

Rollins, Inc.
First Quarter 2026 Earnings Conference Call
April 23, 2026

Presenters

Lyndsey Burton - Vice President of Investor Relations
Jerry Gahlhoff - Principal Executive Officer, President, CEO & Director
Ken Krause - Executive VP & CFO

Q&A Participants

Ronan Kennedy - Barclays
Sam Kusswurm - William Blair
Greg Parrish - Morgan Stanley
Tomo Sano - JPMorgan
Curtis Nagle - Bank of America
Stephanie Moore - Jefferies
Peter Keith - Piper Sandler
Josh Chan - UBS
David Paige - RBC Capital Markets
George Tong - Goldman Sachs
Christina Bettink - BNP Paribas
Jimmy [sp] - Wells Fargo

Operator

Greetings, and welcome to the Rollins Incorporated First Quarter 2026 Earnings Conference Call. At this time, all participants are in a listen only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. Please note, this conference is being recorded.

I will now turn the conference over to your host, Lyndsey Burton, Vice President of Investor Relations. 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, 2025.

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 first quarter results. We saw sequential acceleration through the quarter and continue to see solid growth across all major service lines with total revenue growth of 10.2% and organic growth of 6.6%. Demand was a little slower to start the quarter, particularly given some unfavorable weather in January, but we exited with well over 8% organic growth in March.

Spring sprang quickly for our teams as we are experiencing healthy growth in recurring and onetime services. As expected, we continued our investments in incremental sales staffing and marketing activities ahead of peak season to ensure that we are positioned top of mind for the consumer as pest season begins. 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.

Earlier this month, we announced our acquisition of Romex Pest Control, a top 40 pest management company according to PCT top 100 rankings. Romex provides us with entry points into new markets while enabling them to further scale their operations and expand service offerings to their existing customer base. Most importantly, they have a strong people and customer-focused culture, and we were thrilled to welcome our new Romex teammates to the Rollins family.

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 Romex is another example of our successful M&A playbook in action as we continue to add high-quality businesses to our premier portfolio of brands through a disciplined and strategic approach.

On the commercial side of the business, we're encouraged by our momentum. Overall, we delivered solid commercial growth for the first quarter. 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 continues to deliver new customer wins across key verticals.

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 saw headwinds to profitability from higher insurance and claims as well as some pressure from headcount given lower volume earlier in the quarter.

As we discussed last quarter, it's important that we maintain healthy staffing levels ahead of peak season, so we aren't hiring, training and onboarding a large number of new teammates at the same time seasonal demand ramps up. We've learned that extreme swings in hiring activity drives teammate turnover rates higher and has potential negative impacts on the customer experience. This hinders profitability in the short term, but is the right decision for the business long term and sets us up to capitalize on peak season demand as evidenced by our performance in March.

In closing, we're excited about where our business stands today. The year is off to a solid start, and demand from our customers remain strong. Our teams in the field are ready to support our customers as peak season ramps up. And I want to thank each of our 20,000-plus team members around the world for their ongoing commitment to our customers.

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

Ken Krause

Thank you, Jerry, and good morning, everyone. Diving into the quarterly financial statements and starting first with revenue, revenue growth was solid to start the year. It was very encouraging to see an improving growth profile as we move throughout the quarter. In total, we delivered revenue growth of 10.2% year-over-year. Organic growth of 6.6% was negatively impacted by unfavorable weather, particularly in January, but we saw a very strong sequential improvement in each month moving through the quarter. We were especially pleased with approximately 12% total growth and over 8% organic growth in the month of March. Overall, organic growth of 6.6% in the quarter represents a 90 basis point improvement versus the fourth quarter of 2025.

We realized good growth across each of our service offerings. In the first quarter, resi revenues increased 9.3%, commercial pest control rose 9.6% and termite and ancillary increased by 13.5%. Organic growth was also healthy across the portfolio with growth of 4.2% in residential, 7.7% in commercial and almost 10% in termite and ancillary.

Turning to profitability and our gross margins, they were 50.8%, a decrease of 60 basis points. The lower volume in the first part of the quarter, coupled with higher insurance and claims activity were headwinds to quarterly margins. Looking at our four major buckets of service costs, people, fleet, materials and supplies and insurance claims - first and foremost, lower vehicle gains

within our fleet line on the income statement created 50 basis points of headwinds to gross profit margin. We should see this start to improve as we go into the second quarter.

Insurance and claims drove an additional 30 basis points of headwinds to gross margins, while service payroll costs provided 20 basis points of headwinds as we carried more technicians ahead of the start to peak season in March. Fuel costs represent approximately 1.5% of sales, and we saw a relatively neutral impact from fuel in the quarter. We currently expect fuel costs to continue to track below 2% of sales in 2026.

