

Rollins, Inc.(ROL)

\$43.50 (As of 06/09/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: B

Summary

A balanced approach to organic and inorganic growth has enabled Rollins to achieve a decent revenue growth over the past several years. Organic revenue growth rate is being driven by strong technician and customer retention. Strategic acquisitions enable Rollins to operate across the world. Further, consistent dividend payment underscores the company's commitment to shareholders and underline its confidence in business. This has positively impacted the share price that has increased over the past year. The company has been maintaining a consistent track record of rewarding shareholders through dividends. On the flip side, acquisitions and IT related expenses are likely to weigh on the company's bottom line. An increasing debt to capitalization ratio indicates that the proportion of debt to finance the company's assets is on the rise.

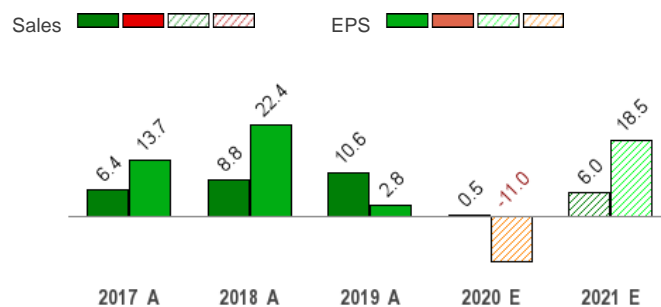
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.95 - \$30.72
20 Day Average Volume (sh)	2,248,127
Market Cap	\$14.3 B
YTD Price Change	31.2%
Beta	0.38
Dividend / Div Yld	\$0.32 / 0.7%
Industry	Building Products - Maintenance Service
Zacks Industry Rank	Bottom 33% (169 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-7.1%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	60.4
P/E F1	66.9
PEG F1	NA
P/S TTM	6.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,147 E
2020	488 A	475 E	542 E	506 E	2,026 E
2019	429 A	524 A	556 A	506 A	2,015 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.17 E	\$0.19 E	\$0.24 E	\$0.20 E	\$0.77 E
2020	\$0.13 A	\$0.15 E	\$0.20 E	\$0.17 E	\$0.65 E
2019	\$0.14 A	\$0.21 A	\$0.22 A	\$0.16 A	\$0.73 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/09/2020. The reports text is as of 06/10/2020.

Overview

Headquartered in Atlanta, GA, Rollins provides pest and termite control services to residential and commercial customers.

The company offers protection against termite damage, insects and rodents to homes and businesses, including food manufacturers, food service establishments, hotels, transportation companies and retailers.

Rollins also offers pest management and sanitation products and services to food and commodity industries; consulting services on border protection related to Australia's biosecurity program; and bird control and specialist services.

It offers specialized services to mining, and oil and gas sectors. The company's offerings also include mosquito control, wildlife, lawn care insurance and HVAC services.

Rollins operates through wholly-owned subsidiaries in North America, Australia and Europe. The company has international franchises in Central America, the Caribbean, the Middle East, the Mediterranean, Europe, Asia, Africa, Australia, Canada and Mexico.

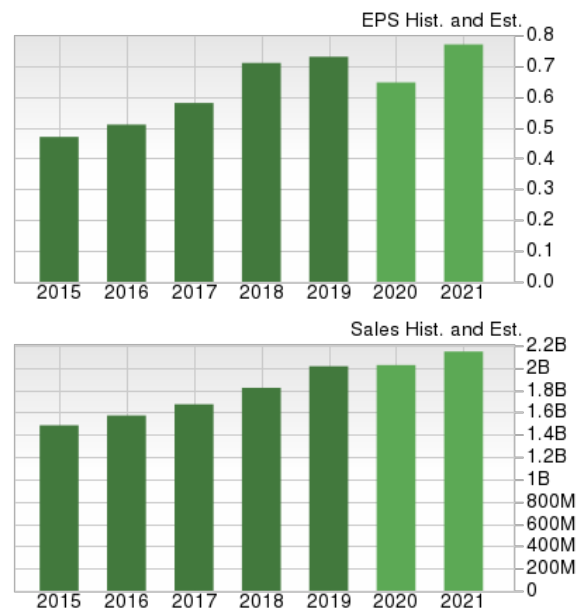
Rollins, which has been in operation since 1948, has three lines of businesses — commercial pest control, residential pest control and termite and ancillary. The company has one of the largest residential customer base, which provides significant cross-sell opportunity.

As a result of increase in pest presence and activity as well as metamorphosis of termites in spring and summer, revenues remain considerably higher in the second and the third quarter compared with the first and the fourth quarter.

The company has a single reportable segment — **the pest and termite control**. It generated \$2 billion in revenues in 2019 compared with \$1.8 billion generated in 2018 and \$1.7 billion in 2017. Rollins continues to seek international opportunities through acquisitions.

Acquisition is a key growth strategy for Rollins which allows it to operate in around 57 countries. It acquired 30 companies in 2019 and 38 in 2018. As of Jan 31, 2020, the number of persons employed by the company was approximately 15,000.

