Rollins, Inc.
Second Quarter 2025 Earnings Conference Call
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Presenters
Lyndsey Burton - Vice President of Investor Relations
Jerry Gahlhoff - Chief Executive Officer and President
Ken Krause - Executive Vice President and Chief Financial Officer

Q&A Participants
Tim Mulrooney - William Blair
Ronan Kennedy - Barclays
Yehuda Silverman - Morgan Stanley
George Tong - Goldman Sachs
David Paige - RBC Capital Markets
Peter Keith - Piper Sandler
Jason Haas - Wells Fargo
Josh Chan - UBS
Harold Antor - Jefferies
Brian McNamara - Canaccord Genuity

Operator
Greetings and welcome to the Rollins, Inc. Second Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. If anyone should require operator assistance, please press star, zero on your telephone keypad. A question and answer session will follow the formal presentation. You may be placed in the question queue at any time by pressing star, one on your telephone keypad, and we ask that you please limit yourselves to one question and one follow-up and then return to the queue. As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to your host Lyndsey Burton, Vice President, Investor Relations. Lyndsey, please go ahead.

Lyndsey Burton
Thank you, and good morning, everyone. 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.

On the line with me today and 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. I'm pleased to report Rollins delivered strong second quarter results. Overall, we continue to see solid growth across all major service lines with total revenue growth of 12.1% and organic growth of 7.3%. Growth was healthy, but a little choppier movie through the quarter due to some seasonality, particularly in parts of the country where we saw a cold and wet start to peak season. Demand picked up in June, resulting in a strong backlog of work going into July, which has made for a busy start to Q3 for our team.

I'm thrilled with the progress we're making thus far with the Saela acquisition that we announced in April. The integration has gone smoothly, and their performance is exceeding our expectations. Thanks to the efforts of our collective teams, we've ensured that Saela can remain focused on their customers and teammates without disruption. I'd like to express my gratitude to the Saela team and to all of our Rollins teammates that have worked so hard to make this happen.

As you know, we believe the combination of Orkin and our strong group of regional brands is a competitive differentiator for Rollins, giving us multiple bites at the apple with potential customers while also providing some balance and diversification with respect to customer acquisition.

The addition of Saela further strengthens these competitive advantages for us. Our investments in strategic M&A opportunities are also complemented by ongoing investments to drive organic growth. As expected, we continued our investments in incremental sales staffing and marketing activities ahead of peak season to ensure that we were positioned top of mind for the consumer as the season began. We are well staffed on the sales, technician and customer support front with our teammates onboarded, extensively trained and ready to provide an exceptional level of service for our customers.

On the commercial side of our business, we are encouraged by our momentum. Over the last year, we have strategically added resources to support our dedicated commercial division within Orkin. These resources are paying off as Orkin Commercial delivered double-digit recurring growth in the second quarter. As a reminder, while commercial takes a little more upfront investment to drive growth, it's also the highest retention business among our service lines, making the lifetime value of these customer relationships very attractive.

And I'm excited to announce that we recently promoted Scott Weaver to Chief Operating Officer of Commercial Operations for Orkin. Scott has been incremental in leading our commercial efforts over the past few years and will help to drive further alignment and focus in this elevated role.

Beyond growth, our dedication to operational efficiency and continuous improvement is an important part of our strategy and culture. Ken will discuss in more detail, but we did see some headwinds to our margin performance in the quarter, most notably from insurance claims and less vehicle gains in our fleet versus last year.

Encouragingly, we did leverage our people costs despite ramping up staffing to align with our peak season. Our team also made tremendous improvements in teammate retention, especially with new hires, which helped, as well. We also leveraged sales and marketing expenses despite ongoing investments we continue to make in support of our long-term growth objectives.

In closing, we're excited about where our business stands today. The year is off to a solid start, and demand from our customers remains strong. Our teams in the field are ready to support our customers through the peak season, and I want to thank each of our teammates around the world for their ongoing commitment to our customers.

I'll now turn the call over to Ken.

Ken Krause
Thanks, Jerry, and good morning, everyone. The second quarter reflects continued strong execution by the team. A few highlights to start - growth was robust for the second quarter. We delivered revenue growth of 12.1% year-over-year with organic growth of 7.3% versus last year. Gross margins remain very healthy. Gross margin of 53.8% is one of the highest quarterly gross margins that we've reported despite some meaningful headwinds from insurance claims and less vehicle gains, which are included in fleet costs versus a year ago.