We are seeing good receptivity on our recent price increase and expect price to contribute 3% to 4% of growth for the year ahead of CPI, and we expect to be positive on price/cost for the year at that level of price realization. Gross margins are usually at their lowest point in Q1 given revenue seasonality, but we anticipate improving margins in our underlying operations as we move through peak season.

Quarterly SG&A costs as a percentage of revenue increased by 70 basis points versus last year. Incremental selling investments provided 50 basis points of headwind while higher insurance and claims costs contributed 20 basis points of headwinds on the SG&A line.

First quarter GAAP operating income was \$145 million, up 2% year-over-year. Adjusted operating income was \$153 million, up 4% versus prior year.

First quarter adjusted EBITDA was \$179 million, up 4.4% versus last year and represents a 19.8% margin. The effective tax rate was 21.3% in the quarter versus 23.5% and reflects the benefits of both the improvement associated with windfall tax benefits as well as the work our tax team has done to improve our effective tax rate. We expect our effective tax rate to come in under 25% for the year, down approximately 100 basis points from historical levels.

Quarterly GAAP net income was \$108 million or \$0.22 per share. For the first quarter, we had non-GAAP pretax adjustments associated with acquisition-related and other items totaling approximately \$7 million of pretax expense in the quarter. Accounting for these expenses, adjusted net income for the quarter was \$113 million or \$0.24 per share, increasing 9.1% from the same period a year ago.

Turning to cash flow and the balance sheet, we delivered operating cash flow of \$118 million and free cash flow of \$111 million. Free cash flow conversion, the percent of income that was converted into cash flow, was over 100% for the quarter. Cash flow performance was negatively impacted by the timing of tax payments associated with our tax credit planning strategy. This strategy has delivered meaningful benefits and is enabling very strong improvements in our effective rate.

Also, our year-over-year cash performance was impacted by our transition to semiannual interest payments on our 2035 senior notes that we issued a year ago. Excluding these items, free cash

flow would have increased 14% versus Q1 2025 and free cash flow conversion would have been approximately 140%, all very healthy, enabling us to continue our balanced capital allocation strategy.

During Q1, we made acquisitions totaling \$18 million, and we paid \$88 million in dividends in the first quarter. We continue to expect M&A to contribute 2% to 3% of revenue growth for 2026. Our leverage ratio stands at 0.9x. Our balance sheet remains very healthy [audio gap]

Operator

--Lyndsey, your line is now open. You may commence.

Lyndsey Burton

Hey, I'm sorry, everybody. I think -- what we understand is that our line -- we had network issues and we dropped right around the time where Ken was speaking about leverage. So do you want to start from that point, and we can go from there, and then we'll open the line for questions. Apologies, everybody.

Ken Krause

I'll actually go back through and just redo my area real quick here and just cover the areas. But just starting over here, diving into the quarterly financial statements and starting first with revenue, revenue growth was solid to start the year. It was very encouraging to see an improving growth profile as we move through the quarter. In total, we delivered revenue growth of 10.2% year-over-year. Organic growth of 6.6% was negatively impacted by unfavorable weather, particularly in January, but we saw very strong sequential improvement in each month moving through the quarter. We were especially pleased with approximately 12% total growth and over 8% organic growth in the month of March.

Overall, organic growth of 6.6% in the quarter represents 90 basis points of improvement versus Q4 of 2025. We realized good growth across each of our service offerings in the first quarter. Residential revenues increased 9.3%, commercial pest control rose 9.6% and termite and ancillary increased by 13.5%. Organic growth was also healthy across the portfolio with growth of 4.2% in residential, 7.7% in commercial and almost 10% in the termite and ancillary area.

Turning to profitability, our gross margins were 50.8%, a decrease of 60 basis points. The lower volume in the first part of the quarter, coupled with higher insurance and claims activity were headwinds to quarterly margins. Looking at our four major buckets of service costs of people, fleet, materials and supplies and insurance and claims, vehicle gains, lower vehicle gains within our fleet line on the income statement created 50 basis points of headwind to our margins, and we should start to see this improve as we go into the second quarter.

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and we saw a relatively neutral impact from fuel in the quarter. We currently expect fuel cost to continue to track below 2% of sales in 2026.

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Also, our year-over-year cash performance was also impacted by our transition to semiannual interest payments on our 2035 notes that we issued a year ago. Excluding these items, free cash flow would have increased 14% versus the first quarter of 2025 and free cash flow conversion would have been approximately 140%, all very healthy, enabling us to continue our balanced capital allocation strategy.