The company maintains close relationship with a number of universities for research and validation of treatment procedures and material selection.



Reasons To Buy:

- ▲ **Demand environment** for this building maintenance servicer remains in good shape driven by higher government spending and decent construction activity. This has positively impacted the share price that has increased 15.9% over the past year.
- ▲ Rollins' revenues witnessed a decent growth over the past five years. **A balanced approach to organic and inorganic growth** is the key to this success. The company's organic revenue growth rate is healthy driven by strong technician and customer retention. Enhancing benefits are expected to improve employee and customer retention for the upcoming years. Furthermore, strategic acquisitions now allow Rollins to operate in around 57 countries. In 2019, Rollins completed 30 acquisitions. In 2018, the company acquired 38 companies and in 2017 it acquired 23 companies.
- ▲ Rollins believes in returning capital through **dividends**. Consistent dividend payment underscores the company's commitment to shareholders and underline its confidence in business. The company paid dividends of \$153.8 million, \$152.7 million and \$122 million in 2019, 2018 and 2017 respectively.

Rollins is a consistent dividend payer with a balanced approach organic and inorganic growth.

Reasons To Sell:

- ▼ Rollins is witnessing **escalation in costs resulting** from acquisitions and IT related expenses. In addition, the company's subsidiaries are embroiled with a number of lawsuits, claims or arbitrations that allege its services caused damage. This is further adding to costs. Hence, the company's bottom line is likely to remain under pressure going forward.
- ▼ Rollins' **debt level has increased significantly quarter over quarter**. Total debt at the end of first-quarter 2020 was \$244 million, up from the \$214 million recorded at the end of the prior quarter. The total debt to total capital ratio of 0.29 was higher than the previous quarter's 0.26. An increasing debt to capitalization ratio indicates that the proportion of debt to finance the company's assets is on the rise and so is the risk of insolvency. Further, cash and cash equivalent balance of \$93 million at the end of the first quarter was well below the debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$13 million.
- ▼ Rollins' policy of acquiring a large number of companies could result in some **integration risks**. Acquisitions can negatively impact its balance sheet in the form of a high level of goodwill and intangible assets, which totaled \$991 million or 56% of total assets at the end of the first quarter 2020. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth.

Rising costs and adverse weather conditions are headwinds to Rollins financial performance.

Last Earnings Report

Rollins Miss Earnings Estimates in Q1

Rollins reported mixed first-quarter 2020 results, with earnings missing the Zacks Consensus Estimate but revenues beating the same.

Adjusted earnings of 13 cents per share missed the consensus mark and declined year over year by 7.1% each. Revenues of \$487.9 million beat the consensus mark by 2.5% and improved 13.7% year over year.

Quarter Ending **03/2020**

Report Date	Apr 29, 2020
Sales Surprise	2.53%
EPS Surprise	-7.14%
Quarterly EPS	0.13
Annual EPS (TTM)	0.72

Other Quarterly Details

Earnings before income taxes (EBIT) of \$55.4 million decreased 1.2% year over year. EBIT margin shrunk 171 basis points (bps) year over year.

Net income of \$43.3 million decreased 2.2% year over year. Net income margin contracted 144 bps year over year. Sales, general and administrative expenses of \$154.8 million were up 13.1% year over year.

Rollins exited the first quarter with cash and cash equivalents balance of \$92.6 million compared with the prior quarter's \$94.3 million. Long-term debt at the end of the reported quarter was \$307.3 million.

Recent News

On **Jun 08, 2020**, Rollins announced that its subsidiary, Rollins UK Holdings Ltd. ("Rollins UK") completed the purchase of two environment friendly companies during first-quarter 2020. These include Albany Environmental Services Ltd. and Van Vynck Environmental Services, which marked the company's 6th and 7th acquisitions in the UK, so far. The financial terms of the deal have been kept under wraps.

On **Apr 28, 2020**, Rollins announced that it has declared a quarterly cash of 8 cents per share. The dividend is payable on Jun 10, 2020 to shareholders of record at the close of business on May 11, 2020.

On **Mar 26, 2020**, Rollins announced that it has increased Paid Time Off (PTO) for all full-time and part-time employees across the company who are affected by coronavirus.

On **Mar 25, 2020**, Rollins' wholly-owned subsidiary Orkin has launched Orkin VitalClean, a disinfection service capable of suppressing a wide range of germs.

On **Mar 5, 2020**, Rollins announced that it has been honored with 2020 Top Workplaces Award by The Atlanta Journal-Constitution wherein Rollins ranked 13th in the large business category. This marks the fourth consecutive year wherein Rollins has won the award.

Valuation

Rollins shares are up 34.4% in the year-to-date period and 15.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 14.4% and 0.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector have declined 3.7% but increased 2.9%, respectively.

The S&P 500 index is up 0.2% in the year-to-date period and 11.9% in the past year.

The stock is currently trading at 62.05X price to forward 12 months' earnings, which compares to 50.9X for the Zacks sub-industry, 30.68X for the Zacks sector and 23.33X for the S&P 500 index.

