# Rollins, Inc.(ROL)

**$51.63** (As of 07/30/20)

Price Target (6-12 Months): **$55.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 03/11/19) Prior Recommendation: Underperform | **Neutral** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **2-Buy** |
| | Zacks Style Scores: | VGM:C |
| | Value: F \| Growth: A | Momentum: C |

## Summary

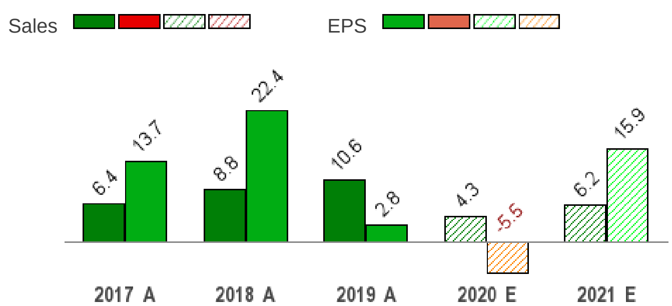
A balanced approach to organic and inorganic growth has enabled Rollins to achieve a decent revenue growth over the past several years. Organic revenue growth rate is being driven by strong technician and customer retention. Strategic acquisitions enable Rollins to operate across the world. Further, consistent dividend payment underscores the company's commitment to shareholders and underline its confidence in business. This has postively 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 | **$51.92 - $30.72** |
| 20 Day Average Volume (sh) | **1,015,951** |
| Market Cap | **$16.9 B** |
| YTD Price Change | **55.7%** |
| Beta | **0.42** |
| Dividend / Div Yld | **$0.32 / 0.6%** |
| Industry | **Building Products - Maintenance Service** |
| Zacks Industry Rank | **Top 16% (41 out of 253)** |
| Last EPS Surprise | **35.3%** |
| Last Sales Surprise | **2.2%** |
| EPS F1 Est- 4 week change | **6.7%** |
| Expected Report Date | **10/28/2020** |
| Earnings ESP | **1.6%** |
| P/E TTM | **69.8** |
| P/E F1 | **74.8** |
| PEG F1 | **NA** |
| P/S TTM | **8.0** |

## Sales and EPS Growth Rates (Y/Y %)




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | | | | | 2,232 E |
| 2020 | 488 A | 553 A | 571 E | 524 E | 2,101 E |
| 2019 | 429 A | 524 A | 556 A | 506 A | 2,015 A |

## EPS Estimates

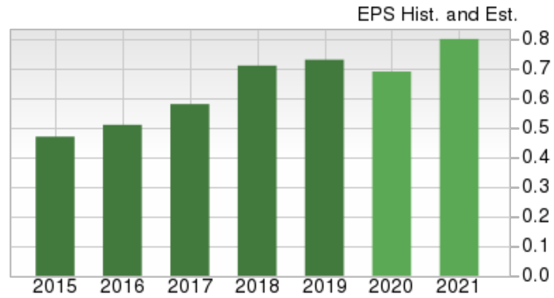
| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $0.17 E | $0.19 E | $0.24 E | $0.20 E | $0.80 E |
| 2020 | $0.13 A | $0.23 A | $0.21 E | $0.18 E | $0.69 E |
| 2019 | $0.14 A | $0.21 A | $0.22 A | $0.16 A | $0.73 A |

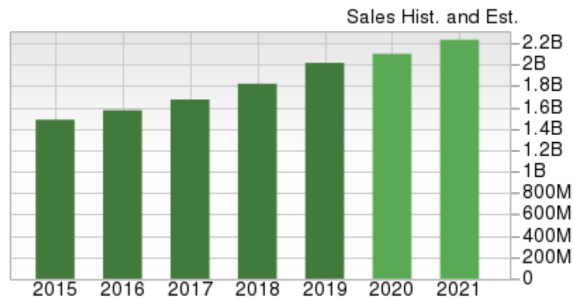
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/30/2020. The reports text is as of 07/31/2020.

## 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:

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

- **Demand environment** for this building maintenance servicer remains in good shape driven by higher government spending and decent construction activity. This has postively impacted the share price that has increased 56.2% 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 repectively.

## 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.

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

- 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 $993 million or 54% of total assets at the end of the second-quarter 2020. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth.