During the first quarter, we made acquisitions totaling \$18 million, and we paid \$88 million in dividends. We continue to expect M&A to contribute 2% to 3% of revenue growth for 2026. Our leverage ratio stands at 0.9x. Our balance sheet is very healthy, and it positions us well to continue to execute on our growth priorities while returning capital to our shareholders.

As we look to the remainder of 2026, we remain encouraged by the strength of our markets, our recession-resilient business model and the engagement and execution by our teams. We are positioned extremely well to deliver on our financial objectives. We continue to expect organic growth in the 7% to 8% range for the year with growth from M&A up 2% to 3%. We remain focused on improving our incremental margin profile while investing in growth opportunities, and we anticipate that cash flow will continue to convert at a rate that is above 100% in 2026.

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

Jerry Gahlhoff

Ken, that was much better the second time around. You really paid off on the mulligan [inaudible]. So thank you for that great recovery. We're happy to take any questions you have at this time.

Operator

Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. Please limit yourself to one question and one follow up. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

And our first question will come from Manav Patnaik with Barclays.

Ronan Kennedy

Hi, good morning. This is This is Ronan on for Manav. Thank you for taking my questions.

Jerry Gahlhoff

Morning, Ronan.

Ronan Kennedy

Good morning. How should we think about the sustainability of that March exit rate as we move through peak season? Does it primarily reflect normalization from the early quarter weather-induced softness, or is it underlying demand trends that suggest a higher organic base going forward for the rest of the year?

Ken Krause

We feel good about the exit rate. We feel good about our business. The improvement of 90 basis points from Q4 to Q1 reaffirms the confidence we have in our outlook. Our outlook is rooted in that 7% to 8% organic growth. We remain committed to that level of growth and organic growth across the business, coupled with the 2% to 3% of M&A growth. When we think about our exit rate at 8.4 or so percent as we think about March, yeah, you had an extra day there, but you also just had a really good month, just really good demand. The residential area, which in the quarter,

I think, grew at something around 4% to 4.2% -- in the month of March, we saw over 7%. So we continue to see good demand for our services, which gives us confidence in our outlook at that 7% to 8% organic growth, Ronan.

Ronan Kennedy

That's helpful. And then as volume ramps through into peak season, how should we think about the incremental margin flow-through relative to 1Q given the cost setup and the margin drivers and dynamics you described for the quarter?

Ken Krause

Yeah, thank you for the question. And really, when we think about margins, Q1 is usually our low point just because of the seasonality of the business, and it came through in that manner. We fully expect improvements to start to -- we start to see improvements here as we ramp into Q2 and Q3. We should see improvements going into the second and third quarter here of 2026. So we remain committed to the outlook we have on our incrementals. The business is intact and provides us a sense of confidence in what we can deliver from an incremental margin profile.

Ronan Kennedy

Thank you, Ken. Appreciate it.

Operator

Our next question comes from Sam Kusswurm with William Blair.

Sam Kusswurm

Hey, guys, thanks for taking our questions here. I think you just touched on this already, but maybe to help us bridge to that 7% to 8% organic growth for the remainder of the year, can you just share how April has trended so far relative to exiting March here?

Ken Krause

We're early, Sam, in April. But we really -- looking at our projections and forecasts that we continue to look at, I mean, we still have a lot of confidence in that 7% to 8% organic growth. And as I said before, the 2% to 3% of M&A growth. So we feel like business is very much intact and should continue to deliver that sort of growth profile for our investors.

Sam Kusswurm

Okay. That's helpful. Maybe pivoting a little bit, we saw that the insurance and claims expense was 3.7% of sales in the quarter. This compares to full year rates of 2.9% in '25 and 3.2% in 2024. I guess I'm curious how we should think about this expense line as we move through the remainder of the year and if you're kind of expecting it to remain at this elevated level?

Ken Krause

That's a hard one to predict. When we think about insurance and claims, it's an area with a lot of oftentimes volatility. We do our best every quarter to put the most accurate number on the

financials, and that's what we did in Q1. We unfortunately had some claims that continue to mature and go through the maturation process. And that was a headwind for us. And -- but it's really hard to predict what that line will look like as we go forward. We're hopeful that we'll see it moderate as we go into the second half of the year and improve, but we also know that facts and circumstances change as we go throughout each and every quarter.

With that said, we are still holding strong to our incremental margin profile as well as our ability to grow earnings in that double-digit range. And so we continue, despite having and facing some of those headwinds in insurance and claims, have a -- continue to have an outlook that remains unchanged with respect to the incremental margin profile.