Over the past five years, the stock has traded as high as 63.85X and as low as 32.54X, with a 5-year median of 45.11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$46.00 price target reflects 65.7X price to forward 12 months' earnings.

The table below shows summary valuation data for ROL

Valuation Multiples - ROL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	62.05	50.9	30.68	23.33
	5-Year High	63.85	50.9	30.68	23.33
	5-Year Low	32.54	18.48	18.68	15.23
	5-Year Median	45.11	28.46	20.77	17.49
P/S F12M	Current	6.86	3.64	4.2	3.63
	5-Year High	7.34	4.77	4.2	3.63
	5-Year Low	3.39	2.4	3.05	2.53
	5-Year Median	5.48	3.13	3.57	3.02
P/B TTM	Current	17.81	7.23	4.58	4.41
	5-Year High	20.12	12.53	6.68	4.56
	5-Year Low	10.05	5.03	3.2	2.83
	5-Year Median	14.94	10.1	5.18	3.65

As of 06/09/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (169 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
ABM Industries Incorporated (ABM)	Neutral	3
ChurchDwight Co., Inc. (CHD)	Neutral	2
Ecolab Inc. (ECL)	Neutral	4
Johnson Controls International plc (JCI)	Neutral	3
Limbach Holdings, Inc. (LMB)	Neutral	3
ServiceMaster Global Holdings, Inc. (SERV)	Neutral	3
Team, Inc. (TISI)	Neutral	4
EMCOR Group, Inc. (EME)	Underperform	5

Industry Comparison Industry: Building Products - Maintenance Service				Industry Peers		
	ROL	X Industry	S&P 500	ABM	ECL	LMB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	C	-	-	C	F	A
Market Cap	14.26 B	2.37 B	22.74 B	2.37 B	65.56 B	26.41 M
# of Analysts	3	3	14	3	10	1
Dividend Yield	0.74%	0.00%	1.81%	2.08%	0.83%	0.00%
Value Score	D	-	-	B	F	A
Cash/Price	0.01	0.04	0.06	0.03	0.03	0.32
EV/EBITDA	42.48	10.72	13.04	9.68	23.06	10.11
PEG Ratio	NA	4.89	3.12	NA	5.06	0.39
Price/Book (P/B)	17.81	1.52	3.14	1.52	7.40	0.55
Price/Cash Flow (P/CF)	44.80	9.66	12.32	9.66	24.42	2.65
P/E (F1)	66.48	42.83	22.61	23.09	47.06	4.67
Price/Sales (P/S)	6.87	0.36	2.46	0.36	4.38	0.05
Earnings Yield	1.49%	1.60%	4.26%	4.33%	2.13%	21.43%
Debt/Equity	0.38	0.79	0.76	0.50	0.76	0.83
Cash Flow (\$/share)	0.97	1.41	7.01	3.68	9.29	1.27
Growth Score	A	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	12.45%	2.96%	10.87%	2.96%	7.48%	NA
Proj. EPS Growth (F1/F0)	-11.42%	-23.00%	-10.76%	-24.88%	-17.23%	166.67%
Curr. Cash Flow Growth	7.29%	7.29%	5.48%	2.86%	8.14%	131.35%
Hist. Cash Flow Growth (3-5 yrs)	12.06%	10.89%	8.55%	10.89%	4.49%	123.78%
Current Ratio	0.73	1.48	1.29	1.48	1.51	1.25
Debt/Capital	27.74%	44.12%	44.75%	33.52%	43.22%	45.33%
Net Margin	9.76%	2.19%	10.54%	2.19%	10.32%	-0.32%
Return on Equity	29.44%	6.58%	16.08%	9.37%	20.12%	4.88%
Sales/Assets	1.18	1.18	0.55	1.73	0.71	2.30
Proj. Sales Growth (F1/F0)	0.53%	-6.74%	-2.59%	-6.74%	-10.77%	-4.76%
Momentum Score	B	-	-	D	F	F
Daily Price Chg	-2.40%	-2.40%	-2.13%	-3.24%	-1.48%	-0.20%
1 Week Price Chg	3.90%	16.84%	7.51%	18.91%	7.99%	16.84%
4 Week Price Chg	5.69%	19.68%	16.33%	10.88%	16.74%	19.68%
12 Week Price Chg	14.14%	14.14%	28.71%	26.01%	33.75%	-14.86%
52 Week Price Chg	15.88%	-38.17%	1.59%	-10.25%	14.71%	-60.34%
20 Day Average Volume	2,248,127	420,206	2,644,123	420,206	9,768,222	16,645
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-2.57%	0.00%
(F1) EPS Est 4 week change	0.00%	-2.33%	0.00%	-2.33%	-2.57%	-28.71%
(F1) EPS Est 12 week change	-18.49%	-28.71%	-15.96%	-23.64%	-24.43%	-28.71%
(Q1) EPS Est Mthly Chg	0.00%	-2.63%	0.00%	-2.63%	-1.11%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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