Q1 2015 TTM Adjusted EBITDA of \$575m.

*Deleveraging through strong cash flow*

<sup>1</sup>Adjusted EBITDA for 2011 through 2013 does not reflect the benefit of transferring \$25m of annual corporate costs to TruGreen

<sup>2</sup>Interest Coverage Ratio is Adjusted EBITDA/Interest Expense

## 2015 Outlook



\$ millions

	<b>2015</b> <b>Anticipated Full</b> <b>Year Range</b>	<b>2014 Actual</b> <b>Full Year</b>
Revenue	\$2,550 - \$2,590	\$2,457
<i>y-o-y Growth</i>	4%-5%	
Adjusted EBITDA	> \$610	\$557
<i>y-o-y Growth</i>	10%	
Adjusted EBITDA margin	24%	23%

### Key actions:

- Grow innovative products at Terminix
- Invest in direct-to-consumer channel at AHS
- Continue to capture synergies/cost savings across brands
- Conversion of MerryMaids branches to franchises

## 2015 Revenue and EBITDA Outlook

## **Going forward we continue to focus on:**

- ✓ Terminix growth and conversion
- ✓ AHS direct-to-consumer growth
- ✓ Franchisee development
- ✓ Tuck-in acquisitions and value-added services
- ✓ Process improvement and margin expansion
- ✓ Debt reduction

Q&A

# Q1 Cash Flow



\$ millions

	First Quarter	
	2015	2014
<b>Net Income (Loss)</b>	<b>\$ 28</b>	<b>\$ (113)</b>
Loss from discontinued operations, net of income taxes	—	95
Depreciation and amortization expense	24	25
Impairment of software and other related costs	—	48
Loss on extinguishment of debt	13	—
Call premium paid on retirement of debt	(11)	—
Working capital	21	11
Other	(15)	(44)
<b>Net Cash Provided from Operating Activities</b>	<b>\$ 60</b>	<b>\$ 21</b>
Cash paid for interest expense	67	92
Call premium paid on retirement of debt	11	—
Cash paid for income taxes, net of refunds	1	2
Cash paid for restructuring charges	4	2
Cash paid for management and consulting fees	—	2
Cash paid for impairment of software and other related costs	—	1
Excess tax benefits from stock-based compensation	8	—
Other	2	1
Gain on sales of marketable securities	—	4
Property additions	(8)	(14)
<b>Pre-Tax Unlevered Free Cash Flow</b>	<b>\$ 146</b>	<b>\$ 111</b>
Adjusted EBITDA	133	115
Change in working capital	21	11
Property additions	(8)	(14)
<b>Pre-Tax Unlevered Free Cash Flow</b>	<b>\$ 146</b>	<b>\$ 111</b>



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