## Last Earnings Report

### Rollins Beats Earnings Estimates in Q2

| Quarter Ending | 06/2020 |
|---|---|
| Report Date | **Jul 29, 2020** |
| Sales Surprise | **2.21%** |
| EPS Surprise | **35.29%** |
| Quarterly EPS | **0.23** |
| Annual EPS (TTM) | **0.74** |

Rollins reportedbetter-than-expected second-quarter 2020 results.

Adjusted earnings of 23 cents per share beat the consensus mark by 35.3% and increased 9.5% year over year. The increase was driven by aggressive cost reduction efforts, lower fuel prices and routing and scheduling enhancements.

Revenues of $553.3 million beat the consensus mark by 2.2% and improved 5.6% year over year. Residential revenues recorded 14.8% year over year growth with multiple record setting days of new customer sales.

The company stated that that its cost reduction efforts in the quarter in response to the coronavirus pandemic included layoffs, furloughs, temporary reduction of upper management's salaries and omission of non-essential travel and capital expenditures.

### Other Quarterly Details

Earnings before income taxes (EBIT) of $103.5 million increased 19% year over year. EBIT margin of 18.7% improved 211 basis points (bps) year over year.

Net income of $75.4 million increased 17.2% year over year. Net income margin of 18.7% improved 135 bps year over year. Sales, general and administrative expenses of $171.3 million were up 5.8% year over year.

Rollins exited the first quarter with cash and cash equivalents balance of $134.8 million compared with the prior quarter's  $92.6 million. Long-term debt at the end of the quarter was $242.5 million compared with $307.3 million at the end of the prior quarter.

## Recent News

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

On **Jul 01, 2020**, Rollins announced that one of its Australia-based subsidiaries completed the purchase of Adams Pest Control Pty Ltd., an independent pest control provider. Financial terms of the deal have been kept under wraps.

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.

## Valuation

Rollins shares are up 55.7% in the year-to-date period and 56.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 30.3% but those in the Zacks Business Services sector are down 0.1% in the year-to-date period,. Over the past year, the Zacks sub-industry and the sector has increased 17.6% and 1.4%, respectively.

The S&P 500 index is up 1.3% in the year-to-date period and 10.8% in the past year.

The stock is currently trading at 68.49X price to forward 12 months' earnings, which compares to 49.08X for the Zacks sub-industry, 30.01X for the Zacks sector and 22.69X for the S&P 500 index.

Over the past five years, the stock has traded as high as 68.49X and as low as 32.54X, with a 5-year median of 45.49X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $55.00 price target reflects 73.33X 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 | 68.49 | 49.08 | 30.01 | 22.69 |
| | 5-Year High | 68.49 | 49.08 | 30.01 | 22.69 |
| | 5-Year Low | 32.54 | 18.48 | 18.68 | 15.25 |
| | 5-Year Median | 45.49 | 29.28 | 20.89 | 17.52 |
| P/S F12M | Current | 7.77 | 4.02 | 4.16 | 3.59 |
| | 5-Year High | 7.37 | 4.77 | 4.16 | 3.59 |
| | 5-Year Low | 3.39 | 2.4 | 3.06 | 2.53 |
| | 5-Year Median | 5.56 | 3.14 | 3.59 | 3.02 |
| P/B TTM | Current | 21.14 | 8.63 | 4.74 | 4.46 |
| | 5-Year High | 21.14 | 12.17 | 6.71 | 4.56 |
| | 5-Year Low | 10.05 | 5.03 | 3.27 | 2.83 |
| | 5-Year Median | 15.19 | 10.03 | 5.21 | 3.72 |

