

10-August-2018

Rollins, Inc. (ROL)

Rollins, Inc. Analyst Day Presentation Transcript

CORPORATE PARTICIPANTS

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PRESENTATION

Eddie Northen:

Good morning, wonderful to see all of you. Thanks for coming out on a steamy summertime Friday in August in New York City. Thanks for making the trip here today. If we've not met, I'm Eddie Northen, the Chief Financial Officer here at Rollins. It was great to catch up with many of you over breakfast time and appreciate just getting to know how things are going with you and talk a little bit about our company and a little bit about an update of what's going on.

Hope you had a chance to see Pete, and maybe—no offence, Pete, maybe more importantly, Tess in the back, our bedbug sniffing dog. Today is her rest day, even though she's working today. Tomorrow—is it tomorrow, Pete, that you go to Westchester?

We have set up in Westchester, 550 dorm rooms that Tess will be going room to room to get ready for the students coming in to make sure it's pest-free, or bedbug free. As she did a few years ago, I think she probably stole the show again this morning, so that's a good thing.

I know several of you made the trek in the air; Dinesh -thanks for flying in, several others of you have flown in today, appreciate that. For those of you that used the subway, for either part or all your journey, we do have a service that'll help with those little four-legged friends that live down in that area, so if you know anyone in the transit authority, we'd be glad to help with that.

My thanks go out to the New York Stock Exchange for hosting us here. This is an iconic location, as you all know, and this is an amazing room with some great history. Over the last 224 years, the Stock Exchange has really been the driving force enabling capitalism and commerce in the U.S.

A few things we're going to cover today. I'll get us kicked off; Gary's going to talk about an industry focus from a Rollins perspective, and I think he's really going to help to shed a lot of light on why we do what we do and where we are today as an organization and what we're going to look at to moving forward in time.

Julie's going to talk about the financial impact of some of the technology that we've put into place. Those of you that have followed our journey know what that's looked like over the last three-plus years and the benefits that we see with that. Julie's going to talk through that.

I'm going to provide a brief financial update. Then John's going to talk about our growth and what that looks like for the future of Rollins, and then we'll have a Q&A session and hopefully get a chance to answer some of your questions.

Before we move on I want to point your attention to the forward-looking statement that is on the screen. You also have a presentation in front of you that's our Investor Presentation and it has a copy of the forward-looking statement in there. We just ask that you make sure that you reference that if you have any questions or concerns.

We're here today for a few different reasons. One is to spend time with you. The second is to celebrate our 50th year on the New York Stock Exchange. Third is to celebrate two of the Directors that were here on day one of the listing and that will be here today on the 50th anniversary, and they're going to ring the closing bell and close the market.

Really, just an unbelievable time for us to be able to celebrate some of the history; it's our Chairman, Randall Rollins, and our Lead Director, Henry Tippie that will be here, and those are the two that we'll be honoring today. Our Chairman was the Company's second CEO, and Mr. Tippie was the Company's first CFO. I thought it was difficult to follow Harry Cynkus, but I can't imagine following Mr. Tippie, so luckily, I didn't have to do that.

With all the current Tesla talk about going private and about possibly there being a leveraged buyout, it is very timely to talk about the accomplishments of Mr. Tippie. He was the actual architect behind the deal for Rollins Broadcasting to purchase Orkin, which was considered the first leveraged buyout. Harvard Business Review did a case study on it, Businessweek did a study on it at the time, and it's considered, in history, 1964, to be the first leveraged buyout. It's kind of timely that we are recognizing Mr. Tippie for his accomplishments with what's going on.

In addition, that single event really has impacted, literally, hundreds of thousands of people, including our employees, customers and investors. For those of you or your firms that have been involved with the Rollins stock, we hope that you've been appreciative of the investment return that you've received. But as my predecessor would say, for those of you that are not, it's a hard stock to buy, but it's an easy stock to hold. I believe that you would agree with that as well.

One of the questions that we get from you has to do with our major competitors, so I want to spend just a minute on this. The question that I get is, can the competitors duplicate what it is that we have going on? I think it's a really interesting question. Of course, only time will tell for sure on the answer to that, but I believe we have a very unique history and culture that's been in place for over 70 years, and I think that we see the continual benefit of that on a daily basis.

