Rollins, Inc.(ROL)

$35.05 (As of 01/14/20)

Price Target (6-12 Months): **$45.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/27/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: B | Momentum: B	

Summary

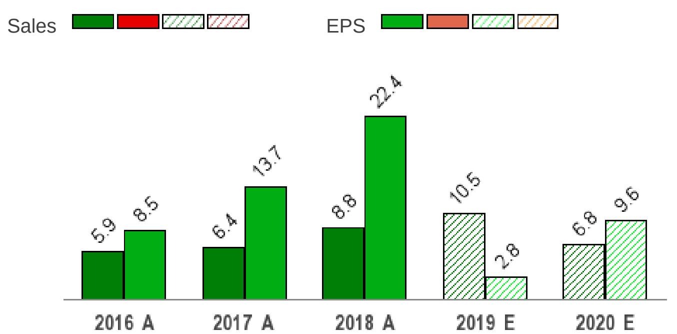
A balanced approach to organic and inorganic growth has enabled Rollins to achieve a decent revenue growth over the past several years. Organic revenue growth rate is being driven by strong technician and customer retention. Strategic acquisitions enable the company to operate across the world. Further, Rollins is in excellent financial health, with plenty of ongoing cash flow generation. The company has been maintaining a consistent track record of rewarding shareholders through dividends. On the flip side, acquisitions, lease expenses, IT and advertising have increased expenses, which is likely to weigh on the company's bottom line. This may weigh on its share, that have underperformed the industry in the past year. Rollins' business experiences seasonal fluctuations in revenues. Multiple acquisitions could result in integration risks.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$43.91 - $31.36
20 Day Average Volume (sh)	1,273,252
Market Cap	$11.5 B
YTD Price Change	5.7%
Beta	0.28
Dividend / Div Yld	$0.42 / 1.2%
Industry	Building Products - Maintenance Service
Zacks Industry Rank	Bottom 6% (240 out of 254)
Last EPS Surprise	0.0%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	48.0
P/E F1	43.8
PEG F1	NA
P/S TTM	5.9

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020					2,151 E
2019	429 A	524 A	556 A	504 E	2,014 E
2018	409 A	480 A	488 A	445 A	1,822 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.15 E	$0.22 E	$0.24 E	$0.20 E	$0.80 E
2019	$0.14 A	$0.21 A	$0.22 A	$0.17 E	$0.73 E
2018	$0.15 A	$0.20 A	$0.21 A	$0.16 A	$0.71 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 01/14/2020. The reports text is as of 01/15/2020.

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Overview

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

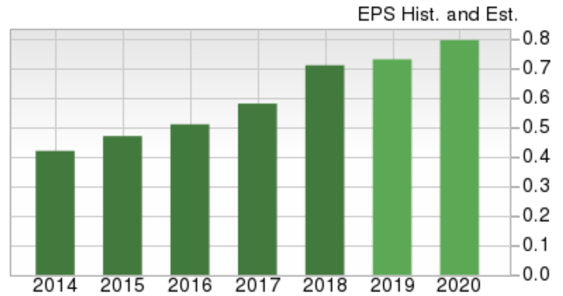
The company offers protection against termite damage, insects and rodents to homes and businesses, including food manufacturers, food service establishments, hotels, transportation companies and retailers.

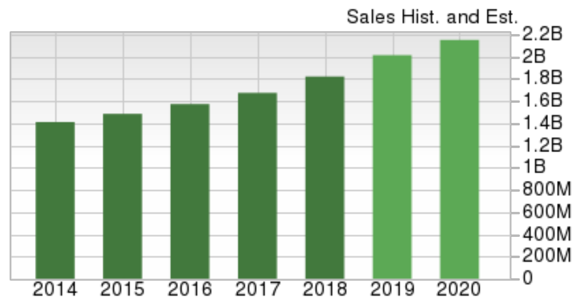
Rollins also offers pest management and sanitation products and services to food and commodity industries; consulting services on border protection related to Australia's biosecurity program; and bird control and specialist services.

