Rollins, Inc.
Fourth Quarter 2024 Earnings
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Presenters
Lyndsey Burton - Vice President, Investor Relations
Jerry Gahlhoff - Chief Executive Officer and President
Kenneth Krause - Executive Vice President and Chief Financial Officer

Q&A Participants
Tim Mulrooney - William Blair
George Tong - Goldman Sachs
Ronan Kennedy - Barclays
Ashish Sabadra - RBC Capital
Jason Haas - Wells Fargo
Aadit Shrestha - Stifel
Karan Singhania - UBS
Peter Sullivan - Jefferies

Operator
Greetings, and welcome to the Rollins Fourth Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce Lyndsey Burton, Vice President of Investor Relations. Thank you. You may begin.

Lyndsey Burton
Thank you. In addition to the earnings release that we issued yesterday, the company has also prepared a supporting slide presentation. The earnings release and presentation are available on our website at www.rollins.com. We have included certain non-GAAP financial measures as part of our discussion this morning. The non-GAAP reconciliations are available in the appendix of today's presentation as well as in our earnings release.

The company's earnings release discusses the business outlook and contains certain forward-looking statements. These particular forward-looking statements and all other statements that have been made on this call, excluding historical facts, are subject to a number of risks and uncertainties, and actual results may differ materially from any statement we make today.

Please refer to yesterday's press release and the company's SEC filings, including the Risk Factors section of our Form 10-K for the year ended December 31, 2024, which will be filed later today.

On the line with me today speaking are Jerry Gahlhoff, President and Chief Executive Officer; and Ken Krause, Executive Vice President and Chief Financial Officer. Management will make some opening remarks, and then we'll open the line for your questions.

Jerry, would you like to begin?

Jerry Gahlhoff
Thank you, Lyndsey. Good morning, everyone. Fiscal 2024 was another solid year for Rollins as we achieved a milestone of $3.4 billion in revenue. Our business remains healthy on all fronts as demand remains strong throughout the year across all major service offerings. As full year revenue increased 10.3% versus last year, we grew earnings by 7.9% and adjusted earnings per share by 11.2%.

Organic growth for the year of 7.9% was bolstered by strong execution of our operating strategies and continued investment in people and staffing to meet the continued demand in our markets. We strategically allocated resources to the commercial side of our business as we opened a dedicated commercial division within Orkin. Through this focus, we grew our sales force by more than 15% in the last year and invested in support training and tools to help new sales professionals get up to speed quickly and effectively.

As Ken will discuss, these investments to support long-term growth objectives did temper incremental margins a bit in the second half of the year, but we are confident in our ability to yield a strong return on these investments as we head into 2025.

Our service quality is high, our offerings are customized, and we believe that we are well positioned to capitalize on growth opportunities within a multibillion-dollar B2B market. Investments to drive organic growth are complemented by strategic M&A, and in 2024, we closed 44 tuck-in deals. We have a robust M&A pipeline with a number of opportunities that we are actively evaluating to drive additional growth.

Operationally, we remain committed to hiring and developing top talent. The hiring environment was healthy in 2024 as we put significant energy into onboarding the right people in both support functions as well as the customer-facing side of our business. Effective sales and service staffing levels helped us capitalize on continued demand and deliver solid results for the year.

We're proud of the tenure and experience of our team as well as their engagement level and commitment to both our company and our customers. While overall teammate retention has been consistently healthy, there is opportunity for improved retention of our newer teammates, specifically those who are with us for six months or less. We made positive strides in this area throughout 2024 by updating our training and onboarding programs to better address key milestones in the early days that a new team member is with us.

Another important part of our culture is our dedication to continuous improvement, and our focus on safety is a key element of this. There's nothing more important than ensuring our teammates make it home safely at the end of the day, and in 2024, we implemented several new programs to continue building our safety culture here at Rollins.

Our newly revamped onboarding program also includes enhanced safety training intended to equip our drivers with the technical skills, awareness and courtesy needed to uphold the driver safety standards we expect.

While we are proud of the progress we have made, there is a long tail associated with safety claims that we continue to work through. This is evidenced by our insurance and claims experience in the fourth quarter, which Ken will discuss in more detail. Improving a safety culture isn't something that's done overnight, but we are committed to reducing our claims pipeline over time through ongoing safety efforts.