Unlike many companies, we had the opportunity for our brilliant Founder, O. Wayne Rollins and his brother John Rollins, to teach and train the next generation of leaders, which included our Chairman who I just spoke of, and also Gary, who in turn have trained literally thousands of other leaders, including the current Executive Steering Committee that we have, including John and me as well.

In addition to that, the original CFO, Mr. Tippie, continues to teach and set strategy as he has for the past 50 years. Not only would that be difficult to duplicate by any of our competitors, I personally believe it would be difficult for any business in any industry to be able to duplicate. Our culture is to pass this along to the future generations, so while great businesses in their own right, companies like Starbucks and Dell had their founders step away, and when the company lost focus or suffered issues with execution, those founders had to step back in. With Rollins, the Company has continued to strengthen with the subsequent generations over time.

Thank you again for being here, I appreciate that. Today, Gary, Julie, John and I will be sharing some information about how we got to where we are today and how we see the direction as we move forward in time.

Also present with us today are Beth Chandler, our General Counsel and Corporate Secretary; Beth can wave—hi, Beth—and Tom Luczynski. Some of you had a chance, hopefully, to talk to both of them. Tom's our President of Global Franchise Development. Amy is not in the room, but none of us would be in the

room here today if it weren't for Amy, so hopefully you'll get a chance to see her. I know many of you have had a chance to talk with her and interact with her through time.

Without further ado, Gary, I'm going to turn it over to you to get us started.

All right, thanks.

Gary Rollins:

Thank you, Eddie, for those kind words, wish my mother were here. She'd be the only person who'd believe them. But anyhow, good morning and thank you for being here today.

I'd like to share with you some of the factors that have enabled us to achieve 49 consecutive quarters of improved revenue and profits. I believe that you'd all agree that there's no such thing as overnight success. In the book *Outliers*, author Malcolm Gladwell, shared story after story of individuals who worked tirelessly for many years, honing their craft, making mistakes and figuring things out and being successful.

He uses the example of the Beatles and their performance for years in pubs around the U.K. where they played for seven days a week, often, and sometimes for free. As you know, they went on to become the band that would eventually take America and the world by storm. They're a great example of the benefit of hard work and dedication, and I think that Rollins has it in common with the Beatles. I never thought I'd compare the Company to a rock band, but it seems to work in this particular case.

If you knew the Company's history, you'd recall that Randall and my father, O. Wayne Rollins, founded the Company with my uncle John Rollins. They started with automobile dealerships, and when dad realized that radio advertising was crucial to a dealer's success, he took that on as well. This led to the formation of Rollins Broadcasting in 1948 with radio stations, television, cable TV and outdoor advertising.

In 1964, Rollins purchased Orkin, the deal that Businessweek referred to as "Jonah swallowing the whale." Rollins' future would never be the same as we expanded into numerous businesses and industries. As you might expect, there were some ups and downs along the way.

Speaking of downs, let me talk for a moment about the importance of learning from your mistakes. I recall sitting in on a security analyst's meeting with my father. Our guest at one point asked, "Mr. Rollins, you've been in so many great businesses, radio and television and Orkin. How did you figure out how to be in so many successful businesses?" Dad paused for a minute and said, "by being in so many bad businesses." You see, we had been in wallpaper distributing, drapery manufacturing, a buying service, ladies' gym, maid service, and of all things, a cosmetic line. We've had plenty of opportunity to learn from our mistakes.

Now, the Rollins' jewel, Orkin, has not always enjoyed smooth sailing as well. In Orkin's later years, following the acquisition, as it sometimes happens, top management took their eye off the ball and the business suffered. It was in the late '70s when my brother Randall stepped in to address the problem. He conducted what would become known in the Company as the Memphis meeting.

He gathered up all of Orkin's senior management for a week in Memphis to evaluate every current policy and procedure, analyze all the expenses on the P&L, and formulate a policy or a practice that we refer to as margin management. We developed standards and a percent of revenue for every expense and key operating function. Our objective was to generate a 30% branch profit. This established the business discipline and the framework of the new Orkin. I was given the mission to lead the charge and execute the plans that were developed in Memphis, and as a result of a lot of hard work, and our team accepting the challenge, Orkin's business improved and we never looked back.

