

Rollins Inc.

This stock is the bees knees and still a Buy

Maintain Rating: BUY | PO: 51.00 USD | Price: 44.00 USD

A high-growth compounder through economic cycles

We maintain our Buy rating as we have a high degree of confidence in Rollins' ability to compound revenue and earnings through economic cycles. Rollins is the second largest pest control company both in the US and globally. It operates across three business lines: Residential (45% of revenue), Commercial (34%), and Termite (20%). We're modeling revenue growth at a 9% CAGR over the next three years driven by volume growth, price increases, and from acquisitions.

Four key tailwinds driving pest control industry growth

There are four key tailwinds driving growth in the pest control industry: (1) Americans are migrating South where warm weather means more pests, (2) Climate change, which is increasing the prevalence of pests in new regions, (3) Increasing pest resiliency to treatment, and (4) Consumer preference shifting from DIY to professional pest control. We see Rollins as well-positioned to gain share, particularly since the industry is highly fragmented with 20,000+ pest control companies in the US and 38,000+ globally.

Buy today for recession-resiliency, margin expansion plan

Rollins is highly recession resilient with 80% of revenue recurring. Rollins increased revenue at a 5% rate through the Great Recession, 6% through the 2015-2016 Industrial Recession, and 7% through the onset of the pandemic. Pest control is one of the last things homeowners and business owners will cut back on in downturns. Rollins benefits from new-ish management-Jerry Gahlhoff as CEO in 2021 and Ken Krause as CFO in 2022. This team is highly focused on margin expansion, driven in-part from implementing a shared-services model following years of roll-up acquisitions. We're modeling 65bp of margin expansion annually with 10bp of gross margin expansion and 55bp of operating expense leverage, resulting in a 12.5% EPS CAGR over the next three years.

Limited downside risk warrants a premium multiple

We see limited risk to Rollins' growth trajectory-from a soft housing market, recession, competition, or weather-and therefore believe the stock deserves a premium multiple. Our price objective is \$51 (16.5% upside potential) based on 45x 2025E P/E, a premium to its business service peers given more consistent growth over economic cycles.

04 March 2024

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Stock Data

Price	44.00 USD
Price Objective	51.00 USD
Date Established	15-Feb-2024
Investment Opinion	B-1-7
52-Week Range	32.19 USD - 45.04 USD
Mrkt Val (mn) / Shares Out (mn)	21,298 USD / 484.0
Free Float	60.6%
Average Daily Value (mn)	95.32 USD
BofA Ticker / Exchange	ROL / NYS
Bloomberg / Reuters	ROL US / ROLN
ROE (2024E)	39.4%
Net Dbt to Eqty (Dec-2023A)	33.5%
ESGMeter™	Medium

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Timestamp: 04 March 2024 05:00AM EST

Price objective basis & risk

Rollins Inc. (ROL)

Our price objective is \$51 based on 45x our 2025 EPS estimate, a premium to its business service peers given more consistent growth over economic cycles.

Downside risks are a soft housing market, an economic downturn (even though Rollins has historically been recession-resilient), cost deflation leading to greater price competition, less migration to warmer states, cold weather, labor shortages, higher multiples or other hindrances to Rollins growth through acquisitions, difficulty integrating acquisitions, high Rollins family ownership, and a high multiple vs. peers which could increase downside volatility.

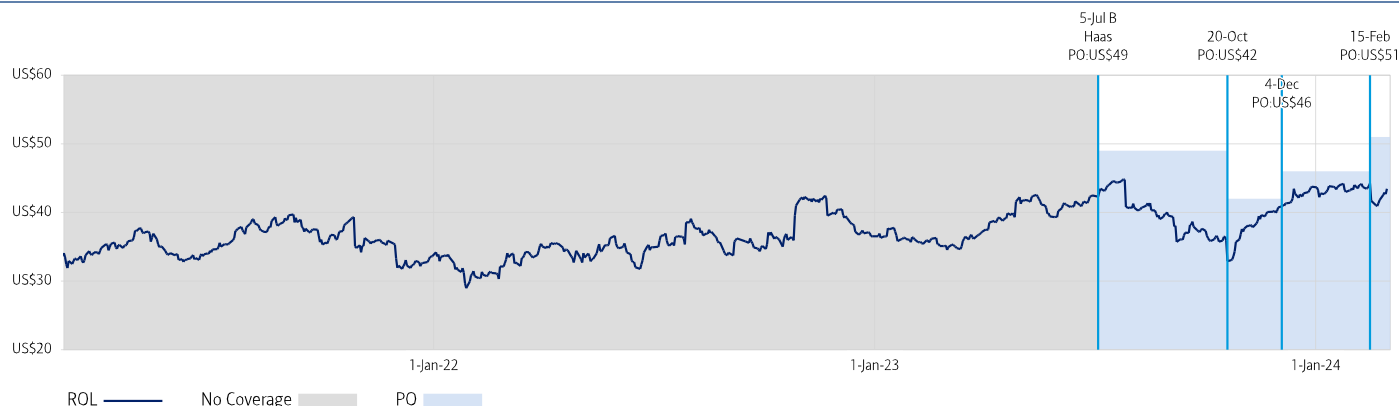
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Rollins Inc. (ROL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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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%

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