Rollins Inc. (Ticker: ROL): LONG (34% TSR) Winter Li, CFA
May 6, 2019 WLi19@gsb.columbia.edu

Financial Summary

FYE Dec 31 USD $mn except per share data

Share Price	37.57	**Mkt Cap**	12,296
52 wk Low	33.09	**Debt**	-
52 wk High	43.75	**Pref Shares**	-
BV/sh	2.20	**Min. Int**	-
Diluted S/O	327.3	**Cash & Equiv.**	115
Float	156.4	**Ent. Val**	12,181
Daily Vol ($vol)	45.2		
Shrt int (% float)	9.0%	**Net Debt**	-115.5
Div Yield	1.2%	**Net Debt/EBITDA**	N/A

	2016	2017	2018	2019E	2020E	2021E
Revenue	**1,573**	**1,676**	**1,822**	**2,120**	**2,374**	**2,583**
YoY growth	*5.9%*	*6.5%*	*8.7%*	*16.4%*	*12.0%*	*8.8%*
EBIT	**269**	**294**	**311**	**359**	**419**	**476**
EBIT mgn	*17.1%*	*17.6%*	*17.0%*	*16.9%*	*17.6%*	*18.4%*
Y/Y bps	*76bps*	*43bps*	*-51bps*	*-13bps*	*72bps*	*80bps*
EPS	**$ 0.51**	**$ 0.58**	**$ 0.71**	**$ 0.86**	**$ 0.96**	**$ 1.09**
YoY growth	*10.2%*	*14.1%*	*21.4%*	*20.9%*	*11.6%*	*13.7%*
ROIC	**40.6%**	**32.7%**	**39.9%**	**34.3%**	**34.3%**	**35.9%**
P/FCF			**43.8x**	**36.6x**	**32.6x**	**28.9x**

Executive Summary

I recommend a LONG position on Rollins (Ticker: ROL) for a potential 34% total return upside. Rollins is the world's largest pest control company, widely considered as best-in-class. On the surface, ROL may look expensive trading at 44x P/E (FY1) and 37x P/FCF (FY1), <u>the core pest control business is only trading at 15.5x P/E (FY1) and 13.3x P/FCF (FY1) after adjusting for the incremental value of existing growth initiatives. At the current stock price, investors can own a high-quality business at below market valuation.</u>

When selecting a stock to add to the 5x5x5 portfolio, I focused on a high-quality name that would likely to outperform under all macro-economic conditions. Rollins is a high-quality business with an established moat in a growing industry and with over 80% recurring revenue. Given the large and growing TAM as well as high recurring revenue, Rollins should outperform in both bull and bear markets as it has done over the past two decades. The stock has been a long-term compounder (15% CAGR over the past 20 years), and I believe that will continue over the next five years.

Company Overview

Rollins was founded in 1948 as Rollins Broadcasting. In 1964, Rollins ventured into the pest control business through the acquisition of Orkin Exterminating company, in what's believed to be the first LBO in history. By 1997, Rollins Inc. divested all non-pest businesses to become a pure-play pest control company. Today, Rollins is the world's largest pest control company, with ~90% of revenue coming from the United States. The US pest control market is quite fragmented, with approximately 20,000 companies. Rollins operates over 700 locations under its banners and is the largest player with approximately 20% market share; the top four players own approximately 50% market share. Figure 1 below shows Rollins revenue mix and figure 2 below illustrates unit economics at the branch level.

Fig. 1: Revenue mix

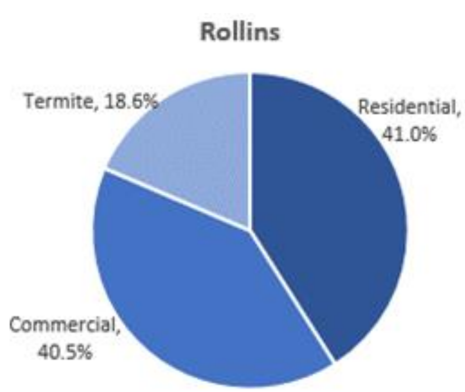
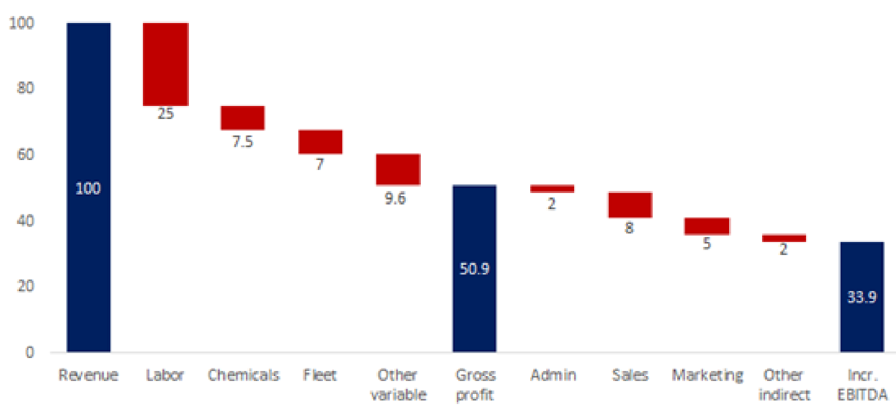


Fig. 2: Unit economics



Investment Thesis

The investment case for Rollins is based on three main thesis:

1. Wide moat with a growing TAM
2. Set up to outperform in all economic conditions with high recurring revenue, strong FCF conversion and no financial leverage
3. Three key growth opportunities that are undervalued by the market

Thesis 1: wide moat with a growing TAM

Rollins has established a wide moat in the industry. The company's competitive advantage can be broken down into two components: advantage on a national level and advantage at the local level.