As of 07/30/2020

## Industry Analysis **Zacks Industry Rank:** Top 16% (41 out of 253)


## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| ABM Industries Incorporated **(ABM)** | Outperform | 1 |
| ChurchDwight Co., Inc. **(CHD)** | Neutral | 3 |
| EMCOR Group, Inc. **(EME)** | Neutral | 1 |
| Johnson Controls International plc **(JCI)** | Neutral | 3 |
| Limbach Holdings, Inc. **(LMB)** | Neutral | 4 |
| ServiceMaster Global Holdings, Inc. **(SERV)** | Neutral | 3 |
| Team, Inc. **(TISI)** | Neutral | 3 |
| Ecolab Inc. **(ECL)** | 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 | - | - | Outperform | Underperform | Neutral |
| **Zacks Rank (Short Term)** | 2 | - | - | 1 | 5 | 4 |
| **VGM Score** | C | - | - | B | D | D |
| Market Cap | 16.92 B | 2.35 B | 22.57 B | 2.35 B | 55.25 B | 30.24 M |
| # of Analysts | 3 | 3 | 14 | 3 | 8 | 1 |
| Dividend Yield | 0.62% | 0.00% | 1.83% | 2.10% | 0.98% | 0.00% |
| **Value Score** | F | - | - | A | F | D |
| Cash/Price | 0.01 | 0.17 | 0.07 | 0.24 | 0.03 | 0.37 |
| EV/EBITDA | 50.11 | 10.22 | 12.96 | 9.09 | 19.70 | 10.22 |
| PEG Ratio | NA | 32.86 | 3.04 | NA | 4.28 | NA |
| Price/Book (P/B) | 19.61 | 1.68 | 3.13 | 1.68 | 9.38 | 0.63 |
| Price/Cash Flow (P/CF) | 53.17 | 9.56 | 12.61 | 9.56 | 20.58 | 3.04 |
| P/E (F1) | 74.83 | 52.25 | 22.06 | 18.33 | 44.87 | NA |
| Price/Sales (P/S) | 8.04 | 0.37 | 2.42 | 0.37 | 3.97 | 0.05 |
| Earnings Yield | 1.34% | 1.34% | 4.31% | 5.45% | 2.23% | -2.86% |
| Debt/Equity | 0.28 | 0.79 | 0.75 | 0.79 | 1.15 | 0.81 |
| Cash Flow ($/share) | 0.97 | 1.41 | 6.94 | 3.68 | 9.29 | 1.27 |
| **Growth Score** | A | - | - | A | C | C |
| Hist. EPS Growth (3-5 yrs) | 12.45% | 3.98% | 10.85% | 3.98% | 7.48% | NA |
| Proj. EPS Growth (F1/F0) | -5.48% | -41.01% | -7.75% | -6.34% | -26.85% | -140.74% |
| Curr. Cash Flow Growth | 7.29% | 7.29% | 5.39% | 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 | 0.76 | 1.82 | 1.31 | 1.82 | 1.60 | 1.25 |
| Debt/Capital | 21.94% | 44.21% | 44.32% | 44.21% | 53.41% | 44.67% |
| Net Margin | 10.15% | -0.38% | 10.44% | -0.38% | -6.17% | -0.71% |
| Return on Equity | 29.41% | 6.58% | 14.73% | 10.10% | 18.80% | 1.00% |
| Sales/Assets | 1.18 | 1.18 | 0.52 | 1.67 | 0.68 | 2.23 |
| Proj. Sales Growth (F1/F0) | 4.25% | -6.99% | -1.95% | -6.99% | -15.53% | -2.81% |
| **Momentum Score** | C | - | - | F | C | B |
| Daily Price Chg | 0.74% | 0.26% | -0.92% | -1.79% | -1.94% | 0.26% |
| 1 Week Price Chg | 1.88% | -1.22% | 0.37% | -4.85% | -0.14% | 3.57% |
| 4 Week Price Chg | 19.90% | 4.89% | 4.14% | -0.54% | -4.90% | 4.89% |
| 12 Week Price Chg | 23.78% | 23.78% | 12.21% | 11.46% | -1.58% | 36.52% |
| 52 Week Price Chg | 56.12% | -21.85% | -1.73% | -14.33% | -4.92% | -55.49% |
| 20 Day Average Volume | 1,015,951 | 423,107 | 1,887,986 | 385,361 | 1,179,862 | 13,042 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | -11.55% | 0.00% |
| (F1) EPS Est 4 week change | 6.70% | 0.00% | 0.38% | -1.71% | -13.66% | 0.00% |
| (F1) EPS Est 12 week change | 5.61% | 2.46% | -0.07% | 21.78% | -14.22% | -110.89% |
| (Q1) EPS Est Mthly Chg | 5.08% | 0.00% | 0.16% | -3.73% | -13.12% | 0.00% |

## 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 | F |
| Growth Score | A |
| Momentum Score | C |
| 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.

## Disclosures

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