Our GAAP earnings were $0.29 per share, and excluding certain purchase accounting expenses, primarily associated with larger acquisitions like Fox and Saela, earnings were $0.30 per share.

And finally, we delivered a 21% improvement in operating cash flow, while free cash flow was up over 23% versus the same period a year ago. Diving further into the quarter, we saw double-digit growth across each of our service offerings. In the second quarter, resi revenues increased 11.6%, commercial pest control rose 11.4% and termite and ancillary increased by 13.9%. Organic growth was also healthy across the portfolio, with growth of 4.9% in residential, 8.4% in commercial and 10.3% in termite and ancillary.

Turning to profitability, our gross margins were healthy at 53.8%, but down 20 basis points versus last year. We saw improvements in margins associated with direct costs, which represent over

85% of our cost of services and include our people, materials and supplies and fleet expenses, excluding our vehicle gains. This was offset by the headwinds from insurance and claims that we previously discussed. Quarterly SG&A cost as a percentage of revenue increased by 40 basis points versus last year. We saw leverage on sales and marketing costs while fleet and administrative costs were neutral and insurance and claims were a headwind.

Second quarter GAAP operating income was $198 million, up 8.7% year-over-year, while adjusted operating income was $206 million, up 10.3% versus the prior year. Second quarter EBITDA was $230 million, up 9.4% and representing a 23% margin. Our adjusted EBITDA was $231 million, up 10% and representing a 23.1% margin. As previously mentioned, we made an adjustment of approximately $6 million to our reserve at the end of the quarter to account for developments on a handful of legacy auto claim cases, which weighed on incremental margins in the quarter. Excluding this, our incremental margins would have approximated 25%.

On a sequential basis, incremental margins from Q1 to Q2 were north of 30%, and we continue to anticipate an improving margin profile as we move through the back half of the year.

The effective tax rate was 26% in the quarter, in line with our rate from a year ago. The quarterly GAAP net income was $141 million, or $0.29 per share, increasing from $0.27 per share in the same period a year ago. For the second quarter, we had non-GAAP pretax adjustments primarily associated with the Fox and Saela acquisition-related items totaling approximately $7 million of pretax expense in the quarter.

Accounting for these expenses, adjusted net income for the quarter was $147 million, or $0.30 per share, increasing 11.1% from the same period a year ago. And turning to cash flow and the balance sheet, operating cash flow increased 21% in the quarter to $175 million. We generated $168 million of free cash flow, a 23% increase versus the same period a year ago. Cash flow conversion, the percent of net income that was converted into operating cash flow was strong at 119% for the quarter. For the first half of 2025, we converted 125% of income into operating cash flow.

We made acquisitions totaling $226 million, and we paid $79 million in dividends in the second quarter. Dividends increased 10% from the prior year and are at a very healthy and sustainable rate of approximately 45% of operating cash flow in Q2 and less than 50% of operating cash flow year-to-date. As you know, earlier in the year, we accessed the public debt markets and established a $1 billion commercial paper program. Despite higher debt balances associated with the Saela acquisition, our interest costs have declined by approximately 15% on a year-to-date basis.

Our leverage ratio stands at a healthy .9 times, and our balance sheet remains very healthy, and it positions us well to continue to execute on our capital allocation priorities.

As Jerry mentioned, we closed the Saela acquisition earlier in April and are very excited about the strategic growth opportunities this acquisition will provide us. Saela performed exceptionally well in the second quarter, growing double digits versus last year, while margins were accretive to our margin profile.

As we look to the remainder of 2025, we remain encouraged by the strength of our markets, our exceptional resilient business model and the execution by our teams. We are positioned extremely well to deliver on our financial objectives despite uncertainty in the current macroeconomic environment. We continue to expect organic growth in the 7% to 8% range for the year, with growth from M&A of 3% to 4%. We remain focused on improving our incremental margin profile while investing in growth opportunities. And we anticipate that cash flow will continue to compound and convert at a rate that is above 100% in 2025.

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

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

Operator
Thank you. We'll now be conducting a question and answer session. And if you'd like to be placed in the question queue, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. And as a reminder, please ask one question and one follow-up, then return to the queue.

Our first question today is coming from Tim Mulrooney from William Blair. Your line is now live.

Jerry Gahlhoff
Morning, Tim.