<u>Scale advantages on a national level:</u>

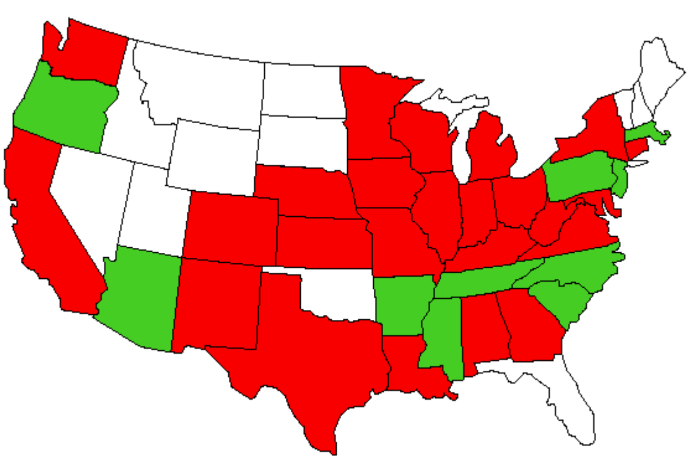
In the commercial segment, Rollins national footprint gives it access to national accounts, which has ~$1 billion TAM (30% of commercial pest market). Given, very few players have the scale and footprint to compete on a national scale, these national accounts are lucrative contracts. Commercial segment is also a more attractive due to the recurring nature of its revenue – financial consequences on businesses with pest problems is much greater than consequences for regular homes, so businesses are less likely to cut pest control spending. In the most recent downturn of 2008/2009, commercial segment organic revenue never went negative in any quarters.

Rollins scale also helps it to be more efficient in deploying certain fixed cost such as training expenses and marketing expenses. At Rollins, a large portion of training is completed virtually, with Rollins best-in-class training videos. As such, much of the training can be completed at very little incremental cost. Similarly, for marketing expense, Rollins scale allows the company to negotiate better rates and coordinate national campaigns. Orkin, Rollins' flagship brand, is by far the most recognized name in the pest control business.

On the revenue side, scale allows Rollins to better cross-sell services. If Rollins is already serving a customer on one service, it's much easier for Rollins to sell an additional offering to an existing customer than for a competitor to win the same business. Another benefit of cross-selling is that the customer acquisition cost is a lot lower compared to the cost required to add a new customer.

<u>Scale advantages at the local level:</u>

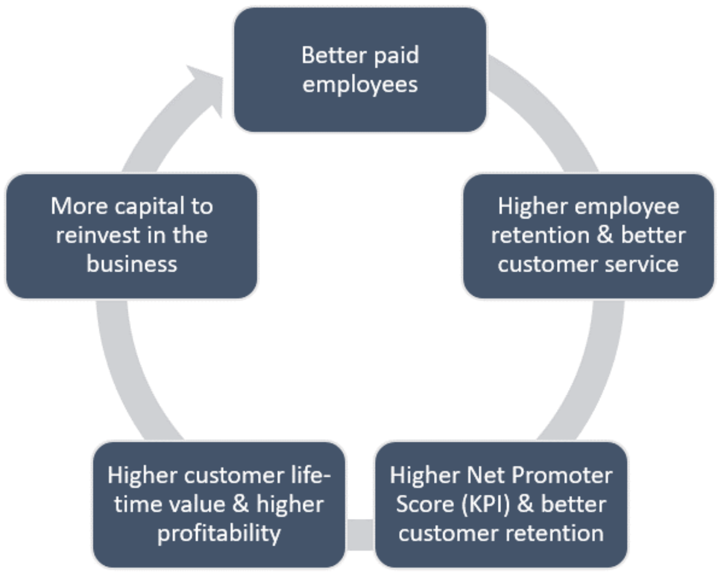
Fig. 3: Density by state



Local density is a key determinant of profitability as it is beneficial on both revenue and cost side. Local density means shorter distances between stops, saving technicians time on the road and freeing up time for technicians to serve more customers. On cost, local density means certain variable expenses such as fuel and fleet costs could be reduced. Additionally, Rollins would not need as many technicians and employees per location. In fact, Orkin (Rollins' flagship brand) employs 19 employees per branch at compared to Terminix (ServiceMaster's flagship brand) employs 29 employees per branch. Figure 3 to the left illustrates density by state. A state colored in red indicates that Orkin is denser, a state colored in green indicates that Terminix is denser, and an uncolored state indicates that both competitors have the same number of branches in that state. Based on this state-by-state illustration, Orkin is typically denser in most parts of the US. In fact, within a 15-mile radius of a branch, an Orkin location serves ~225,000 housing units vs. Terminix location serves ~175,000. Also, a typical Orkin customer makes $63,000 in annual income compared to $59,000 for customers of Terminix, indicating Orkin customers are generally less price elastic.

Winter Li, CFA
WLi19@gsb.columbia.edu

Fig. 4: Orkin's reinvestment cycle



Over the past two decades, Rollins has reinvested higher profitability back into its business to widen its moat. Rollins spends 5% of revenue on marketing expense, just about doubling that of industry average. Also, technicians at Rollins make on average $16/hr compared to $14/hr at ServiceMaster. Figure 4 illustrates how better paid employees at Orkin help it strengthen its moat.

Rollins technicians inspect customer homes on a bi-monthly basis, the most frequent among competitors. These frequent touchpoints build goodwill and foster relationships between customers and technicians. While switching cost is low for the price sensitive customers, a trusted relationship can increase customer retention. Ultimately, customers are willing to pay a premium for the extra peace of mind of trusted brands. In fact, Rollins is priced at a slight premium to its peers. For a typical residential contract, Orkin charges $736/yr vs. Terminix charges $716/yr vs. mom and pop charges $549/yr. The price differential indicates that customers are willing to pay more for a trusted brand.

