

## Rollins Inc.

# 4Q Recap: Slight moderation in residential but overall growth remains strong

Reiterate Rating: BUY | PO: 51.00 USD | Price: 41.74 USD

## Especially strong organic growth in Commercial & Termite

ROL reported EPS of \$0.22 which was essentially in-line with our estimate of \$0.21 and consensus of \$0.21. Revenue growth of 14.0% YoY was a little lighter than consensus +14.4%). EBIT margin expansion of 101bp to 19.14% was driven by gross margin (+43bp YoY to 50.89% vs. consensus +51.55%) and opex leverage (58bp to 31.75% vs. consensus leveraging 12bp to 32.22%). ROL reported strong 7.3% organic revenue growth across all categories with Residential +4.7% (vs. BofAe 7.0%), Commercial +8.9% (vs. BofAe 7.0%) and Termite +11.2% (vs. BofAe 8.0%). Total company organic revenue growth showed a slight deceleration from 8.4% in 3Q, especially in the Residential segment which moderated from 6.9% in 3Q. Acquisitions contributed approximately 7% to revenue growth. We're modeling a deceleration in organic growth from 8.1% in 2023 to 6.3% in 2024.

## Expect pricing power to continue in 2024

For 2024, ROL expects another year of strong organic growth complemented by acquisitions. ROL continues to have strong pricing power that more than offsets inflationary pressures. We're encouraged by ROL's and the pest control industry's ability to take price given the need-based nature of the service. ROL invested \$18 million in acquisitions during 4Q. The company still believes that the acquisition pipeline is strong, and we are confident in ROL's ability to grow organically as well. Mgmt. continues to see 30%+ incremental margins as achievable.

## Confident in ROL's resilient business model

Reflecting 4Q results, we're lowering our estimates slightly to reflect a higher tax rate and interest expense. We're raising our PO from \$45 to \$51 still based on 45x as we roll forward the basis from '24E to '25E P/E. We reiterate our Buy rating on ROL as we have a high degree of confidence in the company's ability to compound revenue and earnings through economic cycles. The business is highly recession resilient with 80% of revenue recurring. ROL continues to take share in the highly fragmented pest control industry. We also see room for hundreds of bps of margin expansion driven by fixed cost leverage, the implementation of a shared-services model, and other internal initiatives by the new mgmt. We find the shares attractive as we see plenty of room for ROL to grow as we continue to see tailwinds from: (1) Southern migration, (2) Climate change, (3) Increased pest resiliency, and (4) A shift to DIY.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.74	0.90	1.02	1.15	1.28
EPS Change (YoY)	8.8%	21.6%	13.3%	12.7%	11.3%
Consensus EPS (Bloomberg)			1.02	1.12	1.24
DPS	0.43	0.54	0.60	0.66	0.73
Valuation (Dec)					
P/E	56.4x	46.4x	40.9x	36.3x	32.6x
Dividend Yield	1.0%	1.3%	1.4%	1.6%	1.7%
EV / EBITDA*	35.1x	29.8x	26.3x	23.5x	21.1x
Free Cash Flow Yield*	2.2%	2.5%	2.8%	3.2%	3.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

15 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	46.00	51.00
2024E Rev (m)	3,351.4	3,368.6
2025E Rev (m)	3,638.9	3,657.5
2026E Rev (m)	3,972.8	3,971.3
2024E EPS	1.03	1.02
2025E EPS	1.17	1.15
2026E EPS	1.31	1.28
2024E DPS	0.56	0.60

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### Stock Data

Price	41.74 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)	20,204 USD / 484.0
Free Float	60.6%
Average Daily Value (mn)	67.88 USD
BofA Ticker / Exchange	ROL / NYS
Bloomberg / Reuters	ROL US / ROLN
ROE (2024E)	39.4%
Net Dbt to Eqty (Dec-2023A)	33.5%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 15 February 2024 12:15PM EST

# iQprofile<sup>SM</sup> Rollins Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	22.8%	24.6%	23.8%	24.2%	24.4%
Return on Equity	30.7%	36.2%	39.4%	37.7%	36.1%
Operating Margin	18.1%	19.7%	20.2%	20.9%	21.6%
Free Cash Flow	435	496	574	649	728

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.2x	1.2x	1.2x	1.2x
Asset Replacement Ratio	0.3x	0.3x	0.3x	0.3x	0.3x
Tax Rate	26.2%	25.8%	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	-4.4%	33.5%	16.5%	1.0%	-12.7%
Interest Cover	NM	31.7x	42.6x	47.8x	NM