Tim Mulrooney
Good morning, Jerry. Good morning, Ken. Thanks for taking my questions. I was hoping you could unpack the residential performance a little bit in the quarter. It looks like organic growth was 4.9%. Can you maybe unpack that between the recurring component and onetime services? And maybe touch on residential lead volumes as you were moving through the second quarter, exiting the second quarter and the first couple of weeks here in the third quarter?

Ken Krause
Certainly, Tim. Thank you for the question. Overall, as Jerry had indicated in the prepared commentary, a little bit choppy. We started the quarter, April was pretty healthy, May was weak, but then June came back very strongly. And in fact, we exited June with a very strong backlog. We had a number of high points for us as we think about the quarter. And our growth, quite frankly, was accretive in June to the overall quarter. And so we continue to see really good robust level of demand.

It provides us a sense of optimism as we start the second half. When I step back and I look at the growth that we posted in the first half of this year, we posted 5.2% residential revenue growth, and I compare that to what we saw for the full year last year, we delivered 5.2% in the full year last year. So it gives you a sense is things aren't really falling off; things are holding in there. And we feel like, at that level, we can continue to deliver on our financial commitments and our growth profile.

Jerry Gahlhoff
Yeah, Tim, this is Jerry. I'm certainly not concerned about what we saw with -- on the residential side because it's still pretty strong. And it was -- as Ken mentioned May, May was the tougher month as it was just rainy, cold, productivity was hard, it was definitely a challenge.

The second part of your question, you asked about lead volumes and what we're seeing in terms of lead volumes. And that entire -- when you think about Orkin, which is lead volumes driven, especially in the digital channel, the team at Orkin did a fantastic job navigating some changes.

You think about what's happened with Google and Google's AI agent and AI overviews and the shift that that's had, our marketing team has had to make some adjustments in this environment. And the reality of what happens is you start seeing some softening on the lead side; however, what we do get and what the team has adjusted for is -- their adjustments have allowed us to get higher quality leads. Those higher quality leads, then -- we get a lot fewer -- what we noticed, we get a lot fewer window shoppers, and we get more real serious buyers. When you have that, you're driving higher close rates and some efficiency in the process there by closing more, which also translates into higher start rates.

So we're able to close new customers at a higher rate, get them started at a higher rate because they're people that really truly wanted the service, and that then causes us to net nice sales increases. And in fact, when you go into June, we were sitting in the process of -- by the second week of June, just setting daily sales records over and over again. Day after day, I was hearing the stories from Pat and team at Orkin about the sales increases they were saying. So those adjustments that the marketing team made, they just did a fantastic job in what on paper looks like a softening of lead volume, which is really a bit of a quality improvement that we've been seeing along the way.

And then the other aspect that you mentioned about was recurring versus onetime. Both were similar -- both trended similarly through the quarter. Onetime was good. We've noticed a lot -- a big pickup, I think because of the slightly cooler May, some of the stinging pests and those kinds of things are really starting to peak now, whereas in the past, they may have started to peak earlier in June. Now they're starting to peak in July. So there's a little bit of a different shift there. It seems like we're maybe three to four weeks off of what I would say a normal cycle would be. Does that help, Tim?

Tim Mulrooney
Yes, that's all great color. Thank you. And I do want to dig in a little bit more on one thing that you had mentioned there, Jerry. It's something I've been wanting to ask for a while around generative AI and its impact on your business, both on the revenue and cost side, because on the revenue side, I'm wondering if you're taking any steps to optimize how Rollins appears on generative AI searches for pest control solutions.

I mean, I know today SEO's standard practice in the industry, but at one point, that was a novel approach, right? So it sort of feels like generative AI search optimization might be that at some point. And also then on the cost side, I'm curious if you're seeing any areas where you could leverage this technology, particularly as it relates -- we've seen how fast the functionality has expanded for chat bots and AI voice over the last couple of years. Thank you.

Jerry Gahlhoff
Yeah, so maybe if you wanted to take the cost side, Ken. On the sales side, to me, for competitive reasons, I don't want to get into the details of what we do other than to say our teams have certainly made some adjustments, and it's caused us to make some adjustments. And while at first, we see that and just kind of go, oh, there's been a major shift, then like with anything, when Google went to LSA and other things, we've had to just change. We don't -- we shift where we put our marketing dollars, we shift our processes in the marketing side. It also affects how we think about the sales process.