As Rollins began to realize what a good business Orkin and the pest control industry was, in the early '90s, we narrowed our focus on pest control. As a result, we sold all the non pest control businesses: the burglar alarm company, lawn care, plantscaping and closed the maid services business. We then began to open

more Orkin branches, create Orkin franchises, both domestic and international, and initiated an acquisition strategy to purchase other leading pest control companies. This started with the acquiring of PCO Services, which would become Canada's largest pest control company. This purchase would be followed by Western, Waltham, and in 2008, HomeTeam Pest Defense.

Now, HomeTeam at the time was the fourth largest pest control company in the United States.

Other acquired companies would follow in Australia, the United Kingdom and Singapore. During this time, we also realized that there were segments of the pest control industry that would complement our strategy as well. We added to our portfolio Industrial Fumigation, the largest commercial pest fumigation company in the United States, Trutech, and later, the master franchiser of the best-known U.S. wildlife brand, Critter Control. By the way, today, we're the country's largest wildlife control company. Our acquisition strategy has continued, and more recently, with the purchase of Northwest and Kentucky's OPC Pest Control Company.

Now I took you through that brief history to illustrate over the years that we've learned a lot about business: businesses that haven't worked, and those that do. As a result of our focus, Rollins today has obtained the standing as the world's largest pest control company. We have over 700 company-owned locations and over 200 domestic and international franchises.

Some have looked at our success and thought, well, why don't you add another type of service—while the technician's already in the customer's location, or that we should expand to another service industry. My response is, we've tried that, done that, read the book. Not to be trite, but it's been our experience and the key of our success is to stay focused and keep the main thing the main thing.

The U.S. pest control industry alone is estimated at over \$10 billion and it's very fragmented. We have approximately a 20% share, so there's plenty of room here to grow. There remains a tremendous opportunity in the international markets as well, where we currently have nine company-owned locations and 84 franchises.

I couldn't complete my summation without acknowledging how important our people are to our success. In the service business, the most precious asset is your employees, and we take great pride in our selection, training and the achievements of our team. Our recent decision to use a portion of our tax savings to enhance employee benefits is a good example of the high regard that we have for our people.

Our dedication and experience shape who we are today, and will direct what we do in the future. Additionally, there's so much opportunity just to improve our existing business, plus growth through new locations and acquisitions.

As I hope you'll sense today, we're very enthusiastic about our future and our mission to protect our company's property, our customer's health, and our customers from the threat of pests. I jokingly tell people we can't kill all the bugs; we don't even make some of them sick. But seriously, we believe the demand for our services will always be there.

Now, I've given you the highlights of over 50 years of Rollins history crammed into 10 minutes to share with you how Rollins got to where we are today. As I've noted, we've had experiences of ups and downs and have benefited from a lot of learning along the way. Fortunately, these experiences and focus have contributed to having the world's leading pest control brands, along with our record of increased revenue and profits for the past 49 quarters. Our commitment to provide world-class service and a culture of continuous improvement is paying off.

Thank you for being here and taking the time to be with us today. We hope that you find Rollins and today's visit to be of value. Thank you again.

Julie?

This is the rose among the thorns.

Julie Bimmerman:

Thank you Gary.

As Gary has walked you through the history of Rollins, with everything you have heard, one thing should be clear, Rollins knows pest control.

To become the world's largest pest control provider and maintain this status, we focus daily on the customer experience. Not just how to uphold our outstanding customer experience, but how to improve it.

Over the last few years, you've seen us invest in technology. You've watched us go through extensive testing and training to get this right. Yes, we may have encountered the expected bumps and bruises along the way.... Change management is tough. Yet as you can see by our consistent revenue growth and margin improvements, quarter over quarter, year over year...20 consecutive years to be more precise, we have made it work.

So now I have the exciting part, I get to walk you through some of our recent technological implementations along with the financial efficiencies we have gained with the utilization of this new technology.

To fully grasp the efficiencies gained, let's first step back a few short years and imagine a day in the life of a pest control technician and administrative staff. While sitting in the office early in the morning, the technician shuffles through a pile of papers, manually sorting his route. Once completed, our technician would start his daily adventure.

At the end of each pest control stop, he adds manual notes to the service ticket, before leaving a paper copy with the customer, and bringing another copy back to the administrative staff to be posted in the system. If a customer wanted to pay at the time of service, our technician could accept a check or would be required to call into the office and have the customer on the phone directly with administrative personnel.

The administrative staff would then spend the following day posting the technician's tickets and addressing customer calls as time allowed. I believe you understand the gist of their day.

