

Rollins, Inc.
Third Quarter 2024 Earnings Conference Call
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Presenters

Lyndsey Burton, Vice President, Investor Relations

Jerry Gahlhoff, Chief Executive Officer and President

Ken Krause, Executive Vice President, Chief Financial Officer and Treasurer

Q&A Participants

Tim Mulrooney - William Blair

Toni Kaplan - Morgan Stanley

Audey Ashkar - Wells Fargo

David Paige - RBC Capital Markets

George Tong - Goldman Sachs

Aadit Shrestha – Stifel

Josh Chan - UBS

Peter Sullivan - Jefferies

Oliver Davies - Redburn Atlantic

Operator

Greetings, and welcome to the Rollins Inc. Third Quarter 2024 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance, please press “*”, “0” on your telephone keypad.

As a reminder, this conference is being recorded.

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

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, 2023.

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. We would like to begin our discussion today by offering our support and encouragement to all of those who have been impacted by the recent hurricanes. I'm proud of the way our team has worked together to support our teammates and the communities we serve in the aftermath of these disasters.

The Rollins' relief fund has processed over 250 emergency grants for teammates in need, and we continue to direct truckloads of food, water and other necessities to impacted areas. Our efforts will continue in the days, weeks and months ahead, as these communities begin to recover.

Turning to our financial results, our team delivered another solid quarter, reflecting consistent execution of our operating strategies and continuous improvement in our business. Our team delivered these result despite some operational disruption caused by Hurricane Helene, which occurred during the last week of the quarter.

Our financial performance for the third quarter was highlighted by an increase in revenue of 9% to \$916 million and we delivered healthy organic growth of 7.7% in the quarter. Overall, we continue to see solid revenue growth, across all major service lines.

We continue to invest in growing our business and adding to our customer base, as the markets we serve remain strong. We invested, significantly, in incremental sales staffing and marketing activities in Q3, and we're well staffed to convert quality leads and sales efforts into new customer growth, which our results in the quarter reflect.

On the Commercial side of the business, we continue to make long-term investments to capitalize on the growth opportunities in a multi-billion dollar B2B market. Our Commercial division continues to, strategically, add feet on the street to our sales force, and we are leveraging data analytics and training to better enable their success.

Investments to drive organic growth are complemented by strategic M&A. We closed 32 tuck-in deals in the first nine months of the year, and the M&A pipeline remains healthy. We're actively evaluating acquisition opportunities, both domestically and internationally, and remain on track to deliver at least 2% of growth from M&A activity in 2024.

Beyond growth, our dedication to operational efficiency and continuous improvement is an important part of our strategy and culture. Tim will discuss in more detail, but investments we made to support long-term growth objectives did temper margins a bit in the quarter. But we remain on track to deliver healthy margin improvement and profitability for the year.

In yesterday's release, we also announced a planned leadership transition at our Board of Directors. In accordance with the company's long-term leadership succession plan, Gary Rollins will transition from Executive Chairman to Executive Chairman Emeritus, and John Wilson will succeed him as Executive Chairman of the Board. Gary was elected to a three-year term during our 2024 annual meeting and will continue to be an active and engaged member of our Board.

John has been with our company since 1996 in various positions of increasing responsibility. I've known John for 20 years and his experience and guidance have been invaluable to me as I have transitioned to the role of CEO over the last two years. I look forward to continuing to work with John, Gary and the rest of our Board, as we position our company for continued success in the future.

In closing, we're excited about where our business stands, today. Our markets are solid, staffing levels are healthy and our team is focused on driving continuous improvement and profitable growth. I want to thank each of our 20,000 plus teammates 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. We are now nine months into 2024, and we've delivered solid financial results. Year-to-date, we've delivered double-digit improvement across all major P&L metrics, year-over-year, and EBITDA margin improvement of 50 basis points, despite making significant investments in the business here in Q3.

Cash flow continues to be strong, with free cash flow growing nearly 12% year-to-date, enabling a 10% increase to our dividend, which we announced earlier this week. With this increase, we have raised our regular dividend by approximately 65% since the beginning of 2022, while continuing to meaningfully invest in the growth of our business. This is a reflection of our disciplined and balanced approach to capital allocation, our ongoing commitment to return capital to shareholders and the confidence we have in our future.

Looking closer at the third quarter, our team executed exceptionally well and delivered Q3 revenue growth of 9%, year-over-year, with organic growth of 7.7% at the high end of the 7% to 8% range we've discussed this year.