So I would just say it has shifted how our marketing teams are looking at the overall picture. It has definitely had an impact. And the key is, can you be ahead of the game and making the changes that you need to stay with the times and adjust and allocate resources sometimes a little differently than maybe we have in the past. So -- and again, I think our marketing team, particularly in the Orkin side that does a lot of the performance marketing on the digital side, they just navigated that exceptionally well. And I would just leave it at that.

Ken Krause
Yeah, I would -- on the growth side, the only thing I would add, too, is if we overly index too much on the digital or on the AI aspect of this, we miss the big part of the story, and the big part of the story is the diversification across our portfolio. And when you look at the quarter, for example, when you think about some of the brands that did exceptionally well, brands like Fox, brands like Saela, new -- relatively new brands to the portfolio, different ways of marketing gives us a sense of optimism and confidence and that we've positioned the portfolio in the right manner to capitalize on growth trends regardless of what's occurring outside of our industry.

The other thing on the cost side, I would say, yeah, there's certainly opportunities there, but there's even more lower hanging fruit that we're going after. We as a team and ELT are really looking at our cost structure across the board and really challenging ourselves on what we can do better, how can we continue to improve our business. That's a core value of ours here at

Rollins. And we're continuing to execute on that core value from the top clear down through the organization.

Operator
Thank you. Our next question is coming from Manav Patnaik from Barclays. Your line is now live.

Ronan Kennedy
Hi, good morning. This is Ronan Kennedy on for Manav. Thanks for taking my questions. I don't think you typically quantify contributions from the organic growth algo, but could you please provide context or some color on the contributions from pricing, volume and your momentum from the multi-brand strategy?

Ken Krause
Certainly, I would provide -- I'll provide that, Ronan, and thank you for the question. It's Ken. When you look at the pricing strategy, we continue to price at a CPI plus level. I think CPI recently printed just south of 3%. We're targeting price at the 3% to 4% sort of range. It's certainly not consistent across every one of our brands or every one of our geographies, but generally, that's the type of growth that we're -- or type of contribution from pricing that we're looking for. The remainder of that is volume.

And it's hard to quantify how much of that volume is coming from additional services, cross-sell or things like that. But I can tell you is that we feel like the volume that we're getting coming through on the organic side is certainly outpacing the underlying market. We feel really good about that 7.3% organic growth that we posted, especially considering that June's growth was north of that. And so we continue to have a level of confidence in our ability to deliver on our financial algorithm.

Ronan Kennedy
Okay, thank you. And if I may, a multifaceted question on margins, please. You talked about the benefit of pricing productivity, leverage across key cost categories for the peak season spend, the legacy auto claims. What was the impact of investments? And what would the adjusted incremental margins have been? And then lastly, can you provide context on the update to the guided incrementals of approaching -- it was previously approaching 30%, and now I think it's the range of 25% to 30%. So some context around that, please?

Ken Krause
Certainly. So when you look at the business and you think about the incremental margin in the quarter, excluding the insurance and claims, it was roughly 25%. If you recall, last year in the second half, we certainly ramped up investments in selling and marketing. In the second quarter of this year, we started to see a little bit of leverage, about 10 basis points, I want to say, of leverage associated with selling and marketing costs coming through the model. If you set that aside and you look at -- or you set some of the additional investments aside, it's probably not

unreasonable to think that those incremental margins were probably 28% to 30% when you eliminate some of that increased spend in selling and marketing.

When you step back and look at the business, this business should be a 30% incremental margin business. And we have confidence in our ability to deliver that. But what we will try to do is just provide a range on how we're looking at the business, the range of 25% to 30%. But I think what's more important is when you step back and look at the business, we delivered 7.3% organic growth in the quarter on revenue. We delivered 11% growth in adjusted earnings per share. And we delivered 20% -- 20-plus percent growth in cash flow. Those metrics are very much in line with the historical trends of outperformance and compounding that we've continued to perform and deliver. And our focus is to continue to do that.

Ronan Kennedy
Thank you. Appreciate it.

Operator
Thank you. Your next question is coming from Toni Kaplan from Morgan Stanley. Your line is now live.

Yehuda Silverman
This is Yehuda Silverman on for Toni Kaplan. I had a quick question on M&A in the quarter. Decent amount of transactions, nine [sp] including Saela headlining. Just curious how you're seeing valuations and the competitive market in general?