Now speed forward to August 2016 in any Orkin US location, following the implementation of BOSS, our branch operating system support. BOSS not only put technology in the hands of our technicians through an iPhone application, it also gave them critical knowledge.

Technicians could now improve their customer experience, by allowing customers to receive copies of their service tickets in any manner they wanted ---even electronically. Customers can now pay immediately for their service via credit card, with the technician quickly processing their payment with the mobile device in their hand.

Our technician now has the customer's full history at their fingertips, allowing the technician to investigate, answer questions and cross sell with knowledge.

BOSS also gives our customer better access to administrative staff to address queries without delay – billing questions, rescheduling, and the like. The staff is no longer spending their time with data entry of the technicians' daily tickets. .

Now these are only a few quick examples of the value of BOSS.

We told the investment community at the onset that we believed BOSS would bring us a 200 to 300 basis points improvement once reaching full maturity. We believe it took approximately one year after

implementation of BOSS for a location to reach maturity We brought the last branch to that success in August of 2017.

Reviewing our last 6 to 9 quarters, you will see the forecasted level of improvement in our margins, and then some. This is driven by a combination of improved efficiencies and increased productivity. This resulted in lowered service salaries as a percentage of revenues, improved administrative salaries and forms expenses, to only name a few.

With BOSS fully mature within all of our Orkin US locations, we then layered on a bolt application to BOSS which assists with routing. We call this VRM or virtual route manager.

VRM takes a technician's daily route and optimizes the schedule for the most efficient routing possible. The optimized route is then presented on the technician's iPhone for easy use.

Viewing the slide, you will note an actual route before and after optimization. And no, we did not make the route on the left appear exceptionally convoluted on purpose, this was a real and normal looking route.

It is amazing how quickly a route can lose its simplicity of design after a few customers are added and papers shuffled.

The VRM optimization gives clarity to the technician.

As you can see from this example, the technician can easily gain 45 minutes in his day. Previous windshield time is now utilized for additional production or possibly attending a child's ball game. So not only does VRM bring us a reduction in mileage and drive time, but it also increases productivity, employee and customer satisfaction.

With approximately 40% of our Orkin US locations at full maturity with VRM, we saw a 5% savings in miles driven per technician and lowered service salaries by the end of Q1 this year. Our savings are consistently increasing with June presenting our highest level of improvement in our miles per technician reported to date.

Overall, when you are performing almost 900,000 unique customer visits per month, this savings equates to thousands of hours of saved drive time, lowered fuel costs, wear and tear on vehicles and accident claims.

We are excited to watch VRM expand through maturity to the remaining Orkin US locations over the rest of 2018 and early 2019.

Once a branch reaches full maturity on VRM, I am sure you are all following the theme here, they begin utilizing Orkin 2.0.

Orkin 2.0 takes the routing and scheduling to the next level.

As a result of the previous BOSS and VRM implementations, we have administrative staff, who now have time to quickly and efficiently address customer queries along with technicians who have fully optimized routes and are quickly accessible via iPhones.

So let me bring this all together by walking you through a real life, and very personal, example of how Orkin 2.0 works.

I recently had the unlucky surprise of discovering a scorpion in my kitchen. I first called my go to entomologist, he said "that's not good" then agreed with me that Atlanta pests are a little different than my old Dallas pests. At that point, I realized he was having entirely too much fun with my plight and that I needed to call in a professional; I called Orkin. If this sounds far-fetched, ask my family, they will fill you in on the gory details.

Anyway, I digress, back to Orkin 2.0. Our trusty administrative staff upon hearing my quandary, reacted much more appropriately than my friend, I did not hear any laughing in the background. Utilizing Orkin 2.0, they were able to view precisely where all of the technicians were currently located along with their schedules for the remainder of the day.

Determining rapidly who had the availability, the technician received a prompt update to their iPhone with their route immediately re-optimized. With the technician on his way, customer was happy...yes, no more scorpions.

How was that for a customer experience?

With the margin efficiencies gained, and increased employee and customer satisfaction we received from the implementation of the trio of BOSS, VRM and Orkin 2.0 at our Orkin US locations, we reviewed and investigated at length where to deploy next.

We have now started to implement BOSS within our Orkin Canada locations. Testing and deployment are scheduled to begin Q4 of 2018 and continue throughout 2019. Similar to the Orkin US rollout, once Orkin Canada completes the BOSS rollout and reaches maturity, VRM will follow, then Orkin 2.0.