Growing TAM:

The global pest control industry is an attractive industry that has grown at mid-single digit for the past decade. Today the global pest control industry is an $18 billion market, with North America accounting for half of the total market. Residential segment accounts for about 60% while commercial segment accounts for about 40%. Industry experts expect the market to continue to grow at mid-single digits going forward, supported by a number of tailwinds:

- **Increased penetration:** Currently, Rollins and ServiceMaster both serve just about two million US households each and account for 40% of the market. This implies that the total households served by the market is just ten million. Given there are 126 million households in the US, pest control companies still have a long way to expand services to serve a bigger number of households
- **Growing population:** world population is growing at 80 million a year while pest population is growing at a faster pace than population growth. Mosquitos and bed bugs are two main drivers for pest growth at the moment.
- **Global warming:** pests generally thrive in warmer climates. Thus global warming is a secular tailwind for the industry
- **Urbanization:** Pest issues are more prevalent in urban areas. Globally there is a shift towards urbanization – 70% of population will live in cities by 2050 (vs. 43% in 1990).
- **Increasing business pressure:** pest issues could lead to significant reputational risk for businesses; 22% of facilities across the global food chain have some record of pest activity at any one point; over 80% of hotels have experienced bed bug issues. Given social media and more stringent regulatory trends, pest control will be a greater focus moving forward.
- **Rise of middle class:** people in the middle class tend to have higher life quality standards and lower tolerance for pests than those in the lower class. 160 million people rise to the middle class every year.

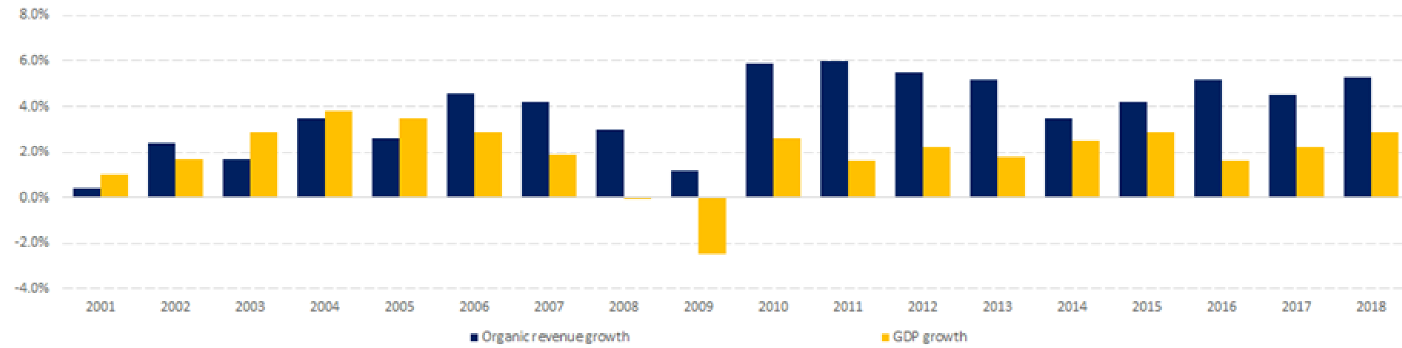
Rollins and ServiceMaster are the leading players with ~20% market share each. Currently, the industry only serves ~10 million households compared to 126 million households in the US. Therefore, the industry still a long runway to expand TAM through new offerings to service more US households. US pest control industry is highly fragmented with ~20,000 companies. Opportunities to grow could come from organic growth or through tuck-in acquisitions.

Thesis 2: set up to outperform in all economic conditions with high recurring revenue, strong FCF conversion and no financial leverage

Rollins' reputation and high level of customer engagement have helped the company acquire a highly sticky customer base – each segment's retention rate at industry leading 80-90%. Also, Rollins has been able to push through low-single digit price increases annually. Figure 5 below shows Rollins organic revenue growth (backing out M&A and fx impacts) in the blue bar and US GDP growth in the yellow bar. Two points stand out:

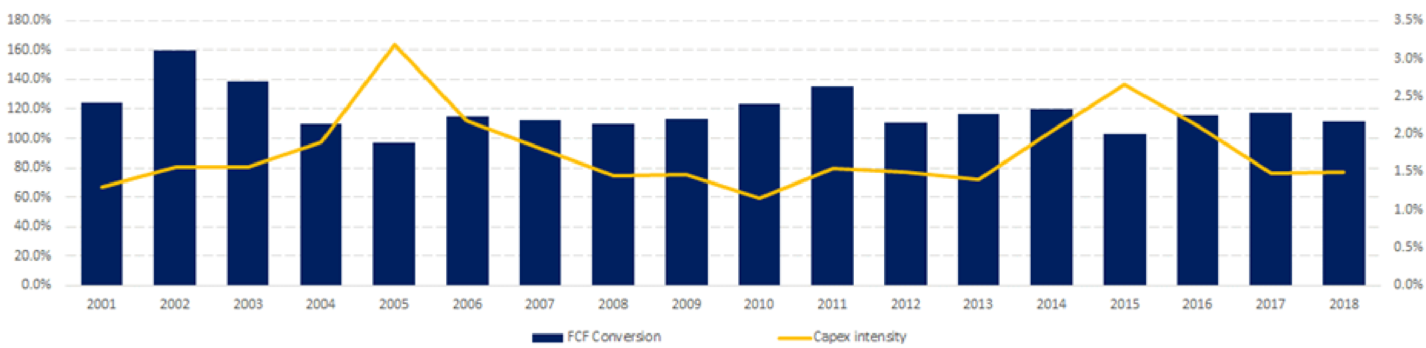
- Organic revenue growth never went negative, even through the downturns of early 2000's and 2008/2009
- Organic revenue growth has been extremely robust, higher than GDP growth in each of the past 13 years and more than doubling GDP growth in 10 of the last 12 years

Fig. 5: Rollins organic growth vs. GDP growth



Pest control is an attractive business with extremely robust free cash flow generation. As Figure 6 below indicates, capex intensity, as shown in the yellow line, averages to be around 2% of revenue (including growth capex). Free cash flow conversion (defined by FCF over net income) as shown in the blue bars has been consistently above 100%.