We delivered good growth across each of our service offerings. In the third quarter, Residential revenues increased 6.4%, Commercial pest control rose 9.4%, and Termite and Ancillary increased by 14.5%. Organic growth was also healthy across the portfolio with growth of 4.9% in Residential, 8.1% in Commercial and 13.7% in the Termite and Ancillary area of our business.

Turning to profitability, our gross margins were 54%, up 20 basis points versus last year. We continue to be positive on the price cost equation. Pressures from incremental people investments were offset by leverage in materials and supplies, as well as fleet.

Quarterly adjusted SG&A cost as a percentage of revenue increased by 100 basis points versus last year. This was primarily driven by incremental investments in people to support our growth initiatives and the uptick in advertising spend that we expected and previously discussed, during our Q2 earnings call.

Third quarter GAAP operating income was \$192 million, up 8.3%, year-over-year. Operating margins were 20.9%, down 20 basis points, year-over-year. Third quarter adjusted EBITDA was \$219 million, up over 5% and representing a 24% margin.

Margins were down 80 basis points versus last year. And adjusted incremental EBITDA margins were 15.1% in the quarter, reflecting incremental investments in people and growth programs, during the quarter.

The effective tax rate was approximately 26.1% in the quarter, and we continue to expect an ETR of approximately 26% for the year, which implies a rate that is just over 27% for the fourth quarter.

Quarterly GAAP net income was \$137 million, or \$0.28 per share, increasing 7.7% from \$0.26 per share in the same period a year ago. Accounting for certain non-GAAP adjustments, adjusted net income for the quarter was \$140 million, or \$0.29 per share, increasing nearly 4% from the same period a year ago, despite a higher level of interest costs and the investments we are making in growth oriented initiatives.

We remain on track to deliver healthy profitability for the full year, driven by solid growth and an improving margin profile. We continue to focus on driving further improvements, while investing in our business and capturing growth in our very attractive end markets.

Turning to cash flow and the balance sheet, quarterly cash flow was \$139 million, up a very healthy 16%, versus last year. Free cash flow conversion was 102% for the quarter and 110%, year-to-date.

We made acquisitions totaling \$24 million and we paid \$73 million in dividends in the quarter. Year-to-date, we have made acquisitions of \$106 million and returned \$218 million to shareholders, through our dividend.

Additionally, we had just announced a 10% increase to our dividend, earlier this week. This represents over two decades of consecutive increases in annual dividend payments.

Debt to EBITDA leverage is well below one-time on a gross and net level. Our balance sheet is healthy and we are well positioned and committed to continue to maintain our balanced approach to capital allocation.

In closing, we continue to focus on investing for growth, while executing on our continuous improvement and modernization initiatives. We are starting the last quarter of the year with healthy organic demand, and we remain committed to investing in our people and providing our customers with the best customer experience.

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

Jerry Gahlhoff

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

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys. We also ask that you do limit yourself to one question and one follow-up, only.

Our first question comes from the line of Tim Mulrooney with William Blair. Please proceed with your question.

Tim Mulrooney

Yeah. Ken, Jerry, good morning. Greetings from Pest World.

Jerry Gahlhoff

Good morning. Wish we were there.

Tim Mulrooney

Wish you were here, too. Don't worry; we're not having any fun without you. So Residential organic, I wanted to ask about that. It's I guess, 5% year-to-date, still indicative of a healthy market. I recognize that, but maybe slightly below what we've seen, over the last several years.

So I'm just curious, how would you characterize the health of the consumer, today? And could you maybe break that growth down between your recurring revenue stream and one-time sales?

Ken Krause

Sure, Tim, thanks for the question. We appreciate that. When we dive in and we look at the overall growth of the business, we continue to remain very optimistic, very confident in our outlook. We talked about 7% to 8%. We delivered 7.7% here in the quarter and 7.7% organic growth, year-to-date.

When you look closer at the Residential business, it's an area that we're also pretty pleased with the performance, especially when we look at the recurring revenue in the business.

Back in September, we spoke on a public webcast and talked about the fact that we were seeing 6% plus recurring revenue growth coming through the Residential sector. And that's where we finished. That's where we've been for the better part of the year. And so, we're pretty pleased with that level of recurring revenue growth, especially in the Residential sector.