So now transitioning from technology relating to service and operations.... to technology for sales and procurement of a new customer, specifically a commercial customer through the utilization of BizSuite.

BizSuite is our iPad application used by our commercial sales representatives. When inspecting a potential customer's facility to complete a quote for services, the sales representative details out the customer's facility with a scale drawing, including any-and-all potential issues found during discovery. This includes photographs embedded within the file to present to the customer.

So imagine you are this customer, you have a full layout of your facility detailing out pest hot spots you may not know existed. Yet through an interactive file, you can view photos, get detailed information regarding the pests that have been discovered, such as this drain fly shown here. You now know the pest or areas that need your attention.

Once the customer finishes studying the file, she can review the proposed contract and sign, all through BizSuite.

This program has assisted our sales representatives in taking the sale to a personal level with the customer. Customers now understand what we are proposing and that we are proposing only what they actually need. We are their partner in this process, not just their pest control provider. We help them understand how not only to correct their current pest control concerns but to also prevent issues going forward.

Customers understand and appreciate the relationship we are building from day one. This has been proven through our historic levels of quarterly organic commercial revenue growth that we have been reporting.

Once we sign our new commercial customer, we then set them up in InSite, our web reporting tool.

Through InSite, our commercial customers now have the ability to monitor pest activity and treatments within their facilities, even when they have multiple locations. They can review something as simple as their service tickets all the way to what type of pests they are experiencing in each of their facilities along with how many or how often.

The customer can set up specific pest alert notifications. For example, if they wish to be notified whenever a specific facility has more than 2 or more signs of drain fly activity within 3 weeks, they will receive the alert. This allows for quality assurance checks to be easily completed at the customer level. Not to mention giving the customer the ability to produce reporting as necessary for governmental audits, again without delay.

As I commented earlier....how is that for a customer experience?

Now that I have intrigued you with our cool technology that we're very excited about, if you would like to see any of this technology live, we have a technology tent that is being set up right now in Experience Square out front. I believe it should be ready by 11:30. Please drop by; experience our technology in person. See it yourself.

Now I want to say thank you for joining us, and please let me reintroduce Eddie Northen, our Chief Financial Officer and Treasurer.

Eddie Northen:

I think she said "Cheese" Financial Officer, I'm pretty sure. That's what I heard.

Hopefully Julie shed some light on our technology investments over the past few years. I know those of you that have been involved in the journey over the last few years, have seen the impact to the financials, both on the capitalization, depreciation expense side, as well as, now, in improvements in the profitability. Hopefully she helped to further clarify and help you understand the efficiencies to our operations, as well as the enhancements that we've seen to our customer experience.

I'm going to talk a little bit about where we are from a financial perspective today. Two-thousand eighteen has been a very exciting, but a very different year from an accounting and P&L perspective than most previous years for Rollins. Our higher trending organic growth, combined with our accelerating acquisition growth, have caused movements in our P&L that we've rarely seen throughout our history, specifically the expense related to our accelerating organic growth and the amortization of intangibles from customer contracts that are flowing through our P&Ls, has skewed the bottom line numbers compared to our historic norms. When you layer on the recent tax law change, the bottom line numbers are further changed from there.

The good news is that all of these moves will have a sustained, positive impact on our bottom line for many years to come.

Taking a look at the components of growth, organic, which is made up of pricing and new customers, has been up 5% year-to-date, and has trended higher since 2014. Pricing has stayed rational over the time period and has been in the range of 1.5% to 2% through the time period. The remaining positive impact is from new customers, or from added share of wallet of existing customers. An example of that would be the sale of our mosquito product, or mosquito service, to an existing pest control customer.

We're seeing the positive benefits of our strategy to continually improve our customer experience, driven by our improvements in technology, which Julie discussed, and is leading to better retention and the ability to win new customers. Our Marketing group continues to get the message to the right base of customers, which is not an easy task, as ways to communicate our message continue to shift rapidly.

As mentioned on the past conference call, these improvements in growth are even more exciting as we see recurring revenue grow at the fastest rate in many years. More customers are selecting one of the Rollins family of brands to protect their home or business. Simply stated, customers are signing on for contractual or subscription agreements and that type of service at a rate that is much faster than in previous quarters.