Jerry Gahlhoff
It's still a competitive marketplace. There's a lot of -- there's still a lot of PE in the space - in particular, on smaller kind of tuck-in size deals, a little more competition there. I wouldn't characterize anything radically different in terms of valuations as a result of that. I think everybody has a -- there are different places and different geographies that certain people are willing to invest in, and we're right there in the mix looking at those deals that are strategic for us, that make sense to us. And the pipeline continues to be very healthy, and we haven't seen any significant shift in that regard.

Ken Krause
The only thing I would add, too, is I think Saela is a great example of an acquisition that we recently completed that continues to hit on all five of the metrics that we commonly refer to. The business is growing strong double digits organically year-over-year. It's accretive to our margin profile in the first quarter of owning it. When you look at the earnings per share from a non-GAAP basis, it was about $0.01 in the quarter, and it's neutral to GAAP earnings. That's really hard to do in today's interest rate environment.

And we continue to see good cash flow, and we expect to lever or to exceed our cost of capital in a relatively near timeframe. So that gives you an example that the multiples are healthy. We're paying the right value, and we're seeing really good returns on these investments.

Yehuda Silverman
Great. And just a follow-up on what you mentioned before about the weather -- the stronger demand in June flowing into July. Is that mainly in residential or across all segments?

Jerry Gahlhoff
It's really all segments. All aspects of our business really took off strong in June, and there was certainly no shortage of work that carried over into the first week of July.

Yehuda Silverman
Great. Thanks.

Jerry Gahlhoff
Thank you.

Operator
Thank you. Our next question today is coming from George Tong from Goldman Sachs. Your line is now live.

George Tong
Hi, thanks. Good morning.

Jerry Gahlhoff
Good morning, George.

George Tong
Can you elaborate on the -- hi. Can you elaborate on the legacy auto claims that impacted margins this quarter? How predictable are these? And do you expect future margins to be affected?

Ken Krause
Thank you, George, for the question. I'll tell you it's a really difficult area. We do our best. We work with an outside actuary. We have specialists that are involved in this and provide the best view that we can every time we close the books on a quarterly basis. But inevitably, things change, and that's what we saw this quarter. And we see that from time to time. Some of these claims are three, four, five years old, and they just mature during the course of a quarter. And as a result, we have to respond to the changing fact pattern that occurs during the quarter and adjust our financials.

What I would say is we're doing a lot on worker safety. We're doing a lot on automobile safety and driver safety and implementing a number of technologies. That's having an impact on the

overall number of claims that we're seeing, but this is a very long tail sort of liability. And it oftentimes takes several years for these things to work out. And so we're going to continue probably to face this from time to time. We'll isolate it and identify this. We do put our best, most comprehensive reserve on the books every quarter with the help of our specialists. But we certainly understand that sometimes these are difficult to predict.

Operator
Thank you. The next question today is coming from Ashish Sabadra from RBC Capital Markets. Your line is now live.

David Paige
Hi, good morning. This is David Paige on for Ashish. How's your morning, Ken and Jerry?

Jerry Gahlhoff
Good morning.

David Paige
I was wondering -- morning, morning. I was wondering if you could elaborate on some of the trends in commercial, how you're executing against your I guess midterm targets there? It seems like solid growth in the quarter. And then just as a follow-up, I was wondering if there was any like tariff issues to call out in material supplies or even just like fleet experience, so anything on that front, or even demand also on tariffs? Thank you.

Jerry Gahlhoff
Ken, I'll let you tackle the tariff thing, and I'll give -- I'll start with the commentary on the commercial side. Commercial has just been such a strong opportunity. We just continue to make investments in the staffing and growing our sales force, identifying where the opportunities are, the verticals we want to be in and the markets where we feel like are underserved currently and adding resources and staffing, feet on the streets to go after it. The playbook hasn't changed dramatically over the last two years except that we just keep an intense focus on it.

We're getting better at it. The marketing team is really aligning well as well with the commercial leaders of the business, knowing how to put our marketing and advertising resources on the commercial side. So it's just humming, and we're going to continue to be committed. It's a -- it's just a tremendous opportunity for us. And as I mentioned in my opening remarks, it's -- that's where the stickiest of the customers are. So when you look at lifetime value of a customer and the investment you're making, these are -- this commercial service will have a really long tail on the profitability side long term.