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 $1.8 billion in revenues in 2018 compared with $1.7 billion generated in 2017 and $1.6 billion in 2016. 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 38 companies in 2018 and 23 in 2017.As of Jan 31, 2019, the number of persons employed by the company was approximately 14,000.

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

Reasons To Buy:

> Rollins is in excellent financial health with a balanced approach organic and inorganic growth.

- **Demand environment** for this building maintenance servicer remains in good shape driven by economic stability, rising consumer and government spending and decent construction activity.

- 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. During the first half of 2019, Rollins completed 14 acquisitions. In 2018, the company acquired 38 companies and in 2017 it acquired 23 companies. The acquisition of Northwest Pest Control in 2018 is the largest deal made by the company since it acquired HomeTeam Pest Defense in 2008. Northwest Pest Control is making significant contributions to Rollin's revenues, courtesy of 120,000 customers in Georgia, North Carolina, South Carolina, Tennessee and Alabama. The company's revenues grew 8.8% year over year in 2018 with growth and pricing accounting for roughly 5.3% of the increase.

- Rollins is in **excellent financial health**. The company generates substantial cash flows and has only modest recurring capex needs. Rollins believes in returning capital to shareholders through dividends. Given a solid capital position, the company is expected to continue enhancing shareholders' value.

Reasons To Sell:

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

- Rollins is witnessing **escalation in costs resulting** from acquisitions and lease expenses. Also, IT and advertising costs are on a rise. Also, the company had increased use of outside professional services in IT projects and other projects. 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. This may weigh on its shares, that have declined 9.2% over the past year.

- The company's business experiences **seasonal fluctuations in revenues** and are directly affected by weather conditions worldwide. As a result of increase in pest presence and activity as well as metamorphosis of termites in the spring and summer, revenues are considerably higher in the second and the third quarter compared with the first and the fourth quarter.

- 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 $6.9 billion or 56% of total assets at the end 2018. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth.

Last Earnings Report

Rollins Q3 Earnings Match Estimates

Quarter Ending	09/2019
Report Date	Oct 23, 2019
Sales Surprise	1.92%
EPS Surprise	0.00%
Quarterly EPS	0.22
Annual EPS (TTM)	0.73

Rollins third-quarter 2019 earnings came in line with the Zacks Consensus Estimate and revenues beat the same.

Adjusted earnings came in at 22 cents per share, up 4.8% year over year. Revenues of $556.5 million beat the consensus mark by $10.5 million and improved 14.1% year over year.

Quarterly Details

Income before income taxes of $46.1 million declined 48.7% year over year. Net income of $44.1 million decreased 33.9%. Sales, general and administrative expenses of $167.2 million were up 15.2% year over year.

Rollins exited the third quarter with cash and cash equivalents' balance of $104.4 million compared with $98.5 million in the prior quarter. Long-term debt at the end of the quarter was $313.5 million.

The company terminated its fully-funded pension plan in the quarter with the transfer of $198.3 million of U.S. pension obligations.

Valuation

Rollins shares are down 9.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 4.6% while those in the Zacks Business Services sector are up 28%, over the past year.

The S&P 500 index is up 24.8% in the past year.

The stock is currently trading at 43.91X price to forward 12 months' earnings, which compares to 32X for the Zacks sub-industry, 25.41X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 55.63X and as low as 30.35X, with a 5-year median of 43.59X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $45.00 price target reflects 56.39X 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 F 12M	Current	43.91	32	25.41	18.96
	5-Year High	55.63	40.63	25.41	19.34
	5-Year Low	30.35	18.48	18.76	15.17
	5-Year Median	43.59	26.5	20.56	17.44
P/S F12M	Current	5.32	3.05	4	3.52
	5-Year High	7.34	4.77	5.13	3.52
	5-Year Low	3.15	2.29	3.09	2.54
	5-Year Median	5.22	3.05	3.63	3
P/B TTM	Current	14.22	6.49	4.94	4.49
	5-Year High	20.12	12.53	6.73	4.49
	5-Year Low	10.05	6.26	4.13	2.85
	5-Year Median	14.28	10.3	5.32	3.61