This does however impact our financials. For example, when a new food processing customer begins service, the initial visit or two will include the deployment and staging of equipment to create a barrier to the pests from entering. We may also spend time working with the customer to minimize or eliminate potential entry points such as gaps under a door, or unsealed windows. All of this takes additional time.

Once that technician makes the third or fourth visit, the activity is focused on the actual service of the customer and can be completed in a shorter timeframe. When recurring revenue growth is steady year-over-year and quarter-over-quarter, we do not feel the impact of this in our P&L, but when we see the acceleration of recurring revenue growth, as we've seen over the past few quarters, we see and feel that in our expense, as we did this past quarter. This recurring revenue, while costly during setup, provides many future years of sustained profitability.

The other main component of growth has been through acquisitions. Gary took you through a brief acquisition history through time, but since the acquisition of Orkin and our entrance into pest control, this has always been a key to our growth. As you can see from the graph, over this past three years, acquiring companies has played a much larger component of growth in the recent years. While other competitors are paying significantly higher multiples to acquire companies, we continue to win because of Rollins being the acquirer of choice.

The Rollins acquisition in 2008 of HomeTeam Pest Defense is the last time that we've seen growth similar to what is happening in 2018. We believe that we will see the same positive, steady growth in net income and earnings per share in the coming years that we saw in the years following 2008. One of the outcomes of Rollins being the industry acquirer of choice is that we're able to select really good quality companies to add to the Rollins brands.

The trust that the Rollins' have built over the years, by living up to their word each and every time post-closing, has been a key decision point for companies of all size in our industry. An owner that is contemplating a sale has a heavy burden to decide what is best for themselves, for their family, for their customers and for their employees. If that owner decides that ensuring that their customers, and probably more importantly, their employees, are taken care of, then the way Rollins has handled acquisitions through time becomes a major decision factor.

On July 1, I had the opportunity to attend the closing of the Aardwolf Pestkare acquisition in Singapore. Arguably, the owner could have received a higher bid from one of our competitors but seeing owner John Ho's personal relationship with each, and every one of the technicians, and the care that John has for them, their families and their well-being, was truly remarkable. A caring owner like John does not want to take a chance that the company that he built over 30 years would be right-sized in order to get the needed financial return. We purchase high quality companies that are well-run, and we keep them intact and work with them to make them better.

Another factor that plays into the acquisition success is the long-term relationships built by our senior leaders. Examples of this can be seen in our major acquisitions over the last few years. For each of them, we were the only ones at the negotiation table. The longevity in the industry by the Rollins Senior Management Team drives the opportunity for quality relationships to be built.

For example, our Vice President of Technical Services, Chris Gorecki, who has 30+ years with Rollins, had the relationship with Northwest Exterminating. When the Phillips family, who owned Northwest, decided that it was time to sell, they reached out to Chris to begin that conversation, and for us to begin our negotiations.

John and Gary have a 20+ year relationship with the Blake family, the owners of OPC Pest Control, and John and our President of International Markets, Steve Leavitt, developed a relationship with Safeguard in the U.K., and most recently, Steve Leavitt and Tom Luczynski developed that relationship with Aardwolf in Singapore. Each of these companies saw the value of the support and culture that Rollins brought to their organizations. Our Rollins value of employees and customers is always directly aligned with these high-quality companies that we acquire.

Growth is only good if it makes sense from a total company perspective and it helps to improve our overall profitability. There's a reason that Gary and team made the decision years ago to shed some of those businesses. It just didn't make sense from a profitability perspective. A benefit of acquiring good quality companies where they have proven the ability to create further synergies, enables us to be able to take that

acquisition and continue to make things better. This has helped us to further expand our margins over the last 20 years.

We've completed about 20 acquisitions year-to-date, and many of those were easily tucked into existing operations, making our operations even more efficient, and routes even more dense. Even standalone acquisitions will benefit from cost reductions that improve their profitability, and access to capital can expand their service capabilities. A great benefit that we get as a company is our opportunity to learn and apply those things that we learn from other companies that we acquire.

Sometimes those benefits are on the cost side of the equation, and other times they're on the revenue side. A great example is the green, or environmentally friendly offering that Northwest Exterminating offers to their customers, we've been able to learn from and share with the other Rollins' family of brands. We know that's going to enable us to be able to grow our revenue with the sector of consumers and customers that care very much about that offering.