Fig. 6: Rollins FCF conversion and capex intensity



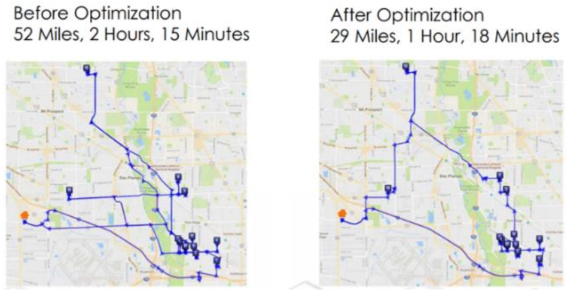
Management has been extremely risk-averse with financial leverage. Historically, Rollins has always run at a net cash position. Per conversations with Rollins CFO and IR, the company does not like to take on financial leverage unless it is required for an extremely attractive acquisition opportunity. Management prefers to keep a net cash position to take advantage of market downturns and invest countercyclically.

Thesis 3: Three key growth opportunities that are undervalued by the market

There are three key growth opportunities at Rollins: virtual route management and scheduling (VRM) rollout, future acquisitions and mosquitos opportunity. From speaking with sell-side and buy-side investors, no one breaks these out separately when assessing the company. Over the past few quarters, management has given sufficient commentary to estimate the impact of each of these opportunities. Below, I discuss how I quantified each opportunity.

1. VRM rollout:

Fig. 7: VRM routing



Rollins has been aggressive with its technology rollout over the past five years. Currently the company is rolling out its VRM system, an initiative to optimize driving routes for all technicians. Refer to Figure 7 on the left for a visual depiction of the VRM initiative. This initiative began in 2016 and is ~50% implemented. Per management commentary, VRM saves 45 minutes and half a mile per customer visit. Of the total potential cost savings, management thinks VRM can still help to save 10-15% of miles driven. In addition, to fuel and fleet savings, VRM roll out should help with technician productivity during the day with additional daily customers per employee. Management estimates there is another 10% in productivity remaining. From these commentaries, I'm able to quantify the incremental benefits from the VRM initiative in Figure 8 below.

Fig. 8: Quantifying the VRM impact

	2018A	Cost savings	Full impact	VRM benefits inferred from mgmt. comments
Revenue	**2,602,236**	**2,602,236**	**2,914,504**	
% change		**0%**	**12%**	10% productivity gain; 2% higher retention
Labor	650,559	637,548	714,053	
% of revenue	25.0%	24.5%	24.5%	
% change		-2%	9.8%	Mostly variable cost; some productivity gains
Chemicals	195,168	195,168	218,588	
% of revenue	7.5%	7.5%	7.5%	
% change		0%	12.0%	
Fuel	52,045	46,840	52,461	
% of revenue	2.0%	1.8%	1.8%	
% change		-10%	0.8%	Miles/stop decrease 10%
Fleet	130,112	117,101	131,153	
% of revenue	5.0%	4.5%	4.5%	
% change		-10%	0.8%	Efficiency in fleet usage
Other	249,884	249,884	279,870	
% of revenue	9.6%	9.6%	9.6%	
% change		0%	12.0%	
Total COGS	**1,277,767**	**1,246,540**	**1,396,125**	
% of revenue	**49.1%**	**47.9%**	**47.9%**	Gross mgn improve 120bps
% change		**-2.4%**	**9.3%**	
Admin	52,045	52,045	58,290	
% of revenue	2.0%	2.0%	2.0%	
% change		0%	12.0%	
Sales	208,179	208,179	233,160	
% of revenue	8.0%	8.0%	8.0%	
% change		0%	12.0%	
Marketing	130,112	130,112	145,725	
% of revenue	5.0%	5.0%	5.0%	
% change		0%	12.0%	
Other indirect variable	52,045	52,045	58,290	
% of revenue	2.0%	2.0%	2.0%	
% change		0%	12.0%	
Total indirect variable cost	**442,380**	**442,380**	**495,466**	
% of revenue	**17%**	**17%**	**17%**	
% change		**0.0%**	**12.0%**	
Per location profitability	**882,089**	**913,315**	**1,022,913**	
% of revenue	**34%**	**35%**	**35%**	
% change		**3.5%**	**16.0%**	

Fig. 9: Valuing the VRM benefits

Incremental pre-tax profit:	140,825
# of locations	700
Incremental pre-tax profit ($M)	99
Assumed tax rate	21%
Incremental after-tax profit ($M)	78
Assumed multiple	25.0x
Incremental value from VRM ($M)	**1,947**
Value per share	**$ 6.14**

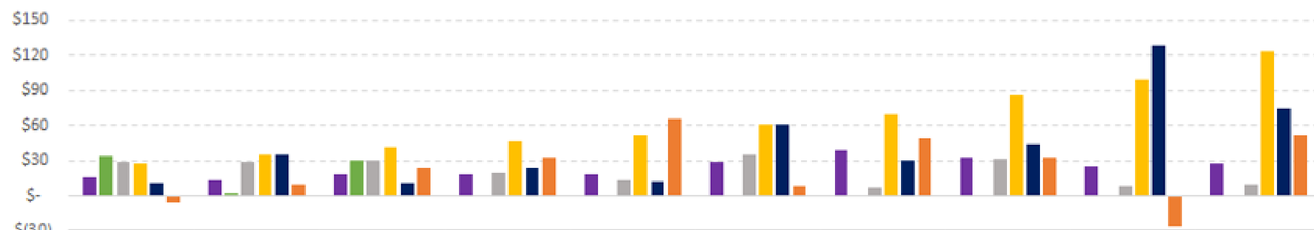
The incremental per-branch pre-tax profit is $140,825. If I apply that across the entire footprint of Rollins (700 locations), assuming 21% tax rate and 25x multiple, the incremental value from the VRM roll out is another $6.14/sh.