As we look ahead to 2025, we're encouraged by the opportunities that are in front of us across all aspects of our business. Momentum is strong as we finished 2024 with the highest quarterly organic growth rate that we saw all year. Our residential business also had its best quarter of the year, growing 6.5% organically.

We have meaningfully grown our commercial sales force under the banner of a new Orkin commercial division to better align the management of these resources and drive results. Our modernization efforts are progressing well, but we are still early in our journey and see a multitude of areas to drive incremental change.

As Ken will discuss, Fitch and S&P have recently announced investment-grade corporate credit ratings for our company that will provide us with another important access point to the capital markets as we execute our growth strategy. Most importantly, we remain committed to providing our customers with the best customer experience and investing meaningfully in our team to drive growth, both organically as well as through disciplined acquisitions.

We are pleased with where our business stands today and what lies ahead of us in 2025, and I want to thank each of our 20,000-plus teammates around the world for their efforts and contribution to our success in 2024.

I'll now turn the call over to Ken. Ken?

Kenneth Krause
Thanks, Jerry, and good morning, everyone. Our results for the quarter and the year reflect continued strong execution by the Rollins team, and let me begin with a few highlights for 2024.

First, we delivered robust revenue growth of 10.3% for the year with a strong growth across each of our service offerings. It was encouraging to see organic growth of 7.9% for the year while acquisitions continue to be a meaningful part of our growth profile.

Second, we made progress on profitability improvement in 2024 while also making significant long-term investments to support the business. The pricing environment remains healthy, and we continue to focus on investing in future growth while delivering margin improvement.

Growth investments and pressure from developments on legacy auto claims that materialized in December both weighed on incremental margins for the quarter and the year. When you isolate the impact of these two factors, the incremental margin that was generated by our underlying operations for the year is solidly in the 30% range.

And finally, we delivered operating cash flow of $608 million and free cash flow of $580 million, up 15% and 17%, respectively, versus last year. Our strong cash flow performance enabled us to execute a balanced capital allocation strategy, deploying almost $500 million of capital in 2024 with a focus on investing for growth while returning cash to shareholders through a growing dividend.

Turning to our fourth quarter performance, the team delivered a strong quarter with revenue up 10.4% and our strongest organic growth rate of the year at 8.5%. It was certainly encouraging to see the strong improvement in organic revenue growth in the second half of the year.

In the fourth quarter, residential revenue increased 8.4%, commercial pest control increased 9.2%, and termite and ancillary related services was up 16.6%. Organic growth was healthy across the portfolio with growth of 6.5% in residential, 7.2% in commercial and 14.9% in termite and ancillary. Our demand creation efforts and investments in customer-facing resources are paying off with stronger organic growth in our portfolio.

Gross margin improved 40 basis points to 51.3% in the quarter, and looking at our four major buckets of service costs, people, fleet, materials and supplies as well as insurance and claims, we saw improvements in margins associated with materials and supplies as well as people costs, despite healthy staffing levels needed to support strong underlying demand trends. Fleet was neutral to margins in the quarter, while insurance and claims were a headwind, driven by developments on legacy auto claims that we previously mentioned.

Quarterly SG&A costs as a percentage of revenue increased by 50 basis points versus last year. We continue to see leverage in administrative people costs, which somewhat offset deleverage from selling and marketing expenses associated with growth initiatives.

Unpacking this further, we have consistently talked about our intent to reinvest savings from administrative costs in the sales and marketing initiatives. And since the end of 2022, we have seen 50 basis points of leverage in administrative employees expenses and have invested that back into selling and marketing expenses. Going forward, we do see an opportunity to continue to leverage our administrative costs to drive further investment as well as margin expansion.

Fourth quarter GAAP operating income was $151 million, up 8.3% year-over-year, and adjusted operating income was $155 million, up 7.3% versus last year. Quarterly adjusted EBITDA was $181 million, and EBITDA margin was 21.8%. While we saw nice leverage with respect to gross profit, EBITDA margins were negatively impacted by growth investments, and our claims experience in the quarter.

The effective tax rate was 27.3% for the quarter and 26% for the full year. For 2025, we are expecting an effective tax rate of approximately 26%.

