



Rollins, Inc. (ROL)

Updated November 5th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$48	5 Year CAGR Estimate:	10.6%	Market Cap:	\$23.7 B
Fair Value Price:	\$49	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	11/12/2024
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	12/10/2024
Dividend Yield:	1.4%	5 Year Price Target:	\$75	Years Of Dividend Growth:	5
Dividend Risk Score:	F	Retirement Suitability Score:	F	Rating:	Buy

Overview & Current Events

Headquartered in Georgia, Rollins, Inc. (ROL) provides pest control and wildlife protection services. The company's products protect rodents, termite damage, and other insects. The company owns several leading brands and provides services and products to over two million residential and commercial customers in over 70 countries. Rollins operates under one reportable segment and has three business segments: Residential, Commercial, and Termite. The United States is Rollins's most critical geographic location, as it generates over 90% of its revenue.

On October 23rd, 2024, Rollins announced results for Q3 2024, reporting normalized EPS of \$0.29 missing analysts' estimates by \$0.01. The company reported revenues of \$892 million for the quarter, which were up 8.7% year-over-year.

Operating income rose by 8.3% to \$192 million, although the operating margin slightly declined by 20 basis points to 20.9% compared to the same period last year. Adjusted operating income grew by 4.5% to \$196 million, with an adjusted margin of 21.4%, impacted by a 90-basis point decrease due to increased investments in growth initiatives. Adjusted EBITDA also saw a year-over-year increase of 5.5%, reaching \$219 million with a 24.0% margin, down 80 basis points from last year.

Quarterly net income rose to \$137 million, marking a 7.1% gain, while adjusted net income increased by 3.3% to \$140 million. EPS grew by 7.7% to \$0.28, and adjusted EPS rose by 3.6% to \$0.29. Operating cash flow saw notable growth, climbing 15.4% to \$147 million, supporting acquisitions, capital expenditures, and \$73 million in dividends. Management reiterated its commitment to long-term growth despite margin pressures from growth investments and noted the impact of Hurricane Helene on operations, which the company managed effectively. ROL remains on track for its annual growth targets, underpinned by strategic investments and resilience in a challenging environment.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.28	\$0.31	\$0.34	\$0.39	\$0.47	\$0.41	\$0.53	\$0.71	\$0.75	\$0.89	\$1.00	\$1.53
DPS	\$0.15	\$0.19	\$0.22	\$0.25	\$0.31	\$0.31	\$0.33	\$0.42	\$0.43	\$0.54	\$0.66	\$1.06
Shares¹	491.1	492.2	490.0	490.5	491.0	491.2	491.6	491.9	492.4	489.9	493.0	493.0

Rollins has continued to post robust growth over the past ten years, driven by the company's strategy of improving productivity and investments in route optimization technology. The company has also continued to make acquisitions to expand its pest-control footprint. The company has a high customer retention rate, which reflects the company's focus on excellent customer service and the quality of its products.

Rollins has grown its EPS over the past five years at a healthy CAGR of nearly 14.0%. For the next five years, we maintain our forecast with an EPS growth at a CAGR of 9.0%, leading to an estimated EPS of \$1.53 by 2029. We believe that increasing urbanization and modest population growth would generate a healthy demand for the company's products in the United States.

¹ In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	32.1	37.1	38.1	47.7	51.5	59.4	59.9	49.8	47.6	44.1	48.2	49.0
Avg. Yld.	1.7%	1.6%	1.7%	1.3%	1.3%	1.3%	1.0%	1.2%	1.2%	1.4%	1.4%	1.4%

Rollins has consistently outperformed the broader market and produced solid financial results, which is why the stock trades at a premium valuation. The stock is trading at a forward P/E of 48.2, slightly higher than its long-term P/E of 46.7. The company's execution and business fundamentals remain sound, and we believe the resiliency of the business and its growth prospects justify the P/E multiple of 49.0. Accordingly, the 2029 target price for the stock stands at \$75.