When I look at the business in the quarter, Jerry pointed out the fact that, unfortunately, we all had to deal with the effects of the hurricane late in the quarter. But if you set that aside and you look at what happened as a result of that hurricane, it probably had about a \$2 million or so impact on revenue growth. And so, we would have probably delivered organic growth that would have been slightly higher than the 7.7%, closer to the high end, the 8% that we have talked about in the business.

So overall, we remain very pleased with the performance. The team is doing an exceptional job at delivering yet another quarter.

Jerry Gahlhoff

And the health of the Residential consumer does appear still strong to us. We see good growth in Termite and Ancillary, a good acceptance of our cross-sell campaigns and other things. So if there's anything that's been more inconsistent, it's the onetime piece. And the Residential recurring, that's what we're really investing in with marketing, trying to drive quality leads.

That's what we invest in with door-to-door and any other type of channel that we go to is to try to create recurring revenue streams. And the investments we made in the third quarter will pay off for us in the fourth quarter and the first quarter of next year as our customer base is bigger as we head into the back end of the year.

Tim Mulrooney

Okay, that's a lot of helpful color. Thank you. I'm just going to switch gears really quickly because, Ken, I think I remember having a conversation with you a couple of months ago about really like when you're looking at incremental margins, you're really trying to hit that in that

target range, not in any particular quarter but more like, if you look at it on an LTM basis. So, that's kind of how we're analyzing the business, thinking about it from that standpoint.

So I guess my question is, if we look at incremental margins on an LTM basis, do you expect them to be essentially in line with your target range for the full year this year, or might that be different, given the incremental investments? Thank you.

Ken Krause

Thanks for the question, Tim. We continue to remain confident in our outlook on incremental margins. With a business that's generating gross margins of 54%, we feel like the contribution or the incremental margins should be approximating that 30% level. And in fact, when you look at the quarter and you peel back the performance, you unpack the performance a little bit and look at it a little bit closer, what you see is that we spent more in selling and marketing.

We saw an opportunity in a very attractive growth market to invest and grow our businesses, and just alluding to what Jerry just spoke about. So we spent a little bit more there. If you set that aside, along with some of the investments we made on the tech side to accelerate the start rate that we have in our business, you'd see an incremental margin that would be right around 30%, here in the quarter. So we continue to remain confident in our ability to deliver 30% plus incremental margins, longer term.

Jerry Gahlhoff

Yeah, this quarter is more of a timing issue more than anything as we indicated at the end of Q2.

Operator

Thank you. Our next question comes from the line of Toni Kaplan with Morgan Stanley. Please proceed with your question.

Toni Kaplan

Thank you so much. I also wanted to ask about margin. You mentioned the growth investments in hiring more people. Should we expect further investment in future quarters, or was this more of a catch up to where you want to be? And just if you could talk about which segments you're investing in and most of that would be the best, that would be great.

Ken Krause

Sure, thanks for the question, Toni. When we look at the investments, this is a growth business. It's a growth market. We continue to see great growth opportunities. So we're going to continue to invest in the business.

When I peel back and unpack the investments we made this quarter, I would look at them through two or three lenses. One is on our service side and our service technicians. Because we know the importance of getting out and starting our lead, getting our leads converted into

starts, we have certainly invested in the service side of our business. That's probably about a 30 basis point headwind on gross margins in the quarter.

The second area that we made investments here is in our sales and our sales engine and our sales people. We've talked about the fact that our Commercial business remains a very important area of our business, combined with our Residential. And so, we're investing disproportionately in the sales end of our business and you saw that come through, along with the increased advertising spend that we had here in the quarter to the tune of about 100 basis points.

So, you probably don't expect that level of investment every single quarter, but you're going to see us invest in this business following the various strategic initiatives that we talked about back at our Investor Day back in May.

Jerry Gahlhoff

And to add a little color to that, when I look back at Q3 of 2023, compared to 2024 on our staffing levels, just thinking--just peeling back, just a work in itself. You think on the Commercial side, we are looking at the data to say, hey, where do we have adequate coverage given the market, and we're going to continue to invest where that opportunity is there.

If it gets difficult to scale or the data sets that we've got good penetrated--the penetration that we need and we have the right people in the right places for where the opportunities, are that will certainly slow down. But we'll let the data and then how we're doing operationally from a scalability standpoint will help us dictate that.