Quarterly GAAP net income was $106 million or $0.22 per share. For the fourth quarter, we had non-GAAP pretax adjustments associated with Fox acquisition-related items totaling approximately $4 million of pretax expense in the quarter. Considering these adjustments, adjusted net income for the fourth quarter was $109 million or $0.23 per share, increasing just under 10% from the same period a year ago.

Turning to cash flow and the balance sheet, operating cash flow increased 23% in the quarter to $188 million. Cash flow did benefit from a disaster relief measure granted to those with operations impacted by Hurricane Helene that allowed us to defer an estimated $32 million fourth quarter tax payment. This payment would have occurred in Q4 and will now be paid in the second quarter of 2025.

Cash flow conversion, a percent of income that was converted into operating cash, was approximately 144% for the quarter, adjusting for the positive impact of the deferred tax payment. We generated $184 million of free cash flow and $106 million of earnings, a 30% increase versus last year.

As Jerry mentioned, I wanted to take a moment to highlight the assignment of investment-grade corporate credit ratings from Fitch and S&P. The agencies have announced public credit ratings for the company with Fitch issuing a BBB+ rating and S&P a BBB rating. Today, we are also announcing that our Board has approved a $1 billion commercial paper program backstopped by our existing $1 billion revolving credit facility. We will start to work to put this in place in the coming weeks, helping provide flexibility and more efficient shorter-term liquidity options.

We have made considerable progress in modernizing our back office and capital structure over the last several years. A key goal of this effort has been to ensure access to the most efficient capital to further enable our balanced and disciplined approach to capital allocation. One of our top priorities has been to achieve investment-grade ratings. These ratings represent a big step forward, ensuring our ability to grow using the most cost-efficient capital.

We've also recently welcomed Brady Knudsen as our new Treasurer. Brady has been working alongside many of our team members and helping guide us through the ratings process. It is great to have Brady on the team.

Throughout our history, we have managed this business through an investment-grade lens, and we will continue to do so in the future. We are committed to maintaining a strong investment-grade rating with leverage well under 2x, supported by healthy cash flow generation and disciplined capital allocation.

Going forward, we have updated our definition of leverage to better align with the rating agencies, which results in a more conservative view. A reconciliation can be found in our press release, but using this definition of our leverage, our leverage calculation currently would stand -- stands at 0.8x.

As we look to 2025, we remain encouraged by the strength of our markets and the execution by our teams. We are focused on delivering another year of robust growth and healthy incremental margins, further complemented by a strategic and disciplined approach to M&A.

We continue to expect organic growth in the range of 7% to 8% with additional growth from M&A of at least 2% to 3%. Additionally, we are focused on improving our incremental margin profile while investing in growth opportunities. We anticipate that cash flow will continue to convert at a rate that is above 100% again in 2025.

With that, I'll turn the call back over to Jerry.

Jerry Gahlhoff
Thank you, everyone. We're happy to take any questions you have at this time.

Operator
Thank you. We will now conduct a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. When you're in queue, please ask one question and one follow up. You may press star, two to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment while we poll for our first question.

Our first question comes from Tim Mulrooney with William Blair. Please proceed.

Tim Mulrooney
Jerry, good morning.

Jerry Gahlhoff
Good morning, Tim.

Kenneth Krause
Good morning, Tim.

Tim Mulrooney
Yeah, congrats on a nice quarter. My first question is about your residential business, which I know the organic growth up 6.5% in the fourth quarter, I think that was better than what we were expecting, and certainly better than what the Street was expecting. I think the Street was a little concerned, based on some web traffic data and credit card data and other things that were floating out there, but there really doesn't seem to be much of a correlation there at all. Can you talk about what drove this better-than-expected result? Was there a big surge in one-time sales, or surge up and lead flow? Just any color would be helpful.

Jerry Gahlhoff
Yeah, Tim, this is Jerry. It's interesting to me, we often see a lot of the reports with the data, the website data and the visitors. And as we see those items come up, sometimes it confuses us, because what we -- what those reports say aren't necessarily aligned with what we're seeing day-to-day in the market. So there's a time or two where it ties, but I would say more often than not, some of those data just don't tie out.

We've seen this time-and-time again with credit card processing data, etc. And it's rarely tied out, or at least it's fairly uncommon. Our residential business was strong in the fourth quarter. Our customer base is larger that we carried into the fourth quarter. That was helpful. We did see also rises in calls for especially rodents in November and December. The population of rodents, particularly rats and mice, really had a strong pop late in the year. And there's a recent article out there, a University of Richmond study that talks about, how, in most of these very urban markets, these rodent populations, especially rats, are just thriving. And we're certainly seeing that opportunity in the business, as well.