Jerry Gahlhoff

And Ken, I would add that, long term, how we approach safety and insurance and claims has to do with investments that we're making today and investments we made last year that are going to continue to pay off for us long run by reducing our collision frequency rate, our injury frequency rate that long term should be able to help us drive our costs down. We're piloting a lot of programs, making investments, especially in driving safety to avoid these types of situations that hopefully can begin to change the arc of -- or the trajectory of that component on our P&L.

Sam Kusswurm

Great. Thanks, guys.

Operator

Moving next to Greg Parrish with Morgan Stanley.

Greg Parrish

Hey, guys, good morning. Congrats on the quarter.

Ken Krause

Thank you, Greg.

Greg Parrish

Great. Maybe -- covered some of the big topics. Maybe just to touch on Romex you acquired a few weeks ago, maybe you can just touch on the strategic rationale, what attracted you to their culture of that business, and any early expectations for that?

Jerry Gahlhoff

Yeah, this is Jerry. We got to know the team at Romex over some period of time and had a number of meetings with them and kind of as I've referred to it or described it as kind of a dating process for each just kind of get to know each other. And they've got some really talented people on the team that we had met and were very impressed with their operations, how they -- how closely they were aligned with us, how they treated people, how they approach customer service. They

also operated in some very complementary markets to -- that were -- good markets that were -- that they had some really strong positions in and continue to grow and expand.

And plus we saw a great opportunity to leverage some of the things that we do as we add additional services to customers. They were focused pretty heavily on pest control, residential pest control primarily, and a little bit of ancillary service offerings and we saw an opportunity to be able to leverage our knowledge and expertise to help them continue to expand their depth of relationship with their customers over time, as well.

So we're really excited about the team at Romex, especially the talent that we know is there. And that's oftentimes one of the -- if you look across our portfolio of brands, oftentimes when we add brands to our group, we're getting super talented people. And that really helps shape our company and has formed who we are today. So we're really proud of that.

Greg Parrish

Great. Thanks for that. And then I wanted to ask on fuel costs -- I appreciate the additional disclosure that you gave. I know you talked about your exposure in the past, as well, and it's fairly low exposure. But just remind us the limited exposure that you do have, is that hedged at all? And did that have any impact, albeit small, on margin in the quarter?

Ken Krause

On the fuel cost, Greg, just to double-click on that, we do not hedge that cost. It's a relatively minor cost in our P&L. It's about 1.5 points in terms of total exposure in the P&L. We will continue to evaluate it. But for now, we don't see a meaningful exposure that would require us to take extensive approaches outside of just making sure that our price increase reflects this volatility and challenging environment that we might be in. But with that said, we continue to enjoy a highly variable cost structure with a very low amount of exposure to the fuel area.

Greg Parrish

Fantastic. Thank you.

Operator

Moving on to Tomo Sano with JPMorgan.

Tomo Sano

Hello, everyone.

Ken Krause

Good morning, Tomo.

Tomo Sano

Thank you. I hear you mentioned that residential organic growth in March was about 7%. Could you provide more detail on the trends you saw in March for the commercial and termite segment,

as well? Additionally, are there any notable differences in growth rates or demand recovery by region? Thank you.

Ken Krause

No. Overall, Tomo, the business is very healthy in March. Residential probably showed the greatest improvement. Commercial also was stronger relative to January and February, and termite and ancillary hung in there. Our onetime business certainly benefited as we went throughout the quarter. If you recall, Q4 negatively -- was negatively impacted by a very weak onetime number, and we saw some improvements in that area as we went throughout the quarter. So all told, we feel good about where we are to start Q2 across all of our major service offerings. But it was probably residential that improved the most quarter-to-quarter, which makes sense. As you get into season, it's usually going to be the residential side that pops more than the commercial side that is much more stable through the year.

Tomo Sano

Thank you. And a follow-up - you have continued to invest in people, service and infrastructures even during the periods of unfavorable weather and revenue softness to ensure continuity and improvement in customer service. So when you look at the market today, do you see this as a strategy that clearly differentiates the Rollins from competitors? Are there specific ways in which your approach to investment and service stands out versus peers?

Jerry Gahlhoff

I wouldn't comment about how it compares versus peers. I think this is our strategy, and -- when you look at the investments we make, and the best example I can give you, when I started in this business decades ago, this business was a lot simpler. And I did pest control, and I did termite work. And the options that we had -- I had to learn about and what I had to do were relatively simple 30 years ago.

Today, you've heard Ken talk about having nine shots on goal. And when you have to train people to be able to be experts and knowledgeable, both on the service and the sales side for the complexity of all the things that our team does, that takes time. It takes experience. It's harder and harder. You can't just get somebody up and running in a few weeks like it was 30 years ago when I started in this business.