Winter Li, CFA
WLi19@gsb.columbia.edu

2. <u>Acquisitions upside</u>

Per Figure 10 below, Rollins has ramped up on acquisitions over the past two years. Just last week, Rollins closed its largest acquisition to-date in Clark Pest Control. Historically, Rollins has a great history in acquiring companies. Typically, Rollins has been able to acquire companies at 6-8x EV/EBITDA (after synergies) while it trades at a much higher valuation than that, making these acquisitions highly accretive. There are a couple indicators that clearly illustrate Rollins acquisition capabilities. One way is by looking at consolidated ROIC, which has been trending upwards over the past twenty years. The other indicator is by evaluating the previous largest acquisition, HomeTeam. HomeTeam was a controversial acquisition in 2008 because Rollins had just acquired a pest control company with new construction exposure right when the US housing market was turning over. A decade later, we can conclude it was a great acquisition as HomeTeam is now valued at $4.4 billion (compared to $137 million acquisition price in 2008). Management's prior track record over the past two decades give me confidence of continued success in acquisitions.

Fig. 10: Capital allocation trends



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Capex	$16	$13	$19	$19	$19	$29	$40	$33	$25	$27
Debt repayment	$34	$2	$31	$-	$-	$-	$-	$-	$-	$-
Share repo	$29	$29	$30	$20	$14	$36	$7	$31	$8	$10
Dividends	$28	$36	$41	$47	$53	$61	$70	$86	$99	$124
Acquisitions	$11	$35	$10	$24	$12	$61	$30	$44	$129	$75
Other	$(6)	$10	$24	$33	$66	$9	$50	$32	$(26)	$51

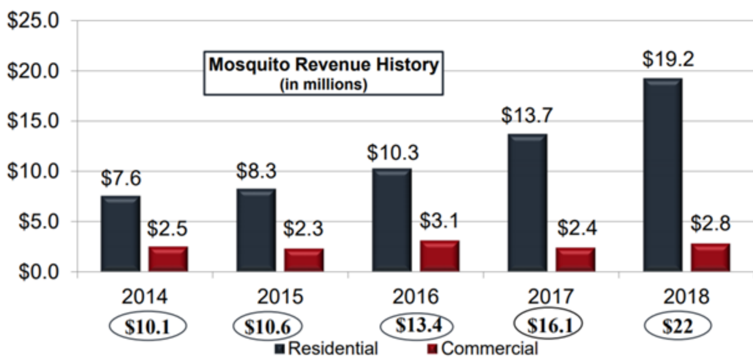
See Figure 11 below for valuation of acquisition benefits. To quantify the potential benefit from increased M&A deployment, I first calculate the incremental value from capital deployed between 2017-2019. In aggregate, Rollins has deployed approximately $399 million. The typical post-synergy multiple they've paid for an acquisition is between 6-8x EV/EBITDA. Then I assume over time, EBITDA margin could increase to 30%, slightly below incremental EBITDA margin. Applying a 25x multiple, there is $5.16/sh of incremental value. Further, I assume that Rollins can continue to deploy $150 million (projected free cash flow after dividends) per year on M&A. Under the same assumptions and assuming Rollins can deploy capital at similar returns for another five years, that equates to another $7.36/sh.

Fig. 11: Valuing acquisition benefits

	2017-2019	Potential	Key assumptions for 2017-2019	2020	Potential	2021	2022	2023	2024
Total acquisitions	399		Last two years acquisitions plus Clark Pest Control	150					
EV/EBITDA	7.0x		Typical post-synergy multiple	7.0x					
Implied EBITDA	57			21					
Rev. per Year ($m)	271	271		102	102				
EBITDA ($m)	57	81		21	31				
EBITDA mgn	21%	30%	Assume ROL margin post-synergy	21%	30%				
Assumed multiple		25.0x			25.0x				
EV ($m)	(399)	2,036		(150)	765				
Value per share	$ (1.26)	$ 6.42		$ (0.47)	$ 2.41				
Incremental value		**$ 5.16**			**$ 1.94**	**$ 1.94**	**$ 1.94**	**$ 1.94**	**$ 1.94**
Discount rate					10%	10%	10%	10%	10%
PV/share					$ 1.76	$ 1.60	$ 1.46	$ 1.33	$ 1.21
Aggregate incremental value					**$ 7.36**				

3. <u>Mosquitos opportunity</u>

Fig. 12: Mosquitos historical revenue growth



Rollins enjoyed an acceleration in growth of mosquitos revenue in 2018 after a refocus into the mosquitos opportunity. For the first time, Rollins started to train its technicians on *selling* mosquitos services. Prior to 2018, all mosquito-related training was on *treating* mosquitos. After starting to train employees on cross-selling mosquito-related services, Rollins has seen high take-rate on this offering. Most notably, management realized that customers are very receptive to adding mosquito service but didn't know Rollins offered the service.

Fig. 13: Valuing the mosquitos opportunity

	2018A	Potential	Key assumptions
Customers	2,000,000	2,000,000	
Penetration	2.5%	30%	60% penetration potential per discussion with mgmt.
Mosquito Customers	50,000	600,000	
Rev per Customer	$ 400	$ 400	Per discussion with IR
Rev. per Year ($m)	20	240	
EBITDA mgn.	50%	50%	Per discussion with mgmt.
EBITDA ($m)	10	120	
EV/EBITDA Multiple	25.0x	25.0x	Assume 25x EBITDA multiple
EV ($m)	250	3,000	
Value per share	$ 0.79	$ 9.46	
Incremental value/sh	**$ 8.68**		Potential less 2018A

To quantify the potential benefit from the mosquitos opportunity, I first calculate the current contribution from mosquitos. Then I calculate the potential opportunity based on conversations with the CFO and IR, earnings call transcripts and public disclosures. Management believes Rollins is still in the very early stages of the mosquitos opportunity. Based on the demand seen to-date, management believes Rollins could see 60% penetration for mosquitos service. However, based on a proprietary customer survey of 110 participants, I conservatively estimate mosquitos penetration could reach 30%. The mosquitos opportunity also yields higher margin due to the nature of the service and cost savings on customer acquisition cost as most of customer acquisition is through cross-selling. I apply a 25x multiple to estimate the potential value of the opportunity, which equates to $8.68/sh.

Valuation

Given management's prior track record of consistently outperforming guidance and strong capital allocation decisions, I have confidence in the commentary they've provided on the existing growth opportunities.