Ken Krause
Yeah, it's a great business, great long-term customer, great lifetime value, probably slightly higher margin profile. The commercial is a great business.

Moving into the tariffs, we really don't see any impact on tariffs, especially when it comes to materials and supply. As you saw in the quarter, we leveraged our materials and supply spend. You saw a little bit of deleveraging in the fleet cost. That's primarily associated with some gains that we recognized last year when we were turning vehicles back in. We built a lot of vehicles up during the course of COVID, and we turned a number of those vehicles back in, and we saw some gains on that.

It started really in the second quarter. Third quarter last year was probably the peak. The fourth quarter, we saw it slow down a little bit. So that's what we saw in the gross margin. But as far as the macro and the tariffs and the cross-border flow of goods, we really don't see a lot of that. And we're not -- it's not a major concern for us when we think about our business.

David Paige
That's helpful. Thank you very much. Just one quick follow-up - so that could go up for Saela. I was curious to think how you're balancing paying down debt, putting money towards M&A, either bolt-on or larger deals and just capital return in general. Thank you.

Ken Krause
Certainly. We feel like we're positioned extremely well. Our financial policies provide flexibility up two 2 times on a lease adjusted leverage basis. We're currently at .9 times. If you set aside the lease obligations, we're probably 0.6 to 0.7. So we're positioned extremely well. But what I would say is we're going to maintain a lot of discipline. We've added some debt in the last two or three years, but we're going to remain very disciplined, very balanced and continue to execute the strategy that we've executed for some time now.

We do have the opportunity to enter the investment-grade bond market. We are investment grade, as you might recall from September. Our new Treasurer led us through that process, and really, it was a phenomenal process. But again, I would go back and say we're going to remain very disciplined. We remain very balanced. We're investing in growth, but we also will continue to provide the right return to our shareholders.

Operator
Thank you. Our next question today is coming from Peter Keith from Piper Sandler. Your line is now live.

Peter, perhaps your phone is on mute. Please unmute your line.

Peter Keith
Oh, I'm sorry about that. Yeah. Good morning, everyone.

Jerry Gahlhoff
Good morning, Peter

Peter Keith
[Inaudible] question. I wanted to ask about the growth investments. So I think you started this about four quarters ago. Are you now lapping growth investments so that that pace of spend comes down? And then now that you're sort of a year into this, how do you feel about those investments driving some returns and perhaps some increased sales?

Ken Krause
Yeah, we feel good about the investments we're making and the returns we're seeing. And Jerry alluded to the commercial investments, but I'd also allude to some of the things we're doing on the residential side and the termite and ancillary side. We continue to see robust levels of growth coming through the termite and ancillary area. We are lapping that here as we go into the third quarter, so we would expect probably an improving margin profile as we go into the second half as we lap those.

But what I would also say is we're going to continue to invest. We see opportunities to grow the business. We're going to continue to invest. If we can continue to show double-digit earnings growth and 15% to 20% sort of cash flow compounding, that's the right algorithm for us. And so we're going to continue to do that and continue to pursue growth in this really resilient, attractive market.

Peter Keith
Okay. And the SG&A leverage -- or I guess the deleverage was not as significant as the last couple of quarters, so it seems like you're picking up on some areas of the business that are seeing leverage despite the growth investments. Could you unpack that a little bit? And is there anything evolving in the model where you're seeing more, I guess, improved expense control?

Ken Krause
Yeah, I would say that the administrative cost area, we certainly continue to see improvements there. It was neutral this quarter, but we certainly are ramping up the focus there. It was good to see selling and marketing leverage a little bit in the quarter. That shows that we're seeing productivity on that side of the house and the investments we're making. And so it's certainly good to see. What I'd also say is, just stepping back, as I alluded to earlier, the executive leadership team here at Rollins is certainly very aligned around attacking our cost structure and taking us through a spirit of continuous improvement.

We're meeting regularly, identifying opportunities. We're seeing good results, clear down to the lowest level in the organization. We're looking at a lot of things. We're looking at what we spend on events. We're looking at what we spend on meetings. We're looking at how we staff our back office and the processes we're following. We're looking at how we manage our cash and the costs associated with that. So -- and in addition, we're looking at how we can continue to enable growth. And so there's a whole host of things we're looking at as part of the value creation sort of program. And we feel like that will continue to provide some wind in our sails as we think about the future.