So those are investments that we make that we do think, probably differentiate us from our competitors, but we do it because it's the right thing to do. It's the right thing to do for our customers, to ensure that our -- that we have trained people that have been through a season and have been experienced so that, when they're dealing with a problem in the month of April or the month of May, we're able to put more experience at the door to help them solve their problems.

So that's a big part of our strategy. It has to do with how do we improve customer retention by ensuring that we have a better service delivery offered through some of these kinds of

investments that we make because this is about the long game. It's about lifetime value of a customer. And the more that we can invest to improve the long-term value of the customers, the better off we are. Would you add anything to that, Ken?

Ken Krause

Yeah, the only thing I would add is when you look at some industries, you might look at how people pare back headcount quickly or change headcount. I mean, as Jerry had used the word we take a long-term oriented approach, we very much do. And so when we think about January, some may have decided to pare back and pull back on headcount. We decided to hold in there because we were confident in the ability to drive growth in the business. We knew there was a temporary and a transitory challenge with weather. We sought through that, and we kept our people. We invested in our people, and that's paying off now as we start peak season.

Tomo Sano

Thank you very much.

Operator

Our next question comes from Curtis Nagle with Bank of America.

Curtis Nagle

Great, thanks for taking the question. Just one, and apologies if I missed this - if you'd be able to break out the growth rates for recurring and onetime in the quarter? And then I'll just have a follow-up.

Ken Krause

Yeah, overall, when you look at the recurring and onetime and you compare that to what we've seen historically, as we had talked during the call, January, February were weaker. We saw weakness in January, February. March was very healthy at that 7% sort of range on the recurring business. The onetime business continued to accelerate and improve, as well. If you recall, in November and December, we were contracting in that area because of the challenging weather. And in January, we were flat. We saw a nice strong improvement in March. And so it shows that that business didn't necessarily go away, but we were able to go back and recover that. And we exited with a pretty healthy backlog.

Ancillary, the more of the nine shots on goal that I oftentimes refer to, double-digit solid growth in March. And so overall, all healthy -- all signs point to a healthy portfolio across recurring, onetime and the ancillary.

Curtis Nagle

Okay. Thanks. And then maybe, Ken, could you give an update on the efforts to improve your retention rates going into the spring season, both from just raw retention and then some of the cost savings you've talked about?

Ken Krause

Certainly. When we think about retention, there's two aspects of retention. There's technician turnover and technician retention, and then there's customer retention. On the technician turnover, it's more around short-term, people that are coming in the business in the first year and how do we improve upon that. We're making great strides there. We're going to have an Investor Day on May 14. We're going to talk a lot about what we're doing around our culture and all the investments and the results we're seeing as well as the potential to move the needle when it comes to margins with spending less on onboarding because we're keeping our people through that first year. So continue to make progress there.

And then on the customer side, we're also making changes there. We're putting leadership around that, and we'll talk more about that at Investor Day. We're not seeing any major changes in the quarter per se when it comes to customer retention. It's not precluding or prohibiting us from growing our business, but there's an opportunity there. We just lose way too many customers every year. And we're making investments in that, as well. And Jerry and the team and all of us, we're going to speak to that in our Investor Day in May.

Jerry Gahlhoff

Yeah, the commercial side of retention remains very strong, very stable. We did make some modest improvements in the residential side, particularly across our business as we exited the first quarter. So we're good to see that. But we still see that there's a lot of potential upside there and thus the investments that we've talked about making.

Curtis Nagle

Thanks very much. Appreciate it.

Operator

Moving on to Stephanie Moore with Jefferies.

Stephanie Moore

Hi, good morning. Thank you. I wanted to ask on just the margin improvement opportunity as the year progresses, maybe if you could just talk about what gives you confidence that you'll be able to see some improvement and maybe commenting on areas of opportunity outside of just inherent operating leverage as the volumes -- as the top line accelerates. Thanks.

Ken Krause

Yeah, thanks for the question, Stephanie. And when we think about it, when we look at the first quarter, you look at the incremental coming in at a pretty low point. But whenever you understand and whenever we -- whenever I took the time to really analyze and dig into the results, what I found was 50 basis -- about 100 basis points in total of headwind was associated with insurance and claims and then the gains on sales that we had in the fleet. We talked about the fact that, if we excluded those two items, you would have had a closer to a 20-or-so percent incremental margin profile. And that's about what we would expect in Q1. I mean, a lower

volume, and that's the kind of performance we would expect to see come through the model in a lighter revenue quarter.