To value the company, I figure the most appropriate valuation method is first backing out the value of the growth initiatives and valuing the remaining Rollins Core business. Based on the calculated value of growth opportunities of $24.31/sh, Rollins Core business is only worth $13.26/sh, valued at 15.5x P/E (FY1) or 13.3x P/FCF (FY1). Rollins Core deserves to trade at a premium to the market given its wide moat, above-market growth rate and exposure to highly recurring revenue. In my base case, I apply 25x P/FCF multiple using my calculated justified multiple based on growth rate, assumed discount rate and FCF conversion. I also sanity check that multiple against pest control peers and Rollins' own historical multiple.

Figure 14 on the next page walks through my valuation in bear, base and bull case scenarios with the main assumptions laid on in the commentary column.

Winter Li, CFA
WLi19@gsb.columbia.edu

Fig. 14: Valuation cases

Bear Case	**FCF/sh**	**Multiple**	**$/share**	**Comments**
VRM Initiative			$ 3.07	Assume incremental upside is 50% of base case
2017-2019 M&A			$ -	Assume no synergies on M&A
2020-2024 M&A			$ -	Assume no synergies on M&A
Mosquito Opportunity			$ 1.88	Assume 10% penetration, in-line with Atlanta penetration rate
			$ 4.95	
Rollins Core	$ 0.92	20.0x	$ 18.47	Assume only recurring revenue remaining at 10-year trough valuation
Target Price			**$ 23.43**	
Downside			**-36%**	

Base Case	**FCF/sh**	**Multiple**	**$/share**	**Comments**
VRM Initiative			$ 6.14	Incremental upside from VRM initiative
2017-2019 M&A			$ 5.16	Incremental upside from acquisitions completed between 2017-2019
2020-2024 M&A			$ 7.36	Incremental upside based on $150m/yr in acquisitions between 2020-2024
Mosquito Opportunity			$ 5.65	Based on 30% penetration at 50% EBITDA margin
Value from Growth Opps			$ 24.31	
Rollins Core	$ 1.03	25.0x	$ 25.66	Assume 25x FCF multiple calculated based on growth rate, assumed discount rate and FCF conversion
Target Price			**$ 49.97**	
Upside			**34%**	

Bull Case	**FCF/sh**	**Multiple**	**$/share**	**Comments**
VRM Initiative			$ 6.14	Assume base case upside from VRM initiative
2017-2019 M&A			$ 9.23	Assume post-synergy multiple of 6x and margin expansion to 35%
2020-2024 M&A			$ 17.54	Assume post-synergy multiple of 6x and margin expansion to 35%
Mosquito Opportunity			$ 12.09	Assume 60% penetration per mgmt. guidance
			$ 45.00	
Rollins Core	$ 1.03	35.0x	$ 36.05	Assume 35x FCF multiple, in-line with current multiple
Target Price			**$ 81.05**	
Upside			**117%**	

Risk & Mitigation

Risk: The Rollins family owns >50% of the company and is unlikely to sell down to below 50% ownership. Large family ownership could limit liquidity of the stock.

- Mitigation: The nature of the 5x5x5 is to hold a stock for five years without any trading activity in between. Thus the liquidity concerns is somewhat offset by this buy-and-hold strategy.

Risk: Potential increase in competition from major competitors such as ServiceMaster and Rentokil on organic and inorganic growth opportunities.

- Mitigation: Rollins has been extremely disciplined in its growth and acquisition plans. The company has given up on many past acquisitions because it would not match competitors' bidding price. Given majority of the market is still quite fragmented and TAM is growing, the market is large enough for more than one company to thrive.

Risk: CEO Gary Rollins (74) is well connected and could retire in the near future.

- The company has a deep bench with executives who are well suited to replace Gary Rollins.

Winter Li, CFA
WLi19@gsb.columbia.edu

Research Sources

Industry Contacts	Investment Community
Orkin branch visit	Sell-side analyst x3
Branch manager of a large private competitor	Buy-side analyst x7 (holders)
Ex branch manager	Buy-side PM x2 (holders)
CEO of ServiceMaster	
CFO of Rollins	
IR of Rollins	
IR of Rentokil	
Former C-suite executive of competitors x3	

