# Servicemaster<sub>®</sub>

## **Third-Quarter 2014 Earnings Webcast**

October 30, 2014























Rob Gillette
Chief Executive Officer



Alan Haughie
Chief Financial Officer

- Financial Summary
- Segment Results
- Financial Results
- Q4 & FY 2014 Outlook
- Summary
- Q&A

## **Cautionary Statements**



#### **Safe Harbor Statement**

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(\$ millions except per share amounts)	Q3 	Q3 2013	Var	Q3 2014	Segment Res	ults vs. PY_
Revenue % Change	\$664	\$615	\$49 <i>8%</i>		Revenue	Adjusted EBITDA <sup>1</sup>
Adj. EBITDA <sup>1</sup> % Change % of Revenue	\$157 23.7%	\$128 20.8%	\$29 22% 2.9 pts	Terminix	+6% +\$19m	+18% +\$12m
Adj. Net Income <sup>2</sup> % Change % of Revenue	\$61 9.2%	\$32 5.3%	\$29 88% 3.9 pts	AHS	+12% +\$26m	+13% +\$7m
Adjusted EPS <sup>3</sup> Pre-Tax Unlevered	\$0.45	\$0.35	\$0.10	FSG	+6% +\$4m	-3% -\$1m
Free Cash Flow <sup>4</sup>	\$121	\$85	\$36	Other	-	+\$10m

## Continued Strong Quarterly Performance

<sup>&</sup>lt;sup>1</sup>Adjusted EBITDA and Adjusted EBITDA as a percent of revenue for Q3 2013 do not reflect the roughly one quarter of the \$25m of annual corporate costs transferred to TruGreen commencing in January 2014 <sup>2</sup>Adjusted net income is defined by the company as income (loss) from continuing operations before: amortization expense; non-cash impairment of property and equipment; impairment of software and other related costs; consulting agreement termination fees; management and consulting fees; loss on extinguishment of debt; restructuring charges; and the tax impact of all of the aforementioned adjustments

<sup>&</sup>lt;sup>3</sup>Adjusted earnings per share is calculated as adjusted net income of \$61 million for Q3 2014 and \$32 million for Q3 2013 divided by the diluted share counts of 135.4 million and 91.5 million and 91.5 million shares, respectively

<sup>4</sup>Pre-Tax Unlevered Free Cash Flow is defined (i) Net Cash Provided from Operating Activities from (used for) Continuing Operations before: cash paid for interest expense; call premium paid on retirement of debt; cash paid for income taxes, net of refunds; cash paid for restructuring; cash paid for management and consulting fees; cash paid for consulting agreement termination fees; cash paid for impairment of software and other related costs; and gain on sale of marketable securities, (ii) less property additions