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,696	3,073	3,369	3,658	3,971
% Change	11.2%	14.0%	9.6%	8.6%	8.6%
Gross Profit	1,388	1,603	1,761	1,916	2,084
% Change	10.0%	15.5%	9.8%	8.8%	8.8%
EBITDA	593	698	790	883	984
% Change	9.1%	17.7%	13.2%	11.8%	11.5%
Net Interest & Other Income	6	(12)	(12)	(12)	(12)
<b>Net Income (Adjusted)</b>	<b>365</b>	<b>439</b>	<b>495</b>	<b>558</b>	<b>625</b>
<b>% Change</b>	<b>9.2%</b>	<b>20.4%</b>	<b>12.8%</b>	<b>12.6%</b>	<b>12.1%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	365	439	495	558	625
Depreciation & Amortization	91	100	109	119	129
Change in Working Capital	(28)	(6)	5	8	8
Deferred Taxation Charge	2	0	0	0	0
Other Adjustments, Net	36	(4)	0	0	0
Capital Expenditure	(31)	(32)	(35)	(35)	(35)
<b>Free Cash Flow</b>	<b>435</b>	<b>496</b>	<b>574</b>	<b>649</b>	<b>728</b>
<b>% Change</b>	<b>16.2%</b>	<b>13.9%</b>	<b>15.8%</b>	<b>13.0%</b>	<b>12.1%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(212)	(264)	(291)	(321)	(355)
Change in Debt	(7)	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	95	104	267	475	728
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	253	303	325	349	374
Property, Plant & Equipment	128	127	172	209	235
Other Non-Current Assets	1,645	2,062	2,062	2,062	2,062
<b>Total Assets</b>	<b>2,122</b>	<b>2,595</b>	<b>2,827</b>	<b>3,094</b>	<b>3,399</b>
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	494	577	604	635	669
Long-Term Debt	40	491	491	491	491
Other Non-Current Liabilities	321	372	372	372	372
<b>Total Liabilities</b>	<b>855</b>	<b>1,440</b>	<b>1,467</b>	<b>1,498</b>	<b>1,532</b>
<b>Total Equity</b>	<b>1,267</b>	<b>1,156</b>	<b>1,360</b>	<b>1,596</b>	<b>1,867</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,122</b>	<b>2,595</b>	<b>2,827</b>	<b>3,094</b>	<b>3,399</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Retailing-Hardlines

## Company Description

Rollins is one of the world's largest pest control companies. Rollins provides pest and wildlife control services for protection against insects, termites, rodents, and other animals. Rollins operates under a number of brands including Orkin, HomeTeam Pest Defense, Clark Pest Control, and Western Pest Services. Rollins has three business lines: Residential, Commercial, and Termite. The vast majority of its revenue is generated in the US.

## Investment Rationale

Rollins is a best-in-class pest control provider with several tailwinds at its back including: (1) Migration to Southern states, (2) Pest proliferation from climate change, (3) Increased pest resilience to treatment, and (4) Shifting demand from DIY to Pro. Rollins has plenty of room for growth given the company sees resilient demand through economic cycles, has 80% recurring revenue, competes in a highly fragmented market, and benefits from its scale and pricing power.

## Stock Data

Average Daily Volume 1,626,150

## Quarterly Earnings Estimates

	2023	2024
Q1	0.18A	0.20E
Q2	0.23A	0.27E
Q3	0.28A	0.31E
Q4	0.21A	0.25E



## 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.

## Analyst Certification

I, Jason Haas, CFA, 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.

### US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Arhaus, Inc.	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L. Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
<b>NEUTRAL</b>				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
<b>UNDERPERFORM</b>				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L. Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

## iQmethod<sup>SM</sup> 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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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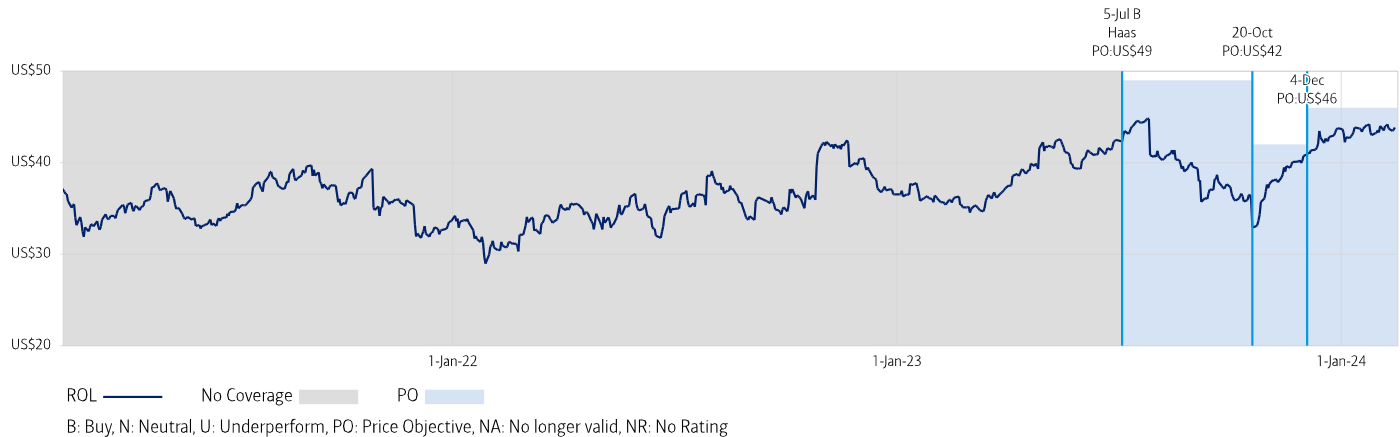
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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