Financial Statements

Income Statement

Income Statement	Dec '14 FY 14	Dec '15 FY 15	Dec '16 FY 16	Dec '17 FY 17	Dec '18 FY 18	Dec '19 FY 19E	Dec '20 FY 20E	Dec '21 FY 21E	Dec '22 FY 22E	Dec '23 FY 23E
$ - Revenue by Segment										
Commercial	591.1	610.8	645.1	677.8	709.9	811.5	900.3	973.1	1,049.0	1,128.0
Residential	571.4	609.0	645.1	686.7	776.5	899.2	1,013.4	1,109.2	1,210.8	1,318.4
Termite	242.1	253.0	283.2	311.0	335.1	409.4	460.6	501.0	543.5	588.4
Total Revenues	1,411.6	1,485.3	1,573.5	1,675.6	1,821.6	2,120.0	2,374.4	2,583.3	2,803.3	3,034.9
Growth ex. M&A										
Commercial	*4.5%*	*2.7%*	*3.5%*	*3.6%*	*3.6%*	*4.1%*	*4.2%*	*4.2%*	*4.2%*	*4.2%*
Residential	*4.0%*	*6.1%*	*7.2%*	*5.3%*	*6.0%*	*6.3%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
Termite	*1.8%*	*2.9%*	*4.8%*	*4.9%*	*5.4%*	*5.7%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*
Total Growth ex. M&A	*3.9%*	*4.2%*	*5.2%*	*4.5%*	*5.2%*	*5.3%*	*5.2%*	*5.2%*	*5.2%*	*5.2%*
Cost of Services	707.7	736.0	772.3	819.9	894.4	1,004.2	1,184.8	1,281.3	1,382.0	1,487.1
% of Sales	*50.1%*	*49.6%*	*49.1%*	*48.9%*	*49.1%*	*47.4%*	*49.9%*	*49.6%*	*49.3%*	*49.0%*
Growth (in bps)	*(59)*	*(59)*	*(47)*	*(15)*	*17*	*(173)*	*253*	*(30)*	*(30)*	*(30)*
Total Gross Profit	703.8	749.3	801.1	854.0	927.1	1,055.8	1,189.6	1,302.0	1,421.3	1,547.8
% GM	*49.9%*	*50.4%*	*50.9%*	*51.0%*	*50.9%*	*49.8%*	*50.1%*	*50.4%*	*50.7%*	*51.0%*
Growth (in bps)	*59*	*59*	*47*	*5*	*(7)*	*(110)*	*30*	*30*	*30*	*30*
D&A	43.5	44.5	50.9	56.6	66.8	83.1	95.0	103.3	112.1	121.4
% of Sales	*3.1%*	*3.0%*	*3.2%*	*3.4%*	*3.7%*	*3.9%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
SG&A	441.1	463.7	481.5	503.4	550.7	614.1	675.8	722.4	769.9	818.3
% of Sales	*31.3%*	*31.2%*	*30.6%*	*30.0%*	*30.2%*	*29.0%*	*28.5%*	*28.0%*	*27.5%*	*27.0%*
Other	(0.1)	(2.0)	(0.8)	(0.2)	(0.9)	0.0	0.0	0.0	0.0	0.0
Income from operations	219.2	243.0	269.5	294.2	310.5	358.6	418.7	476.3	539.2	608.1
% OM	*15.5%*	*16.4%*	*17.1%*	*17.6%*	*17.0%*	*16.9%*	*17.6%*	*18.4%*	*19.2%*	*20.0%*
Growth (in bps)	*123*	*83*	*76*	*43*	*(51)*	*(13)*	*72*	*80*	*80*	*80*
Interest income, net	0.3	0.2	0.2	0.3	0.2	0.3	0.3	0.2	0.3	0.5
Interest Exp.	0.3	0.0	0.0	0.0	0.0	(4.4)	0.0	0.0	0.0	0.0
Income before income taxes	219.5	243.2	260.6	294.5	310.7	354.5	419.0	476.4	539.6	608.6
Income tax provision/(benefit)	81.8	91.0	93.3	115.4	79.1	74.5	106.4	121.0	137.0	154.6
% Tax Rate	*37.3%*	*37.4%*	*35.8%*	*39.2%*	*25.4%*	*21.0%*	*25.4%*	*25.4%*	*25.4%*	*25.4%*
Net income - reported	137.7	152.1	167.4	179.1	231.7	280.1	312.6	355.4	402.5	454.0
Net income - recurring	137.7	152.1	167.4	190.7	231.7	280.1	312.6	355.4	402.5	454.0
% Growth	*11.6%*	*10.5%*	*10.0%*	*14.0%*	*21.5%*	*20.9%*	*11.6%*	*13.7%*	*13.3%*	*12.8%*
Diluted EPS - non GAAP	0.63	0.46	0.51	0.58	0.71	0.86	0.96	1.09	1.23	1.39
% Growth	*11.8%*	*-26.3%*	*10.2%*	*14.1%*	*21.4%*	*20.9%*	*11.6%*	*13.7%*	*13.3%*	*12.8%*
Weighted-average number of shares - diluted	218.7	327.9	327.3	327.0	327.3	327.3	327.3	327.3	327.3	327.3
Shares Increase / (Decrease)	(0.4)	109.2	(0.5)	(0.4)	0.3	0.0	0.0	0.0	0.0	0.0
Dividends per share	0.35	0.28	0.34	0.39	0.48	0.55	0.63	0.73	0.84	0.96
% Growth	*15.6%*	*-19.2%*	*22.6%*	*13.6%*	*22.6%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*

Balance Sheet

Balance Sheet	Dec '14 FY 14	Dec '15 FY 15	Dec '16 FY 16	Dec '17 FY 17	Dec '18 FY 18	Dec '19 FY 19E	Dec '20 FY 20E	Dec '21 FY 21E	Dec '22 FY 22E	Dec '23 FY 23E
Cash and cash equivalent	108.4	134.6	142.8	107.1	171.4	69.8	39.8	77.4	132.2	203.5
Short-term investments										
Accounts Receivable, net	77.9	79.9	88.5	97.8	98.5	111.9	130.1	141.6	153.6	166.3
Other Receivables	12.2	13.8	16.0	17.3	20.4	20.4	20.4	20.4	20.4	20.4
Inventories	14.1	12.8	13.7	15.0	14.8	16.7	19.6	21.2	22.9	24.7
Other current assets	71.4	72.8	29.2	25.7	23.3	26.5	29.7	32.3	35.0	37.9
% of Sales	*5.1%*	*4.9%*	*1.9%*	*1.5%*	*1.3%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*
Total Current Assets	284.0	313.9	290.2	262.8	328.4	245.3	239.6	292.8	364.1	452.8
Net Property, Plant & Equipment	101.7	121.4	133.5	134.1	136.9	134.6	206.2	277.5	348.5	419.2
Intangible Assets	389.0	388.9	417.4	560.9	552.6	802.7	820.7	833.7	841.5	843.6
Other assets	33.5	28.3	75.4	75.8	127.1	127.1	127.1	127.1	127.1	127.1
Total Assets	808.2	852.4	916.5	1,033.7	1,145.0	1,309.7	1,393.6	1,531.2	1,681.2	1,842.7
Accounts payable	22.9	24.9	30.3	26.2	27.8	31.4	39.0	42.1	45.4	48.9
Short-term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income taxes, current	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unearned revenues	94.1	96.2	99.8	109.0	123.9	123.9	123.9	123.9	123.9	123.9
Other Current Liabilities	135.7	131.9	146.9	159.4	156.6	173.5	194.3	211.4	229.4	248.3
% of Sales	*9.6%*	*8.9%*	*9.3%*	*9.5%*	*8.6%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*
Total Current Liabilities	252.7	253.0	277.0	294.6	308.4	328.8	357.1	377.4	398.7	421.1
Long-term Debt	0.0	0.0	0.0	0.0	0.0	50.0	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities	92.8	75.4	71.0	85.2	85.4	85.4	85.4	85.4	85.4	85.4
Total Liabilities	345.5	328.4	348.0	379.7	393.8	464.2	442.6	462.8	484.1	506.6
Total Shareholders' Equity	462.7	524.0	568.5	653.9	751.2	845.5	951.0	1,068.3	1,197.0	1,336.1
Total Liabilities and Shareholders' Equity	808.2	852.4	916.5	1,033.7	1,145.0	1,309.7	1,393.6	1,531.2	1,681.2	1,842.7
Check	-	-	-	-	-	-	-	-	-	-
Days of Sales Outstanding	20	20	21	21	20	19	20	20	20	20
Days of Inventory on Hand	7	6	6	7	6	6	6	6	6	6
Days of Payables Outstanding	12	12	14	12	11	11	12	12	12	12
Cash Conversion Cycle (Days)	16	14	13	16	14	14	14	14	14	14
Metrics and Ratios										
FCF	165.4	156.9	193.4	210.7	281.0	335.9	377.0	425.7	478.6	536.3
EBITDA	262.7	287.5	319.4	349.8	377.3	443.4	513.7	579.6	651.4	729.5
Total Debt	0.0	0.0	0.0	0.0	0.0	50.0	0.0	0.0	0.0	0.0
Total Debt / LTM EBITDA	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Net Debt	(108.4)	(134.6)	(142.8)	(107.1)	(171.4)	(19.8)	(39.8)	(77.4)	(132.2)	(203.5)
Net Debt / EBITDA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROIC	38.8%	39.0%	40.6%	32.7%	39.9%	34.3%	34.3%	35.9%	37.8%	40.1%
FCF / Share	0.76	0.48	0.59	0.64	0.86	1.03	1.15	1.30	1.46	1.64