Safety, Quality, Competitive Advantage, & Recession Resiliency

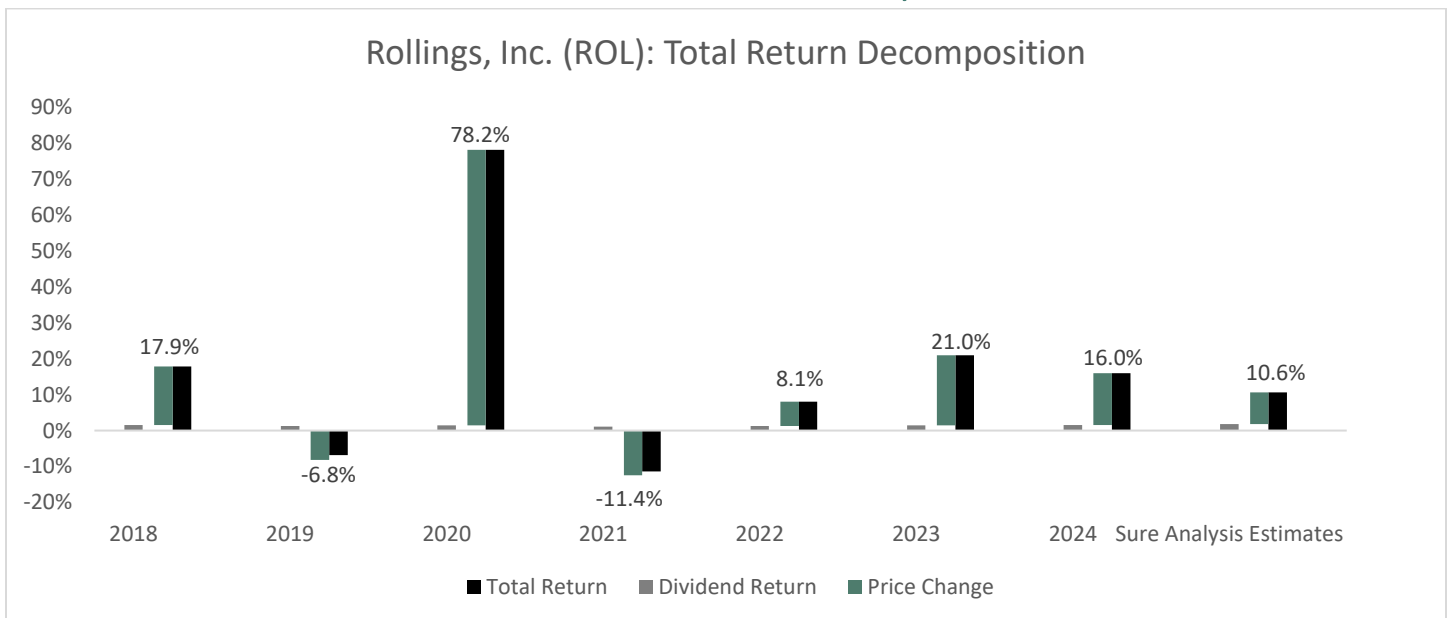
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	55%	60%	65%	64%	66%	76%	62%	59%	57%	61%	66%	69%

The company has paid a consistent dividend to its shareholders, with a 10-year payout ratio averaging 63%. The pest-control industry is generally capital-light, and acquisitions remain the largest use of cash by the company. The company regularly announces special dividends and has been able to grow its dividends to shareholders for the past 5 years. The nature of the company's products and services is not too heavily dependent on the macro-environment, and we believe that the company's healthy EPS growth over the past ten years reflects its business model's resiliency. For instance, nearly 80% of pest control services are recurrent, and the majority of them are non-discretionary. Because of this, businesses like Rollins are essentially recession-proof. The company's sales climbed by more than 5% year-over-year throughout the COVID-19 Pandemic in 2020 and the Great Financial Crisis in 2008.

Final Thoughts & Recommendation

Rollins is a global leader in its industry and has been able to show solid execution on the scaling of its business over the years. Although there is a risk of cyclicality in results caused by changing weather conditions, the metamorphosis of termites in the spring and summer, and an increase in pest presence, the demand outlook should likely stay consistent in the near-term. Therefore, we maintain our buy rating, which is premised upon the 10.6% annualized total returns for the medium-term, derived from our growth estimates of 9.0%, the dividend yield of 1.4%, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,412	1,485	1,573	1,674	1,822	2,015	2,161	2,424	2,696	3,073
Gross Profit	704	749	801	854	927	1,022	1,113	1,262	1,387	1,603
Gross Margin	49.9%	50.4%	50.9%	51.0%	50.9%	50.7%	51.5%	52.0%	51.4%	52.2%
SG&A Exp.	442	464	491	503	551	623	656	727	803	915
D&A Exp.	42	42	50	56	65	81	88	94	91	100
Operating Profit	219	241	260	294	310	317	368	440	493	588
Op. Margin	15.5%	16.2%	16.5%	17.6%	17.0%	15.7%	17.0%	18.1%	18.3%	19.1%
Net Profit	138	152	167	179	232	203	261	351	369	435
Net Margin	9.8%	10.2%	10.6%	10.7%	12.7%	10.1%	12.1%	14.5%	13.7%	14.2%
Free Cash Flow	165	157	193	211	272	292	413	375	435	496
Income Tax	82	91	93	115	79	58	94	124	130	151

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	808	849	917	1,034	1,094	1,744	1,846	1,981	2,122	2,595
Cash & Equivalents	108	135	143	107	115	94	98	105	95	104
Acc. Receivable	78	80	88	98	104	123	126	140	156	178
Inventories	14	13	14	15	16	19	31	29	30	33
Goodwill & Int.	389	389	417	561	612	960	1,072	1,168	1,265	1,616
Total Liabilities	345	325	348	380	382	929	905	899	855	1,440
Accounts Payable	23	25	30	26	27	35	65	45	43	49
Long-Term Debt	-	-	-	-	-	292	203	155	55	491
Total Equity	463	524	569	654	712	816	941	1,082	1,267	1,156
LTD/E Ratio	-	-	-	-	-	0.36	0.22	0.14	0.04	0.42

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	17.8%	18.4%	19.0%	18.4%	21.8%	14.3%	14.5%	18.3%	17.8%	18.4%
Return on Equity	30.6%	30.8%	30.6%	29.3%	33.9%	26.6%	29.7%	34.7%	31.0%	35.9%
ROIC	30.6%	30.8%	30.6%	29.3%	33.9%	22.4%	23.2%	29.5%	28.5%	29.3%
Shares Out.	491.1	492.2	490.0	490.5	491.0	491.2	491.6	491.9	492.4	490
Revenue/Share	2.87	3.02	3.20	3.41	3.71	4.10	4.40	4.93	5.48	6.27
FCF/Share	0.34	0.32	0.39	0.43	0.55	0.60	0.84	0.76	0.88	1.01

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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