So we had very strong lead demand, a lot of call volume coming into the business that may not necessarily have been aligned with what some of the data others are seeing out there are publishing.

Tim Mulrooney
Okay. That's really helpful. Thank you. For my follow-up, I actually want to switch gears completely and ask a question on sales and marketing. I appreciate the extra disclosure that you gave for your different expense buckets in the press release where I noticed that sales and marketing expense really jumped up about 70 basis points in the fourth quarter, I think 40 basis points in 2024. Now a skeptical investor might look at that and say you're just having to spend more on leads, your cost per lead is going up. I'm curious what would be your response to that? What data can you share to prove that the increased spend is more about growth investments rather than just your CAC is going up? Thank you.

Jerry Gahlhoff
Yeah, so the -- when you look at the S part of the SG&A, the sales, which could include marketing, it's our people costs. It's the investments we're making in sales staffing, not that we're spending irrationally into the market to drive the phone calls to our business. We have not seen that. And as I've stated repeatedly over the last couple of years, we still spend as a percent of revenue very similar amounts in investing in our business to drive new leads into our business, both direct allocated leads that come in as well as our mass media advertising that say an Orkin brand would do. We still spend at the same percent of revenue that we've historically spent at. The investments are made in our people, and that's where you see that many of those people, especially say in the fourth quarter, are both on the commercial side and then also on our termite and ancillary business, which is heavily cross-sell. And you see the organic growth rates there. That's not having to drive leads into the business. Those are creative sales opportunities that are coming from cross-selling to our existing customer base, not by just irrationally spending into the market.

And those -- these are sustainable ways to drive long-term organic growth through investments in our people and investments in our staffing. And I realize that might confuse some people, but we monitor cost per lead, especially in businesses like Orkin, very, very carefully, very closely. And we are committed to not spending irrationally and just trying to buy business.

Kenneth Krause
The one thing I would add to Jerry's comment there is I would point you back to -- I think an important thing to think about is our investment meeting -- investor conference last May where we showcased the diversity in the approach, to acquiring customers. And you could see, it's not solely focused on digital. It's not solely focused on one avenue to our customer. It's a very broad-based approach.

And Jerry is spot on. When we look at the investments that we made in the last say six months, they're very heavily tilted towards people. That's helped us drive demand across the business, not just in one sector, but across the business. But talking about the resi area a little bit closer, what gives us some optimism there is the recurring growth is stepping up. There for a while, we were talking about it approaching 6%. It's solidly in that 6% to 7% here. So it's not like it's one-time business driving that resi area. It's really a nice recurring revenue that's coming through that's providing some wind in our sales.

Operator
The next question comes from George Tong with Goldman Sachs. Please proceed.

George Tong
Hi. Thanks. Good morning.

Jerry Gahlhoff
Good morning.

George Tong
Hi. Can you detail how much auto claims activity impacted EBITDA margins in the quarter?

Kenneth Krause
Certainly, George. It was -- if you look at it, there were two buckets of claims experience that came through. We lost about 40 basis points of leverage across the P&L. 20 basis points of that leverage was -- or loss leverage was in gross margin. The other 20 basis points was in SG&A. And it's one of those areas that we're dealing with, we continue to deal with. These claims are legacy claims from years ago that we're working through.

But we're doing a nice job at really making investments in a number of safety programs, to ensure our workforce gets home safely each and every day, our safety systems om our trucks, the scoring systems that we're monitoring, and a number of other measures that we're takin, to really improve the current performance and the safety, most importantly, the safety of our folks that are out on the highways.

George Tong
Got it. That's helpful context. And then in your commercial business, the growth there decelerated a bit in the quarter despite easier comps. Can you elaborate on trends you're seeing there that may be driving that?

Jerry Gahlhoff
Yeah, so looking at the fourth quarter, we're still really optimistic about what's going on in the commercial side. The Orkin business, Orkin commercial -- keep in mind, not all of our -- all commercial business is at Orkin. We have other brands that also perform commercial business. So the fourth quarter was a little bit softer, but I don't think it's indicative of anything. Especially as we've started the year already, that business is really strong.