Cash Flow Statement

Cash Flow Statement	Dec '14 FY 14	Dec '15 FY 15	Dec '16 FY 16	Dec '17 FY 17	Dec '18 FY 18	Dec '19 FY 19E	Dec '20 FY 20E	Dec '21 FY 21E	Dec '22 FY 22E	Dec '23 FY 23E
Net Income	137.7	152.1	167.4	179.1	231.7	280.1	312.6	355.4	402.5	454.0
Depreciation and amortization	44.5	44.5	49.9	55.5	66.7	84.8	95.0	103.3	112.1	121.4
% of Sales	*3.2%*	*3.0%*	*3.2%*	*3.3%*	*3.7%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Change in working capital	0.4	(13.3)	(15.9)	(40.2)	(16.8)	(11.7)	(13.6)	(9.9)	(10.4)	(11.0)
Receivables	(13.4)	(12.5)	(15.9)	(13.7)	23.9	(13.4)	(18.2)	(11.4)	(12.1)	(12.7)
Inventories	(1.5)	1.3	0.0	(0.8)	1.3	(1.9)	(3.0)	(1.6)	(1.7)	(1.7)
Accounts Payable	15.3	(2.0)	0.0	(25.7)	(2.2)	3.6	7.6	3.2	3.3	3.5
Income Taxes Payable	0.0	3.5	(3.2)	18.6	4.6	0.0	0.0	0.0	0.0	0.0
Other Assets/Liabilities	(11.6)	(1.6)	8.4	(0.6)	23.0	13.6	17.6	14.5	15.2	16.1
Other	25.5	11.0	20.0	22.9	(1.9)	0.0	0.0	0.0	0.0	0.0
Net Cash from Operating Activities	194.1	196.4	226.5	235.4	307.3	366.8	411.6	463.4	519.5	580.5
CapEx	(28.7)	(39.5)	(33.1)	(24.7)	(26.3)	(30.9)	(34.6)	(37.7)	(40.9)	(44.2)
% of Sales	*-2.0%*	*-2.7%*	*-2.1%*	*-1.5%*	*-1.4%*	*-1.5%*	*-1.5%*	*-1.5%*	*-1.5%*	*-1.5%*
Net Assets from Acquisitions	(63.3)	(33.5)	(46.3)	(130.2)	(71.8)	(300.0)	(150.0)	(150.0)	(150.0)	(150.0)
Purchase/Sale of Investments	2.6	0.0	2.4	0.1	0.3	0.0	0.0	0.0	0.0	0.0
Other	0.0	3.0	0.2	0.6	1.0	0.0	0.0	0.0	0.0	0.0
Net Cash from Investing Activities	(89.5)	(69.9)	(76.8)	(154.2)	(96.8)	(330.9)	(184.6)	(187.7)	(190.9)	(194.2)
Cash Dividends Paid	(75.8)	(91.8)	(109.0)	(122.0)	(126.0)	(170.2)	(207.0)	(238.1)	(273.8)	(314.9)
Change in Capital Stock	(30.8)	(5.5)	(31.1)	(8.2)	(9.7)	0.0	0.0	0.0	0.0	0.0
Change in Long-Term Debt	0.0	0.0	0.0	0.0	0.0	50.0	(50.0)	0.0	0.0	0.0
Other	0.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash from Financing Activities	(106.5)	(97.2)	(136.4)	(130.3)	(135.8)	(120.2)	(257.0)	(238.1)	(273.8)	(314.9)
Effect of exchange rate changes	(8.0)	(3.0)	(5.1)	13.3	(10.4)	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	(9.8)	26.2	8.2	(35.7)	64.4	(101.6)	(30.0)	37.6	54.8	71.4
Cash and cash equivalents, beginning of period	118.2	108.4	134.6	142.8	107.1	171.4	69.8	39.8	77.4	132.2
Cash and cash equivalents, end of period	108.4	134.6	142.8	107.1	171.4	69.8	39.8	77.4	132.2	203.5