#### Pest Control: +5%

+ Pricing

+ Product mix

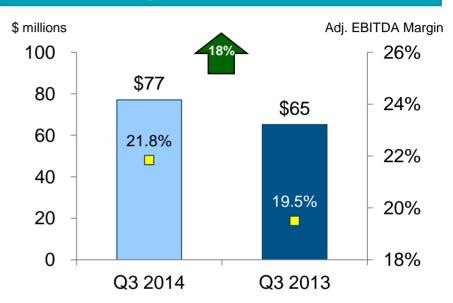
+ Mosquito sales

#### Termite: +9%

+ New unit sales

+ Pricing

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



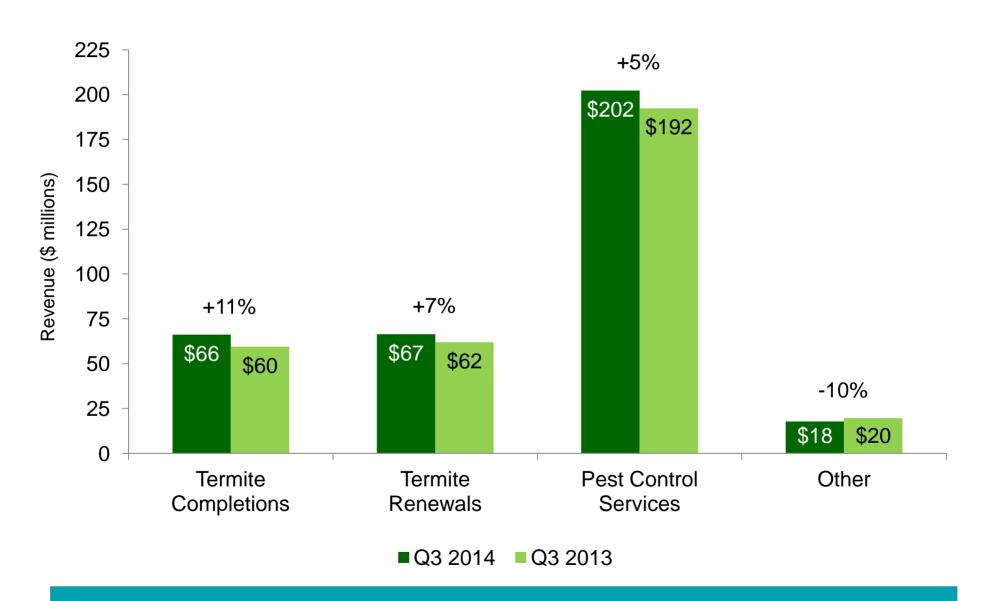
#### Adjusted EBITDA: +\$12m

+ Revenue conversion

+ Labor and overhead efficiency

## Innovation Sales Growth and Margin Expansion





Strong Revenue Growth Across Key Channels







#### Revenue: +12%

+ HSA acquisition: \$18m

+ Volume / mix: \$8m

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



#### Adjusted EBITDA: +\$7m

+ HSA acquisition: \$3m

+ Volume / mix: \$5m

+ Claims favorability: \$3m

+ Operating efficiencies: \$1m

Incremental marketing spend: \$(5)m

Increasing Customer Counts and Lower Claim Costs











#### Revenue



#### Revenue: +6%

+ Strong janitorial national accounts sales

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



#### Adjusted EBITDA: -\$1m

- + Higher fee revenue
- Lower margin revenue growth
- Lower license and product sales
- Higher G&A due to timing

## Lower Margin Revenue Growth



	Three Months Ended September 30						
\$ millions		2014		2013	B/(W)		
Revenue YoY growth	\$	664	\$	615	\$	49 8%	
Gross Profit % of revenue		320 <i>4</i> 8.2%		290 <i>47.</i> 2%		29 0.9 pts	
SG&A % of revenue		(176) 26.6%		(181) 29.4%		5 2.9 pts	
Amortization expense		(13)		(13)		0	
Consulting agreement termination fees		(21)		-		(21)	
Loss on extinguishment of debt		(65)		-		(65)	
Interest, net		(49)		(61)		12	
Restructuring charges		(1)		(1)		(1)	
(Loss) Income from Continuing Operations before Income Taxes		(5)		35		(41)	
(Benefit) provision for Income Taxes		(3)		12		15	
(Loss) Income from Continuing Operations		(3)		23		(26)	
(Loss) income from discontinued operations, net of income taxes		(1)		22		(23)	
Net (Loss) Income	\$	(4)	\$	45	\$	(48)	
Adjusted Net Income	\$	61	\$	32	\$	29	
Adjusted EBITDA	\$	157	\$	128	\$	29	

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



	т	nths er nber 30			
(In millions)	2	2014	2	2013	
Terminix	\$	77	\$	65	
American Home Shield		61		54	
ServiceMaster Clean		19		20	
Other Operations and Headquarters		(1)		(11)	
Adjusted EBITDA	\$	157	\$	128	
Depreciation and amortization expense		(25)		(25)	
Non-cash stock-based compensation expense		(2)		(2)	
Restructuring charges		(1)		(1)	
Consulting agreement termination fee		(21)		-	
Loss on extinguishment of debt		(65)		-	
Management and consulting fees		-		(2)	
Interest expense		(49)		(63)	
Benefit (provision) for income taxes		3		(12)	
(Loss) Income from Continuing Operations	\$	(3)	\$	23	
Amortization expense		13		13	
Consulting agreement termination fee		21		-	
Loss on extinguishment of debt		65		-	
Management and consulting fees		-		2	
Restructuring charges		1		1	
Tax impact of adjustments		(36)		(6)	
Adjusted Net Income	\$	61	\$	32	

## Simplified Cash Flow



\$ millions	Th	ree Mor Septen			N	ine Mon Septen		
	2	014	В	3/(W)	2	2014	E	3/(W)
Cash and Cash Equivalents at Beginning of Perio	d \$	528	\$	151	\$	484	\$	66
Adjusted EBITDA		157		29		443		82
Change in working capital		(32)		(3)		(27)		(25)
Property additions		(3)		12		(29)		8
Pre-tax unlevered free cash flow		<b>121</b>		37		386		65
Interest payments	Generated \$24m of	(82)		9	Generated \$140m of	(199)		8
Cash taxes	cash for debt pay	(2)		(1)	cash for -	(11)		1
Acquisitions	down	(11)		6	down	(52)		(30)
Other		(2)		5		_ 16		79
Refinancing / IPO / Consulting agreement termination		(270)		(270)		(270)		(270)
Ordinary debt repayment		(5)		5		(27)		5
TruGreen contribution / Discontinued operations		(1)		(17)		(51)		2
Cash and Cash Equivalents at End of Period	\$	275	\$	(76)	\$	275	\$	(76)
Pre-tax unlevered free cash flow / Adjusted EBITDA		77%		11 pts		87%		(2) pts