When we think about those two areas, we talked about the fact that the sales on leased asset -- or gain on sale of assets should change and not be a headwind as we go into Q2. We should start to see some improvements there year-over-year. And so that certainly should help us regain some traction on the margin line. And the fact that we continue to see improvements in the overall growth of the business should also just yield solid results as we carry higher technicians and people into peak season.

So considering those two or three points, I think it gives us a lot of confidence that Q2, 3 and 4, we should see improvements in the margin profile to get us back into that range that we're targeting.

Jerry Gahlhoff

When you look at how much we spend on our P&L basis on people, when the growth is there, you get leverage on the people side, as well. And that's probably the biggest opportunity that we have going in the rest of the year.

Stephanie Moore

Really helpful. Thanks, everybody.

Ken Krause

Thank you, Stephanie.

Operator

We'll go next to Peter Keith with Piper Sandler.

Peter, your line is open.

Peter Keith

Sorry about that. Good morning, everyone.

Jerry Gahlhoff

Good morning.

Ken Krause

Good morning, Peter. Hopefully weren't having the same issues we had earlier in the day.

Peter Keith

No, no. No, Ken, you sounded fabulous on the second go around.

Ken Krause

InComm Conferencing

Good. Thank you.

Peter Keith

On the margin topic -- I'll just stick with that -- for the gross margin, I was curious because you quantified all the negatives at a negative 100 basis points in some versus the 60 basis point decline. So what were the positives that offset? And I'm assuming pricing played into that, but I was hoping you could answer the question.

Ken Krause

Yeah. No, thanks for the question. I mean, we saw some good performance in the materials and service line. We also saw some improvements across a broad category of items that you normally would leverage like branch rent and professional services and things like that, other cost categories, if you will. And so across those two or three areas, you had the materials and supplies, and then you had the other areas, the 3% to 4% pricing allowed us to leverage those because they're not changing as much. They're not as maybe as variable as some of the other costs. And so we're able to leverage that through the P&L. Those were the things that produced the positive improvement in the gross margin, which was unfortunately fully offset by the items we talked about.

Peter Keith

Okay. Helpful. And then secondly for me, just on the free cash flow -- thanks for the details on the onetime items. I guess as we think about those items going forward on the timing of credits and the semiannual interest payments, does what you experienced as headwinds on free cash flow in Q1 reverse in Q2 or now we should see abnormal year-on-year increase?

Ken Krause

Yeah, they will -- as you go throughout the year, they will. The interest expense certainly will; that's paid semiannually. So Q2, you won't see that come through year-over-year and be a headwind. The tax payments, we fully expect that, by Q4, you'll see a nice improvement in the use of cash with respect to this. Some of this is front-loaded in the first half of the year. So you might -- you probably see improvement in Q2 and 3 from where we are in Q1. You won't see it reach its full potential until Q4. But for the full year, that mid-teens sort of growth rate in cash is something that we continue to target and have a lot of confidence in delivering.

Peter Keith

Okay. Helpful. And congrats on that March exit rate.

Ken Krause

Thank you.

Jerry Gahlhoff

Thank you, Peter.

Operator

We'll hear next from Josh Chan with UBS.

Josh Chan

Hi, good morning, Jerry and Ken. Maybe for Jerry, I guess in prior years where the weather is tougher to start the year, in your experience, by what month does everything kind of normalize and then you kind of move past the slowness and maybe catch-up? I guess, when do things kind of get back to normal usually?

Jerry Gahlhoff

Yeah, so Ken and I were talking about this yesterday. There have been times where we've had slow Marches. And literally, it was right around this time of the year in April when it would suddenly break and business would pick up. We were very fortunate, I think, in March to have had very favorable conditions, pretty -- by the end of the first week of March, it really popped. It felt like things were literally heating up. And -- but oftentimes, it's usually end of March, beginning of April that it starts to go. Sometimes, that's delayed to like the third week of April, and we're really sweating it when that happens. And then once in a while, it does. And you're just waiting when -- and we can tell based on phone call volumes on a day-to-day basis, we know when that's -- when it's official, so to speak, and it happened. And really, that happened for us at the end of the first week of March. So that was really good.

Josh Chan

Okay. Okay. Yeah, thanks for the color there. And then I think you mentioned earlier that you want to improve retention. I guess the retention in the industry has always been maybe not incredibly high. So I guess I wonder what is it that you think you could change about something that has been this way for a little while.

Jerry Gahlhoff

Well, I guess that goes back to the mindset of continuous improvement that there's always something that can be made better that we ought to be able to improve. I mean, for example, I give a shout out to our team at Fox Pest Control. When we acquired Fox three years ago, their customer retention was what I would call normal-ish. They have partnered with the HomeTeam brand who has some best-in-class retention and over the last three years have moved their residential retention by 5 percentage points. That's a big movement over a few year period of time.