Sometimes in the commercial space, you have some large one-time jobs. You could have some large bird jobs. You could have some commodity fumigations that occur, especially around the holidays, that may not reoccur in the same cycle the following year. So we had -- there's some of that type of activity that laps that affects the commercial number. But, the commercial business is still really strong. It's been strong out of the gate here already in January and nothing that -- certainly nothing that I'm at all concerned about.

George Tong
Got it. Very helpful. Thank you.

Jerry Gahlhoff
Thank you.

Operator
The next question comes from Manav Patnaik with Barclays. Please proceed

Ronan Kennedy
Hi, good morning. This is Ronan Kennedy on for Manav. Thank you for taking my questions. Can I just confirm, in response to the question posed by George on the auto claims, does that imply that there's potential for this to continue versus it being a one-time event? Can you give some further insight there?

Kenneth Krause
It's always hard -- thanks for the question. It's always hard to predict these sorts of things. We've been dealing with it -- if you go back several years, we've been dealing with some volatility associated with this. We have so many folks that are out on the road. And what we saw, as we came out of COVID, was you just saw an uptick in claims experience and the cost of claims activity. And so we saw that happen as we came out of COVID. So we've been dealing with it for some time, but we've been putting a number of measures in place to mitigate exposures going forward, a lot of safety measures in our trucks, taking advantage of the technologies that are out there to help improve the safety experience of our technicians on the highway.

Ronan Kennedy
Okay. Thank you. And for my follow-up, please, could I just -- you touched on this to a certain extent, but an assessment of the progress made in the modernization of back office and the centralizing services and processes. So I think the intent there is, amongst the benefits, to be a better acquirer of businesses, but also the ability to fund sales and marketing investments. I think you referenced 50 bps of leverage there since '22 from takeout of those admin costs. To what extent is that happening now, and when can we expect to see that ramp?

Kenneth Krause
Sure. Great question, and thank you for it. When you look at the business, if you go back to '22, for example, and that's when this really started to occur, between '22 and year-end '24, what you'll see is the savings from administrative costs of about 50 basis points has completely offset the selling and marketing increase over that same time period. And so we certainly are taking costs out, and we're helping fund those activities.

It may not be a one-for-one match every single quarter. but generally, over the long-term, that's the focus is try to redeploy those investments into customer-facing demand creation sort of investments. When we think about the other steps we're taking, I think we're still very early on. We made a ton of progress with our capital structure and a number of other measures with bringing a lot of new folks on board and also with respect to the credit ratings we announced earlier today.

So we made a ton of progress, I think, across those areas. But we certainly have a lot ahead of us and a lot of opportunity to continue to be a better acquirer and a better, quite frankly, integrator of some of these businesses that we're acquiring along the way.

Ronan Kennedy

Thank you. Appreciate it.

Operator
The next question comes from Ashish Sabadra with RBC Capital. Please proceed.

Ashish Sabadra
Thanks for taking my question. I had a question on the pricing increases in 2025. A number of business services companies are talking about normalization of price increases. I was just wondering if you could comment on your ability to continue to drive 3% to 4% price increase in 2025 on the consumer side, but also if you could comment on the pricing trends within the commercial business? Thanks.

Kenneth Krause
Thank you for the question on pricing. When we look at pricing, we've always talked about CPI plus level pricing. I think we all saw the CPI print yesterday. It still remains at a relatively elevated level. I think we still have an opportunity to get above CPI level of pricing here in 2025, probably similar to the pricing that we got in the last year or two. And so there's no reason for us to take our foot off the gas when it comes to the pricing.

We feel like we're providing a very essential service to our customers. Our customers see the value of the service, and we price it slightly ahead of what CPI is coming in at. So we feel pretty good about our position with pricing in the marketplace.

Ashish Sabadra
That's great color. And then maybe just switching gears, about the growth investments, obviously very high ROI on those investments, but how do we think about those investments going into 2025? You've guided to roughly 30% incremental margins, but I was just curious if you could provide some color on the quarterly cadence there how should we think about the timing of those investments? Thanks.

Kenneth Krause
Thanks for the question on the growth investments. When we look at the growth investments, we think the first half, you'll see a slightly elevated level of year-over-year of growth investments. And so we continue to invest. We started to really ramp up the investments in the second half of last year. So you'll start to lap that as you get into the second half of 2025.