	Nine Months Ended September 30,						
\$ millions		2014		2013	B/(W)		
Revenue YoY growth	\$	1,880	\$	1,760	\$	120 7%	
Gross Profit % of revenue		897 47.7%		836 <i>47.5%</i>		60 <i>0.2 pt</i> s	
SG&A % of revenue		(505) 26.9%		(527) 29.9%		22 3.1 pts	
Amortization expense		(39)		(38)		(1)	
Impairment of software and related costs		(47)		-		(47)	
Consulting agreement termination fees		(21)		-		(21)	
Loss on extinguishment of debt		(65)		-		(65)	
Restructuring charges		(7)		(4)		(3)	
Interest, net		(165)		(180)		15	
Income from Continuing Operations before Income Taxes		48		88		(40)	
Provision for Income Taxes		26		43		17	
Income from Continuing Operations		22		44		(23)	
Loss from discontinued operations, net of income taxes		(98)		(533)		435	
Net Loss	\$	(76)	\$	(489)	\$	413	
Adjusted Net Income	\$	135	\$	73	\$	62	
Adjusted EBITDA	\$	443	\$	361	\$	82	



\$ millions		Q4 2 Proje				Q4 2014 Projection B(W) vs. PY				
		_OW		High		Lov	V		High	1
Revenue	\$	565	\$	575	\$	32	6%	\$	42	8%
Adjusted EBITDA	\$	100	\$	105	\$	11	12%	\$	16	18%
		FY 2014			FY 2014 Projection					
		Proje	ctic	on			B(W)	vs. l	PY	
	<u>L</u>	_OW		High	Low High			1		
Revenue	\$	2,445	\$	2,455	\$	152	7%	\$	162	7%
Adjusted EBITDA	\$	543	\$	548	\$	93	21%	\$	98	22%

# Increasing FY 2014 EBITDA Projection

## What we've accomplished:

- Added new executives to leadership team in second half of 2013
- Completed TruGreen spinoff in January 2014
- Completed IPO and refinancing in July 2014
- Conducted strategic review with BOD in July 2014
- Realigned Franchise Services Group in October 2014

## Where we're focused going forward:

- 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

	Th	ths Er ber 30			
\$ millions	2	014	2	013	
Net (Loss) Income	\$	(4)	\$	45	
Loss from discontinued operations, net of income taxes		1		(22)	
Loss on extinguishment of debt		65		-	
Call premium paid on retirement of debt		(35)		-	
Depreciation and Amortization		25		25	
Working capital		(32)		(30)	
Other		(37)		(14)	
Net Cash (Used for) Provided from Operating Activities	\$	(17)	\$	4	
Cash paid for interest expense		82		91	
Call premium paid on retirement of debt		35		-	
Cash paid for income taxes, net of refunds		2		1	
Cash paid for restructuring charges		2		2	
Cash paid for management and consulting fees		-		2	
Cash paid for consulting termination fees		21		-	
Property additions		(3)		(15)	
Loss on sale of marketable securities		(1)		-	
Pre-Tax Unlevered Free Cash Flow	\$	121	\$	85	
Adjusted EBITDA		157		128	
Change in working capital		(32)		(29)	
Propery additions		(3)		(15)	
Pre-Tax Unlevered Free Cash Flow	\$	121	\$	85	

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



	Nine months ended September 30,						
(In millions)	2	014	2	2013			
Terminix	\$	248	\$	223			
American Home Shield		144		114			
ServiceMaster Clean		58		57			
Other Operations and Headquarters		(7)		(34)			
Adjusted EBITDA		443		361			
Depreciation and amortization expense		(76)		(74)			
Impairment of software and other related costs		(47)		-			
Non-cash stock-based compensation expense		(5)		(3)			
Restructuring charges		(7)		(4)			
Consulting agreement termination fee		(21)		-			
Loss on extinguishment of debt		(65)		-			
Management and consulting fees		(4)		(5)			
Interest expense		(171)		(186)			
Provision for income taxes		(26)		(43)			
Income from Continuing Operations	\$	22	\$	44			
Amortization expense		39		38			
Impairment of software and other related costs		47		-			
Consulting agreement termination fee		21		-			
Loss on extinguishment of debt		65		-			
Management and consulting fees		4		5			
Restructuring charges		7		4			
Tax impact of adjustments		(69)		(18)			
Adjusted Net Income	\$	135	\$	73			



	Nine Months Ended September 30,				
\$ millions	2	014	2	2013	
Net Loss	\$	(76)	\$	(489)	
Loss from discontinued operations, net of income taxes		98		533	
Loss on extinguishment of debt		65		-	
Call premium paid on retirement of debt		(35)		-	
Depreciation and Amortization		76		74	
Impairments		47		-	
Working capital		(27)		(2)	
Other		(16)		10	
Net Cash Provided from Operating Activities	\$	132	\$	127	
Cash paid for interest expense		199		207	
Call premium paid on retirement of debt		35		-	
Cash paid for income taxes, net of refunds		11		12	
Cash paid for restructuring charges		7		7	
Cash paid for management and consulting fees		4		5	
Cash paid for consulting termination fees		21		-	
Property additions		(29)		(38)	
Other		7		1	
Pre-Tax Unlevered Free Cash Flow	\$	386	\$	322	
Adjusted EBITDA		443		361	
Change in working capital		(27)		(2)	
Propery additions		(29)		(38)	
Pre-Tax Unlevered Free Cash Flow	\$	386	\$	322	

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