Peter Keith
Okay, very helpful. Thank you.

Operator
Thank you. Our next question today is coming from Jason Haas from Wells Fargo. Your line is now live.

Jason Haas
Hi, good morning. Thanks for taking my question. If I look at the incremental margins, it looks like you're guiding to 25% to 30% for the full year. And based on our math at least, that would imply incremental margins in the mid-30% range in the second half of this year. I know you're sort of lapping over the investments, but I just want to make sure that that's the right way to think about it because it does imply quite a big step up from where you were in Q2 even after backing out the legacy order claims?

Ken Krause
So what we're looking at there, Jason -- thank you for the question. When you look at the incremental margin profile and you look at the profile last year, we actually saw very healthy incrementals in the first half. And we saw, I want to say, a 17-or-so percent in the second half, but we were able to deliver a mid-20% sort of range profile in terms of the incremental margins. We're focused on that, and we're focused on delivering that. But as I alluded to earlier, when we think about the business, double-digit earnings growth is really important for us.

And that will enable us to continue to compound cash at a very healthy clip that's north of the growth in the earnings profile. And so we continue to look at that, especially in light of the growth cycle we're in. And so we're going to continue to look at that. We're going to continue to evaluate that. But we feel really good about our ability to drive some margin improvement here in the second half.

Jason Haas
Got it. Okay. That's helpful. And then maybe as a follow-up, curious if you could comment on how ancillary performed in particular? I know it's a good bellwether for the health of your consumers, so just curious how that performed through the quarter. Thanks.

Jerry Gahlhoff
Yeah, ancillary business has done great. We continue to add staff, productivity improvements amongst our sales teams. That piece of the business remains strong. We continue to leverage for our customers. We give them the options to finance some of the larger ticket items. That certainly helps us get deals closed, get customers serviced quickly, take that objection away about affordability. But in our side of it, we have not seen customers having struggles making decisions about our ancillary service offerings.

Ken Krause
Yeah, the 10.3% organic growth in the quarter is healthy. And in fact, June was several hundred basis points higher than that. So we keep an eye on that because we're paying attention to the health of consumer. We feel like that might be an area where you would see the slowdown. We're really not seeing that slowdown.

Operator
Thank you. Next question today is coming from Josh Chan from UBS. Your line is now live.

Josh Chan
Hi, good morning, Jerry, Ken, Lindsey. I guess Jerry mentioned that there were some weather impacts in the quarter. I was just wondering what geographies you saw those in? And would you consider, as we kind of roll into July here, given the strength that you're seeing in the backlog that the weather has kind of pretty much normalized at this point? Thank you.

Jerry Gahlhoff
There were -- I would call May spotty in lots of areas. I just think of -- I'll use my own place here in Atlanta. You can usually jump in the swimming pool by the second or -- second week of May. It wasn't until June that we got in the swimming pool at my house. And so -- because it was too cold, it was raining all the time. The weekends were rainy. What was your experience here, Ken?

Ken Krause
Well, Jerry, I'm from the north. So I can jump in the swimming pool a little bit earlier than that..

Jerry Gahlhoff
Well, I don't get in unless it's 82 degrees, Ken. But, no, it was a cold start, and it definitely delayed. I know I have folks back in the Northeast, and around Memorial Day, they were talking about 50 and 60-degree days and incredibly cold for that time of the year.

Jerry Gahlhoff
I remember even, yeah -- so when I think about it, especially in the Southeast, where a lot of -- in the Southeast United States where a lot of our business is derived from, that was certainly an impact in the month of May. It's just -- everything just kind of started out slower from the Carolinas down to say call it North Florida and across South Central, it was just a little different across all the way to Texas. So I would say that's where we had the biggest impact. But like I said, we've come out of it. By the end of the first week of June, it was -- it was shot out of a cannon, and we were right back at it really hard.

Josh Chan
Sure. Okay. That makes a lot of sense. I guess you mentioned that also, despite the choppy organic revenue, that the sales records that you guys were achieving in June, so does that reinforce your confidence for the rest of the year in terms of [inaudible] kind of hear how you're thinking about sort of the sales records that you've been achieving?

Jerry Gahlhoff
Yeah, look, one month doesn't make a trend. So -- but we -- what we're seeing right now is strong, and who knows what could happen. But we're certainly encouraged. We feel like adjustments we've made during the latter part of the first quarter, beginning of the second quarter and how we are going to market, and our June results were so good, and there's nothing that gives me pause to make me think that we can't continue to perform, certainly going through Q3. What do you think, Ken?