As of 01/14/2020

Industry Analysis **Zacks Industry Rank:** Bottom 6% (240 out of 254)

Top Peers

ABM Industries Incorporated **(ABM)**	Neutral
Church & Dwight Co., Inc. **(CHD)**	Neutral
Ecolab Inc. **(ECL)**	Neutral
EMCOR Group, Inc. **(EME)**	Neutral
Johnson Controls International plc **(JCI)**	Neutral
Limbach Holdings, Inc. **(LMB)**	Neutral
ServiceMaster Global Holdings, Inc. **(SERV)**	Neutral
Team, Inc. **(TISI)**	Neutral

Industry Comparison Industry: Building Products - Maintenance Service

Industry Peers

	ROL Neutral	X Industry	S&P 500	ABM Neutral	ECL Neutral	LMB Neutral
VGM Score	C	-	-	A	D	A
Market Cap	11.48 B	2.62 B	24.31 B	2.62 B	54.75 B	31.14 M
# of Analysts	4	2	13	2	12	1
Dividend Yield	1.20%	0.00%	1.76%	1.88%	0.99%	0.00%
Value Score	D	-	-	A	D	A
Cash/Price	0.01	0.02	0.04	0.02	0.00	0.03
EV/EBITDA	31.13	31.13	14.08	10.36	20.43	19.53
PEG Ratio	NA	0.94	2.06	NA	2.36	0.33
Price/Book (P/B)	14.22	1.69	3.33	1.69	6.36	0.69
Price/Cash Flow (P/CF)	38.71	10.67	13.62	10.67	22.17	7.30
P/E (F1)	44.03	25.97	18.86	19.65	29.36	4.01
Price/Sales (P/S)	5.87	0.40	2.65	0.40	3.69	0.06
Earnings Yield	2.28%	3.84%	5.27%	5.09%	3.41%	24.94%
Debt/Equity	0.39	0.65	0.72	0.48	0.69	0.88
Cash Flow ($/share)	0.91	1.62	6.94	3.68	8.57	0.55
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	12.99%	3.96%	10.56%	2.31%	6.25%	NA
Proj. EPS Growth (F1/F0)	8.90%	8.90%	7.52%	-2.44%	10.35%	731.25%
Curr. Cash Flow Growth	20.35%	-40.32%	14.88%	2.86%	8.95%	-66.65%
Hist. Cash Flow Growth (3-5 yrs)	12.75%	9.57%	9.00%	10.89%	5.39%	NA
Current Ratio	0.79	1.26	1.23	1.41	1.24	1.26
Debt/Capital	27.98%	39.27%	42.99%	32.55%	40.93%	46.81%
Net Margin	10.42%	0.11%	11.14%	1.96%	10.27%	0.11%
Return on Equity	31.20%	9.16%	17.16%	9.16%	20.08%	11.17%
Sales/Assets	1.33	1.33	0.55	1.75	0.72	2.38
Proj. Sales Growth (F1/F0)	6.80%	5.51%	4.18%	0.56%	1.15%	5.51%
Momentum Score	B	-	-	C	D	D
Daily Price Chg	0.20%	0.20%	0.08%	0.20%	-0.76%	3.32%
1 Week Price Chg	4.51%	0.89%	0.39%	0.89%	-0.21%	7.85%
4 Week Price Chg	6.24%	5.99%	1.93%	5.99%	1.64%	39.17%
12 Week Price Chg	-2.58%	-12.72%	6.50%	3.58%	0.83%	-12.72%
52 Week Price Chg	-9.17%	-1.53%	22.56%	13.75%	26.61%	-17.26%
20 Day Average Volume	1,273,252	377,889	1,571,506	377,889	1,008,903	61,025
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.21%	0.00%	0.00%	-4.46%	-0.89%	0.00%
(F1) EPS Est 12 week change	0.21%	-4.46%	-0.52%	-4.46%	-1.89%	0.00%
(Q1) EPS Est Mthly Chg	0.00%	-0.68%	0.00%	-11.50%	-3.10%	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	B
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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