But I think for the first half, it will be a more challenging comp for us. The other area that we're looking at as we go into 2025 is just fleet costs. The cost of vehicle, compared to what we bought or what we leased two, three years ago, those are coming back in. We're replacing them. So the costs are going up slightly in those areas, as well. But our pricing we feel very good about. We feel very good about the ability to get gross margin leverage with that 3% to 4% price increase.

Ashish Sabadra

Very helpful color, and congrats on such a strong top line momentum. Thank you.

Kenneth Krause
Thank you.

Operator
The next question comes from Jason Haas with Wells Fargo. Please proceed.

Jason Haas
Hi, good morning, and thanks for taking my questions. I was curious if you could comment on what you're seeing from an organic growth perspective so far this year. And then, we've heard some concern in the industry that there was pretty severe cold weather in January that essentially I guess killed off the eggs and larvae from some of the pests. And I guess I don't know the rodent populations as well in January, so there's a concern that we could see a muted spring selling season. So I was curious if that's a dynamic that you're seeing and if you agree with that?

Jerry Gahlhoff
Jason, this is Jerry. I don't necessarily think that we've seen that. In January, we're off to a pretty strong start. It's interesting - you think about insects and related pests, they're all very adaptive; a lot of mechanisms to survive difficult conditions. You think about -- one example, I'll give you is I think about mosquitoes in Minnesota. Mosquitoes in Minnesota can be really bad once you get to spring or summer.

And guess what, they'll probably be really bad again this year because those mosquitoes are able to, over winter in immature stages, they're able to over winter and do just fine because they're back, back -- in the late spring, they're back biting people. And when you think about mosquitoes, one mosquito is too many mosquito. So that one mosquito bite you 10 times, whether there's 10 mosquitoes or one mosquito, doesn't matter. One mosquito is too many, right?

So I don't get too hung up on that. We see it as -- all those things are opportunities that you see. Right now, in parts of the country, we're getting a lot of moisture and rain. You could also make the case that excess of moisture is very good for certain insect populations. To me, if there's some insect or maybe something that doesn't do well surviving the winter, maybe some invasive species that comes in and is in a climate that it's not as well adapted to and populations collapse because it's in too cold of an area or something like that, I certainly see that. But for the primary pests that recur in the same markets year-after-year, we've never seen any cycle of weather that has radically changed the pest populations. They still manage to come back in the spring just fine.

Kenneth Krause
It's interesting - when you look at the start of the year compared to the prior year with respect to weather, oftentimes, you might have a disparity in the weather patterns year-over-year. However, last January in 2024, it was a tough weather comp, too. So we did have some bad weather here in January, and I can attest to it from the snowfall that we saw in Atlanta.

And so, we certainly had some bad weather in January this year, but we had a similar experience a year ago. Our growth continues to be very healthy. Second half of this year, of 2024, was up versus the first half, and that's the first time we've seen that in several years. And so we see a really nice trajectory of growth here as we start the New Year.

Jason Haas
Got it. That's great to hear. And then can you -- I just wanted to ask you again on the incrementals. I think you had said that it was a 40 basis point headwind from the auto claims. So it was getting like a little over $3 million. So excluding that in 4Q, I was getting incrementals of about 23%. I guess the other piece that keep -- because I know you said the underlying business was approaching 30%. So I guess the other piece was the investments that you're making. So can you just help us bridge to getting closer to the 30% incrementals for 2025 because it sounds like some of those investments -- maybe the auto claims don't all repeat, but it sounds like some of those investments will continue. And then even more just like bigger picture, I know the long-term target is 30% to 35%. Can you help us bridge to that, as well, and what can increase incremental margins over time? Thanks.

Kenneth Krause
Certainly, Jason. So when you look at the quarter, there was $4 million to $5 million of absolute dollars spent in those insurance claims that were -- just unfortunately came through and materialized late in the quarter. We had about, call it, $6 million or so of what we call sales and marketing, people costs primarily. And then you had some -- about $2 million of things that, shouldn't repeat. They were new, and they shouldn't repeat in the quarter.