My final example of the strength of growing with the right customers and companies is the continued improvement in our operating profit margin. While also improving over the last 20 years, the past few years has seen an acceleration as again we see the benefits of our technology improvements and employee training. We believe that we are positioned very well to see the benefits of our growth and repeat the financial success that we've seen in the past.

As we execute our strategy related to the employees and customers, we will be positioned to benefit in the future. To talk about what that future's going to look like, John's going to share some thoughts on Rollins and the growth moving forward.

John Wilson:

Good morning, it is great to be with you all today, thank you for making time to share in our company update.

For my presentation today we will key in on what I believe are four areas of opportunity to grow our business in the future: the first is simply pest opportunities, second covers our marketing efforts to meet our customers' needs, third is technology and fourth will be expansion opportunities.

But, before I go there I believe it important to talk about the people aspect as Gary mentioned that is very important to our company and its culture and the underlying foundation of all we do.

In the early days of Rollins, the way the company grew looked very different than today. Growth occurred thru the acquisition of radio or television stations as a medium for advertising efficiently automobile dealerships and Rollins eventually became known as Rollins Broadcasting. This growing business enabled our founder O. Wayne Rollins and our first CFO, Henry B. Tippie to purchase a new kind of business for the Rollins family, a Pest Control business known as Orkin Exterminating at the time. These men worked hard and family was involved all along the way.

Many things would look different today without that acquisition, including the fact that I probably would not be here with you. I say that because my dad worked for Orkin, starting in 1960, prior to the 1964 acquisition by Rollins, as a sales-service representative.

After the acquisition, my dad rose through the organization to become the Orkin Southeast Division President. I had exposure to Orkin and Rollins early on in my life when I would spend weekends at his office cutting the grass or taking out the trash to earn my allowance. My summers were always spent working from a service truck taking care of current customers and adding new ones. While I took what Gary calls a "detour" with another career out of college, the business and the company was never far from my heart because I loved the people.

I returned to Orkin nearly 25 years ago and I couldn't be happier that I did. I tell each, and every one of our Management Trainee candidates that this is truly a company that will provide you with every chance to rise in the organization. My father's success as well as my own tells me that is true.

But your own hard work, ability to learn and benefit from your mistakes and a willingness to do what it takes to take care of your team members and your customers will determine success or failure.

Our company and how we grow moving forward looks much different than those early broadcasting days, but Pest Opportunity will always be a driving force in our growth. As Gary has famously quoted, "Rats and Roaches don't read the Wall Street Journal." No matter the economic cycles, Mother Nature continues to do her thing and it is our job to ensure we are prepared to help new and current customers with their Pest Management needs.

One of the things that drives customers to engage a Pest Management provider is media attention. When there are stories or issues that get the public's attention related to pests, we see the impact. We saw this in 2010 when the media began picking up stories related to Bed Bug infestations.

Prior to 2010, we did not even measure the revenue impact of this very creepy pest, but by 2016, Bed Bugs made up roughly 4% of our total revenue. Much of this revenue has been one time revenue.

As always, we have adjusted our offering with the changing consumer demand by the development of the Orkin Bed Bug "Proact" product. This enables better planning by the customer as well as our operations and has enabled us to move to a more recurring revenue model. This approach helps both our customer and our business moving forward in time and as you know we love recurring revenue.

In more recent years, media attention has shifted to disease born issues related to mosquitoes. Zika, West Nile and other diseases raised public awareness and customers come to us looking for answers.

I believe the growth of our mosquito effort will occur for many years to come. We have the largest residential and commercial base of customers in the industry and this is a straightforward offering for many of our customers from someone they already trust. The biggest reason that they do not have the service is that they did not know that we offered it. Once their trusted technician explains the offering, the benefits and the effectiveness of the service, customers take this at very high rates. This is the service our customers give their highest customer satisfaction rating to and it is also our highest retained service at over 95%. From an efficiency standpoint, it is also helpful when we can have the same technician that did the Pest Control also do the mosquito service at the same time.

Customers must have a way to know of the services that we offer, and our Marketing Group has done a great job, led by our CMO, Kevin Smith, of getting that message to those customers. As you are aware, there are a wide variety of ways that consumers use to make their decisions. Our Digital Marketing team and their efforts continue to differentiate us from our competition. As Eddie referenced a few minutes ago, organic growth rates are near historic highs for commercial, and are continuing to trend upwards with our residential business.