So that demonstrates to us that there's always room for improvement, always opportunity to get better. And we're going to be pushing hard on that lever across all of our business units. Even if you're really good, the expectation is we need you to also make some modest improvements compared to maybe some of the territories or brands or parts of the business that lag a little further behind others.

So we see it as a huge opportunity. It's an opportunity to also potentially accelerate our organic growth rate a little bit more. And so we'll probably unpack that -- we'll definitely be unpacking that a little bit more for you at the investor conference in May.

Josh Chan

Great. Thank you both for the color today and look forward to the investor day.

Ken Krause

Thanks, Josh.

Operator

Our next question comes from Ashish Sabadra with RBC Capital Markets.

David Paige

Hi, good morning. This is David Paige on for Ashish. I had a question on commercial. It looks like some solid growth, continued solid growth. You mentioned some -- maybe some business wins and some other investments, so I was wondering if you could just double-click on how trends are going in commercial? And then maybe as a follow-up, what is the competitive environment that you're seeing in commercial? Thank you.

Jerry Gahlhoff

We haven't seen any significant change in the competitive environment in commercial. We still feel that we're positioned just perfectly to have scale to be able to service customers anywhere in North America. And that creates great opportunity. We've continued to invest in feet on the street. Looking at some reports recently, we began the year with almost 80 more commercial account sales managers than we had in the first quarter of last year, and they're putting wins on the board. So we see it both in local sales; those are the account managers that are more in the branches and the regions and the territories that they're working in. We also see it amongst our national accounts, getting great growth out of both those channels, driving growth throughout different verticals that we know that we like to focus on. And so we're really excited about that.

And so those investments on the commercial side take a little longer to pay off. But it's also one of the reasons we're so optimistic about the rest of the year because we know that the business coming in that's recently been sold, it turns into that organic recurring revenue growth throughout the remainder of the year.

Operator

We'll go next to George Tong with Goldman Sachs.

George Tong

Hi. Thanks. Good morning. You mentioned with insurance and claims that certain claims are going through the maturation process. Can you elaborate on whether this was from a specific vintage

or period when claims activity was particularly high and how quickly your safety investments should translate into improved claims performance?

Ken Krause

When you think about these claims, I mean, these claims have the potential to go back a number of years. I mean, what you saw just generally across the business was, post-COVID, when people came back on the highways, accidents started to happen. And so you saw claims from that vintage. You also saw more near-term claims. And so it's not -- it's hard to pinpoint any specific period that these claims pertain to. They're across a number of years. And I mean, when you think about the safety, I think it's already paying off. I mean, we're seeing great improvements in our safety experience.

But what happens is it just takes time for that to see its way through the cycle. As I described, some of these claims are three, four, five years old. So as you think about it, you're probably going to continue to see experience like this in the next several years, hopefully tailing off and trailing off as you move forward and make even more improvements in the safety experience. But this is probably something we're going to deal with for -- unfortunately, for a while.

Ken Krause

The lead indicators are positive. That's the good news. So when your accident and injury frequency rates are coming down long term, that is the best predictor that we have for those volumes. But at the same time, we see the cost of insurance and the kind of the crazy market that that is has just been a headwind for us for several years now.

George Tong

Got it. That's helpful. And then with respect to fuel costs, can you discuss what your strategy is to pass along the costs to customers? How real time can your prices adjust to changes in fuel costs?

Ken Krause

So, George, we have two ways of charging for cost in our business. And really, we don't think about -- we think about the value of our business, but there's two. There's just annual price increase that we always talk about. Then we have rate cards. And so as we go throughout the year, we have the ability to adjust the rate cards based upon what we're experiencing with -- in our cost inputs. And so that's something we've -- I think we've done historically, and we'll continue to do as we go forward.

Jerry Gahlhoff

And I would add that, for us, it's more about how do we avoid the fuel costs. How do we, for example, reduce idling time. How do we use apps that are installed on all of our phones that help direct us to the location nearest us that has the best gas prices. How do we leverage relationships. Our fleet team is doing a good job negotiating deals with large providers of fuel to get rebates on fuel use that runs through their systems. Those are the things that we're more focused on is

about efficiency in our model and efficiency in our entire fleet system, and we'll let our normal price increase programs do their part to help us also offset--

Ken Krause

--Or even how we build out dense routes, like where we acquire businesses like Fox, Saela or Romex who have very dense routes. And like those are really good points, Jerry, that you highlight. And it's not just about reacting, but it's how do we proactively do things to make our business better.