So, I mean, you had $10 million to $15 million of things that we identified in the quarter that came through. If you take some of those things out -- and again, there's always going to be things that occur from time to time. But if you do adjust for some of those things, we were there. But more importantly, when I look at the business, and what gives me confidence in our ability to get 30% to 40% is just look at the first half of last year; it was 30% to 40% of incremental margins. You go back into '23 in the third quarter, you had 35% to 40%. I mean, this business is certainly capable of generating that type of incremental margin profile, and we feel good about it.

When we think about the first half, you might see a slightly lower incremental margin to start the year, but we feel like it's temporary. We feel like we've got to be able to go after and acquire customers that are going to be with us for four or five, six, sometimes even longer, and the lifetime value of those customers is so great. And what you're seeing with the growth we're putting up right now is we're acquiring those customers. Those customers will pay off for us in future quarters, future years.

And those are the reasons why we continue to grow through economic recessions, pandemics, industrial slowdowns. Those are the reasons we continue to do so well through all those various economic cycles is that we're taking a long-term view of the business. We're investing in it. We're bringing new customers, and we're growing our base.

Jason Haas
All right. Thank you. That's great to hear.

Operator
Once again, ladies and gentlemen, to ask a question, please press star, one on your telephone keypad. Once in queue, please ask one question and one follow up.

Our next question comes from Aadit Shrestha with Stifel. Please proceed.

Aadit Shrestha
Hi, good morning. Thank you for taking my questions. You mentioned outside deal contribution again in 2025 I think about 2% to 3%. How much of that is already in hand from rollover from deals you already did in '24 and what you've already done in '25?

Kenneth Krause
Yeah, it's approaching 2% in terms of carryover. So we feel pretty good about our ability to get that 2% to 3%. And our pipeline is strong. I mean, we've got a number of opportunities in the pipeline that range from the small tuck-in sort of level to those that look like Fox in terms of $200 million to $400 million of acquisitions. So we're prepared, and we're positioned extremely well to continue to deliver on that commitment.

Aadit Shrestha
Okay. Great. And just as a follow-up, the investment-grade rating in hand, so now you have access to cheaper capital and wrongs [sp] versus historically now you're more comfortable with debt. So does this open up a larger pipeline opportunities for M&A that maybe in the past may have decided not to pursue just because now the return on the capital will fit within your requirements?

Kenneth Krause
What I would say is we have so many opportunities in the middle of the fairway. And when I talk about the fairway, it's what we've been doing for years. You're not going to see a major inflection point where we're going and changing the strategy. Our focus is investment grade. Our focus is to continue to manage this business at investment grade but take advantage of the opportunities that a company like us should have.

And that's why we went after and got the credit rating was we want to avail ourselves to the opportunity that we should be -- should have available to us. And so -- but with respect to your question, we're going to continue to execute this business the same way we've done for -- under our leadership but also past leadership. The approach is working, and we're -- we feel like there's a lot of runway left to execute on that approach.

Jerry Gahlhoff
Yeah, so, Aadit, I'll add to that. We will still have a very disciplined approach to how we both pace, how we value, how we assess acquisitions. And, yeah, maybe going to this -- having this credit rating helps lower our hurdle rate for return on investment, those kinds of things. But we are still going to be maintaining the same strategy that we've had for a very long time and being very conservative in how we approach things.

Aadit Shrestha
Great. Thank you for taking my questions.

Operator
The next question comes from Josh Chan with UBS. Please proceed.

Karan Singhania
Hi. Good morning. This is Karan Singhania on for Josh. If I could ask a question maybe on what you're seeing on the cost inflation side, what you're seeing maybe just across the board, but labor, material and equipment, and what are your expectations for 2025 versus what you saw in 2024?

Kenneth Krause
We feel like the inflation is very much under control. We continue to see -- and what gives us confidence in the ability to say that is, when you look at the gross margin level, and you look at -- when you isolate things that we're doing in terms of adding folks to go after growth, from the underlying business in materials and supplies and those other things, we feel good about our ability to manage inflation.

I mentioned earlier, the one area that we see outsized inflation maybe is in the fleet area. That -- when you look at -- just look at the lease liability that we have on the books, it's stepped up of late. You look at the cost of acquiring new leases relative to two, three, four years ago, it's a higher cost. And so that's something that that's probably more of a headwind.

But when you look at the other areas of the P&L -- that's not a large area of the P&L by any stretch. But when you look at the other areas, people, our largest area, we feel very well managed and ability to continue to manage that.