Ken Krause
No, I would agree. I think -- I mean, we're positioned well. I agree with you - one month is not a trend. But the June period was strong. Every one of our service offerings growth in June was accretive to our quarterly growth. That gives us a sense of confidence heading into July. But we'll keep an eye on it. We'll continue to communicate, be as transparent as we can, but we feel good about where we sit today.

Operator
Thank you. Our next question is coming from Harold Antor from Jefferies. Your line is now live.

Harold Antor
Hey, guys. This is Harold Antor on for Stephanie Moore. So I think on Investor Day, you guys discussed moving SG&A as a percent of sales from 30% to below, and you highlighted several buckets where you could see the improvement there. I know barcode automation was one of them. So just wanted to get an understanding of where you are in that journey. Seems as though there's a lot under the hood there that could be some puts and takes. Wondering along the journey where some things have gone better, some things are kind of still where they are, and if that opportunity is more significant today than you originally thought, just any comments there?

Ken Krause
Well, thanks for the question, Harold. And it's Ken. What I would step back and look at is our SG&A roughly -- is roughly 30% of sales. 14% of that or -- just under 50% of that cost structure is selling and marketing. We're going to continue to invest. We're going to continue to pursue. We're going to continue to grow the business. But the other 16% is certainly an opportunity. If you benchmark that against others, there appears to be some opportunity there. And what I alluded to earlier with the value creation program is really aimed at getting after not only that, but all of our cost structure. And so we continue to look at how we can continue to improve the business and improve our margin profile.

Harold Antor
Got you. And then I guess, on the regulatory front, anything that we should be keeping in the back of our mind? We spoke to experts, and some experts are saying that there can be some changes at the state level in terms of products that we use in pest control products. So just I guess if you had any comments there, that would be great.

Jerry Gahlhoff
Yeah, so I think we've dealt with state level regulatory for as long as I can remember. There's different states, in particular, more active states like California and New York, maybe Massachusetts that do have their own take on things and do some things. But we have a really strong technical team. Our team of entomologists, our team of people that are involved with government relations, industry relations are very up to speed on those things. We've tackled those challenges for years, and we'll continue to do so. There's nothing that we can't just adjust to if needed or get -- oftentimes, we're already ahead of those changes before they even occur.

This is regulated heavily and should be a regulated business. And so we have a lot of those skill sets and a lot of those muscles built into our business to help us make those adjustments.

Operator
Thank you. Our next question is coming from Brian McNamara from Canaccord Genuity. Your line is now live.

Brian McNamara
Hey, good morning, guys. Thanks for taking the question. Just one for me as many have already been answered. So I was wondering if you could give a brief update on your retention efforts with first year tax. Jerry, I think you said you saw a double-digit improvement in short-term retention in Q1 and as a result, made far fewer new hires than the prior year. I'm curious how Q2 looked in this regard and anything else to call out in terms of labor market dynamics? Thanks.

Jerry Gahlhoff
Brian, thank you for asking that question because that's one of my proudest accomplishments of this year so far is in our -- the improvements that we've made, particularly in our short-term turnover that I've described as a challenge for us since about -- since COVID. We've made double-digit improvements in that. And when we talked about some of the leverage that we got in service wages, that's a direct reflection of us being able to hire fewer people, keep -- invest in training and onboarding for people that leave us after three weeks, six weeks, nine weeks, 60 days.

Our teams have made tremendous -- across our business have made tremendous improvement in that. I'm really proud of what they've done there. We still have work to do. They're all learning and sharing best practices from one another. Next week, we have all our operators in, and we'll be talking about best practices in this area. We're seeing some really positive things that I'm really proud of the team for the accomplishments that they've had there. And there certainly is a financial impact to that, moving that number. More importantly, there's an impact that we -- our customers see and consistency. And long term, we know the more we keep our people, the better customer retention will be, and it's just the right thing to do. So really proud of my team, and thank you, Brian, for asking that question.

Operator

Thank you. We've reached end of our question-and-answer session. I'd like to turn the call back over for any further or closing comments.

Jerry Gahlhoff
Thank you, everyone, for joining us today. We appreciate your interest in our company and look forward to speaking with you on our Q3 earnings call.

Operator
Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.