Probably, and maybe most importantly from a connection standpoint, is meeting the consumer on the platform that works best for them. Only in a few short years, mobile made up less than 25% of our consumer connection, and now that number is over 70%. Designing mobile first in anything that we do is a must.

Julie's going to help me for a minute, so you can see how robust our mobile site has become, and I encourage you to check this out on your own device. Here, you can see, one of the most visited areas on the Orkin website: the common pests. If a customer does not readily recognize a pest, they want to know and understand what it is, and we are able to quickly and easily help with that. This knowledge will help when we interact with this customer to determine the best course of action to quickly resolve their issue.

Thank you Julie. You guys definitely didn't want me handling that technology piece.

More recently, we have done a better job of proactively supporting our customer's needs and concerns through online reputation management. Customers today want to communicate and share compliments more readily, so we have responded in a variety of ways, mostly through the various online forums, resolving customer issues, and in many cases, turning a potentially damaging situation into a positive, because of how quickly and efficiently things are handled.

Long before social media, we referred to those events as a golden opportunity to satisfy and strengthen the customer relationship. As you all know, in business, things change rapidly, and that change moves us forward. Advancing our technology efforts helps with that, as getting our service rep to the right place at the right time is critical to improving the satisfaction of our customers.

Technology is the platform for our customers to find us, but it is also a key to the success of our employee support and the resulting customer experience. You have heard us talk in the past of the importance of our employees. Their selection, onboarding and training is vitally important.

To support our hiring efforts we have beefed up our recruiting team and will be rolling out our first ever Human Resource or HRIS system in 2019. Our President of Specialty Brands and Human Resources, Jerry Gahlhoff is the Corporate Sponsor of this important initiative. This will enable us to better track training, performance and career development for all employees around the globe in one seamless place. One of the groups that will benefit greatly from this would be our current and future leaders.

As we continue to grow, add new branches and split existing ones in all of our brands, this will enable us to continue to prepare for that growth.

Tying this all together, we are especially proud of two awards received in the last year, for the very first time Rollins was ranked by Training Magazine as one of their Top 125 training organizations. Orkin had won that award 13 times over the last 15 years. The second award is the Atlanta Journal/Constitution Top Workplace ranking and that was for the second year in a row.

In order to grow in the future, we will need to communicate with our customers in a way that is easy to use and seamless to their experience. With the support of our CIO Lee Crump and his team, I am pleased to share that we are in the final testing phase of a technology roll-out that will do just that for our customers.

As part of our mission at Orkin to never disappoint a customer, we are deploying software that empowers and informs our customers with visibility of the status and details of their service appointments. The software keeps them up to date and even tracks, in real time where their Orkin technician is. This enhancement to our customer service program allows the customer to be more in charge of their schedule and be more efficient with their precious time.

Instead of explaining further, let's take a look at the screens.

(Video presentation).

We believe this will significantly enhance our Customer Experience. If we can ensure that we first, kill the bugs and second, enhance our communication around appointments, we believe we will continue to improve on our best in class retention for our residential and commercial customers.

In recent years, we have sought to expand elsewhere in the world. No matter where our customers are located around the Globe, we see the same issues of killing the bugs and communication with our customers. We have learned this as we have expanded our company owned and franchise operations to over 700 locations around the world and in 55 countries.

The benefits of our rapid Global expansion are twofold:

First, our company owned operations in Canada, Australia, the U.K. and now Singapore are growing at a faster rate than our overall Rollins growth rate. This is a requirement for those operations as building

density is key to improving profitability. At the same time our Franchise operations have increased their recurring revenue growth rate each year over the past 4 years and have strong double-digit increases.

Second, as customers continue to look for Global solutions to their Pest Management concerns, the growth of our International Network enables us to respond to our customers' needs better. A few examples of where we have had success have been in the Food Processing and Hospitality and Healthcare verticals. We look forward to supporting better food safety practices and helping to reduce the spread of human illness around the world.

We talked about a couple benefits that we see to expanding our global footprint. But, our first order of priority internationally is to grow in an orderly fashion. Building density and synergy is of importance as we go. It would be totally out of character for us to make foolish purchases and move in a helter skelter fashion just to say we are in X number of countries or we have the most coverage.

Last, I want to circle back to something Gary said, Rollins has 20% of the U.S. market share and 90+% of our business is domestic.

There is a tremendous amount of growth opportunity right here at home.

I hope this has been helpful. Thank you for your time and your interest.