Karan Singhania
Got it. That's helpful. And maybe for my follow-up, if I can ask a question on the different sales channels, what are your priorities for 2025 with respect to those areas, and how do you expect that to drive like volume performance for the year?

Kenneth Krause
Could you repeat that question again? I missed the first half of your question.

Karan Singhania
Oh, sorry. Yeah, sure. So basically, I wanted to ask you about the different sales channels that you have, and how are you thinking about that for 2025, and like how do you expect those to drive some volume performance over there?

Jerry Gahlhoff
Yeah, so this is Jerry. I think each of our channels, as I stated, they're all performing well and doing well, and we aim to continue to have all of them keep that momentum that we currently have. We see the residential business as a continued opportunity to grow. We have a multifaceted way to acquire new customers that's dependent on our brands. We have the commercial business, those investments we made last year continue to payoff for us as we try to drive execution, efficiency, sales productivity. Those types of things continue to drive that business. And we think our brands are what will continue to help us drive that.

And then continuing to drive on the termite and the ancillary side -- as you see in the growth rates of that is continued opportunity. We haven't seen any concerns with the consumer. When there's a severe say, rat infestation in the attic, and we've got to do other exclusion work, or major remediation of contaminated insulation and these types of things, we haven't seen resistance from our customers not willing to pay for that service. So all those channels for us, execution in all three of those areas will continue to be a focus for us, and we see all three of them as excellent opportunities as we go into 2025.

Karan Singhania
Understood. Thanks for the color.

Jerry Gahlhoff
Yep.

Operator
The next question comes from Stephanie Moore with Jefferies. Please proceed.

Peter Sullivan
Hey, good morning, guys. This is Peter Sullivan on for Stephanie Moore.

Jerry Gahlhoff
Hi, Peter.

Peter Sullivan
So -- hey, how's it going? I was just curious about your strategy for continuing momentum in new business wins. What are you guys seeing in your end when it comes to through digital versus door to door? And then also is there a dispersion in retention for gaining customers through these avenues? Thanks.

Kenneth Krause
We feel like it's getting -- we're going to continue to have a multifaceted approach to customer acquisition. That's a really important part of our strategy. We've been very successful, and when you look at it, the cost might differ across the different categories; the retention doesn't necessarily differ. The retention is very healthy across those various categories. So we feel we feel really good about our ability to continue to do that.

And when we look at acquisitions, when we buy businesses, we look at their geographic footprint and how complementary it might be to us. We look at the way they access their customers. We look at the way they service their customers. So we're always looking at adding diversification to our arsenal in terms of how we approach our customers. And so we feel good -- we feel really good about those various channels.

Peter Sullivan
Appreciate it, guys. And then for my follow-up, I was curious a little bit on -- to switch it up to the labor side. And then looking at kind of the consolidation of the competitive landscape, are you guys seeing any noticeable change in say technician turnover and then some context on what the technician hiring environment currently is? Thank you.

Jerry Gahlhoff
This is Jerry. Yeah, we had a good hiring environment in 2024, as I mentioned. It's probably the -- I'm still not going to describe it as -- I wouldn't fully describe it as easy. But compared to say 2020 and 2021, it definitely feels easier. And so from that standpoint, we did a great job of being staffed to meet the demands of our customers, probably better than we have in the previous five years.

And so, we don't see anything changing there. We monitor pay. We try to make sure that we pay our people very competitively. We try to be in the top quartile of pay to make sure we retain people, offer great benefits and a great place to work, so a great career opportunity.

So the -- while certainly people expenses are the majority of our real expenses of our business, it's also where we spend a lot of our time and make a lot of our investment. So we're pretty comfortable and confident in the position that we're in today.

Kenneth Krause
I guess maybe, Jerry, the one thing maybe is the retention that we continue to focus on, investing in retention and the real impact of that with customer engagement and profitability across the business, it's certainly an area -- it's an opportunity. We continue to make strides there, but we're certainly not finished with respect to our efforts on retention.

Peter Sullivan
Appreciate the color. Thank you.

Kenneth Krause
Thank you.

Operator
At this time, I would like to turn the floor back over to management for closing comments.

Jerry Gahlhoff
Thank you, everyone, for joining us today. We appreciate your interest in our company, and we look forward to speaking with you on our first quarter earnings call in a few months.

Operator
Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.