George Tong

Very helpful. Thank you.

Operator

Seth Weber from BNP Paribas has our next question.

Christina Bettink

Hi. Good morning. This is Christina Bettink on for Seth Weber. Thanks for taking our question. So I wanted to touch a bit about how you guys target around 2% to 3% revenue growth from M&A. And after the acquisition revenue in the first quarter and the Romex acquisition, I was wondering if you guys expect this acquisition to push the full year M&A contribution above the 3%? And how does this change the overall M&A pipeline for the rest of the year? Thanks.

Ken Krause

Thank you for the question. In the first quarter, I think M&A contributed 3.6% of revenue growth for M&A. And we expect that to moderate as we go throughout the year. That was certainly bolstered last year by the Saela acquisition. And so right now, we're solidly in that 2% to 3% range. There's an opportunity to go higher. There's probably very low likelihood that it would be below that. We are very confident in 2% to 3%. We're not ready to raise it yet, but we also just know that we're very active and we have a very strong pipeline. And -- but right now, that 2% to 3% is probably the right range to be in.

Christina Bettink

Got it. Thanks very much And as a follow-up, so termite and ancillary was up about 9.8%, so I was wondering what's actually driving this and if you guys are seeing any customer demand for bigger ticket ancillary services? And I guess, how the cross-selling is going for selling these services across the rest of the brand portfolio? Thanks.

Ken Krause

Going well. That will be a big topic that we talk about in May. The ancillary, termite ancillary includes ancillary, which is this nine -- hockey season we're in here in a playoff season, but nine shots on goal. We continue to see great demand there. I think Ed Donoghue will be joining us as part of the panel in May, and he actually was really instrumental in developing our approach with Orkin, and we've seen great improvements there. But it's a great business. We continue to see

good levels of demand, and it's a huge opportunity across the portfolio because we have a number of brands that aren't doing much with that part of the business today.

Jerry Gahlhoff

Yeah, it's a great point, Ken. We moved Ed Donoghue, who was VP of Sales for Orkin for many years, and we've moved him over to our non-Orkin brands this year. And the group in brands has been moving the needle a great deal in adding services, using our RAC, our in-house financing, teaching them how to -- and training them how to leverage that throughout their businesses. And we've seen some really nice improvements in that regard very, very quickly, and we're excited about that. And like Ken said, you guys will see and meet Ed in May at the Investor Day. You'll hear more about that.

Christina Bettink

Got it. Thank you so much.

Ken Krause

Thank you.

Operator

Moving next to Jason Haas with Wells Fargo.

Jimmy

Morning. This is Jimmy [sp] on for Jason Haas. We've heard that one of your competitors is being more aggressive with their marketing, So wondering if you're seeing any change in the competitive environment and if you're adjusting your marketing strategy in response?

Ken Krause

Not really. We're seeing great growth there and good performance.

Jerry Gahlhoff

Yeah, we're continuing to focus on what we do, how we do it, spending our money efficiently, moving it to efficient channels and making adjustments. I'm sure that that team has to monitor and see a variety of competitors. We have so many competitors in this space, all looking to gain the same customers. But the more we try to target who our best customers are, what we're doing and the marketing team stays on brand and focused on getting the right types of customers to our brands, that's when we win. And we still feel very comfortable and confident in everything that we're doing from a marketing standpoint.

Ken Krause

I mean, the fact that we saw 90 basis points of improvement in organic growth from Q4 to Q1, I think that stands out and shows that the investments we're making continue to yield really strong results in our markets.

Jimmy

Great point. That's helpful. And then as my follow-up, I'm curious within the residential segment if the acceleration you saw in March was caused by any business from earlier in the quarter shifting into March or if all of that acceleration was just strong underlying demand? Thank you.

Jerry Gahlhoff

There may have been a little bit of carryover from backlog in February into March. But based on what I saw -- and February was not nearly as tough as January was in terms of branch closures and number of days that we really couldn't get the work done. So we carried probably more backlog into February than we did March. So -- but March -- March -- as I mentioned, by the first week, I mean, it started going and the phone started ringing and things just picked up. So a lot of that organic was just coming at us right there in the quarter, and we also had time to get all of our work done that was scheduled to be done in the month.

Jimmy

Great. Thank you.

Ken Krause

Yep.

Operator

And this now concludes our question-and-answer session. I would like to turn the floor back over to management for closing comments.

Jerry Gahlhoff

Well, thank you, everyone, for joining us today. As a reminder, we will be hosting our Investor and Analyst Conference on May 14 at the New York Stock Exchange. We're excited about what we have to share and look forward to seeing many of you in person. Thanks.

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines, and have a wonderful day.