And then on the Residential side, selling termite, cross-sell, ancillary business, those kinds of things, that staffing is up double-digits just like the Commercial side is, as we continue to make those investments there. And the opportunities there, the consumer is taking the services and buying the services, as you see in our results. And we find that to be a very worthwhile investment and we'll continue to do that, so long as the market holds it.

Toni Kaplan

Sure, thanks. And I wanted to ask about pricing as we approach the end of the year and thinking about your strategy into next year. I think we've been in a little bit of a unique environment in the last couple of years in terms of we had the inflation and then it's been cooling.

So, I know we've been a little bit on the higher side on price in the past couple of years. Do you see that sort of higher than normal price level of increases continuing into 2025 when you're looking at your data and stuff like that? Just how are you thinking about it? Thank you.

Jerry Gahlhoff

Yeah, so Ken and I just recently spent hours in a room together reviewing those data from our price increase results this year, and there's not been anything in there that--in the data from what we see and what we understand about the consumer that scares us off of continuing to get a fair price for our service. And if we're doing a good job, we should be rewarded for that, and our technicians in the field should be rewarded for that, as well.

So we've not seen anything in the data that would cause us to change course from anything that we've already indicated to you.

Ken Krause

Both internally but also externally. When you look at CPI, we've consistently talked about CPI plus level of pricing. And CPI coming back roughly 2.5% recently gives us no reason to step back on the pricing and pare that back. We feel like this is an essential service and we should be able to be rewarded. And we should be able to reward our service technicians with the pricing that we've seen in the last couple of years.

Toni Kaplan

Very clear. Thank you.

Operator

Thank you. Our next question comes from the line of Jason Haas with Wells Fargo. Please proceed with your question.

Audey Ashkar

Hi, guys, this is Audey Ashkar on for Jason Hass. Thanks for taking our questions. I wanted to ask on the Commercial side, just any update there in terms of the strategy around splitting the brands and adding to the sales force. I think there's eventual plans to create a second division. And can you just remind us there of the margin opportunity being able to capitalize on multiple branches across a single digital media channel? Thank you.

Jerry Gahlhoff

Yeah, we still continue to have a pretty long runway on the Commercial side and how we structure that business, how we open new branches. And to your point about opening another division, those types of things, we're still in--probably in the first two or three innings of what's possible there on the Commercial side, and we're going to continue to invest in those opportunities.

And even from a margin standpoint, the Commercial side tends to drive some stickier customer base and just--and a very appealing margin opportunity there as well on that side of the business. So we see nothing but good things from the future on that Commercial strategy. And we're just, like I said, still in the early stages.

Audey Ashkar

Awesome, that's great to hear. And then just if you can maybe talk about the trends you're seeing in Commercial between the national accounts and the SMEs. And just wondering if your guys take on advertising for SMEs relative to the Resi side of the business, maybe differences or similarities that you would call out there. Thank you.

Jerry Gahlhoff

I don't think there's been anything--any sort of significant shift in that space how--from a competitive standpoint. I think we've been making a more conservative effort, especially within the Orkin brand, to focus on the Commercial side and our marketing strategy there. And we've allocated more dollars into the Commercial space ourselves to do that. But I don't think there's been any significant shift in the competitive environment or anything along those lines from an advertising standpoint or a go-to-market strategy that we've seen.

Ken Krause

The team continues to do well. Scott Weaver is heading up our business at Orkin in the Commercial side and we're seeing nice results there. But also, I was just talking to our business leader, Rob Quinn, yesterday up in Canada, and he's talking about the good performance we're seeing coming out of our Canadian Commercial business.

Jerry Gahlhoff

Mostly a Commercial business.

Ken Krause

Substantially all Commercial. And so really good results, across both of those markets.

Audey Ashkar

Got it, thanks guys, very helpful color.

Operator

Thank you. Our next question comes from the line of Ashish Sabadra with RBC Capital Markets. Please proceed with your question.

David Paige

Hi, this is David Paige on for Ashish. Congrats on the good results. A question on Termite and Ancillary or just other maybe untapped potential in the Residential space that you--I guess that the company is looking to capitalize outside of the current operators that you have.

Jerry Gahlhoff

Yeah, we're always looking for new services and new opportunities in and around the home that we can maybe expand to. And some of those are geographic in nature, based on construction type of the house or certain types of pests and things like that. So there haven't been anything--there's nothing revolutionary that we've seen other than the continuation of adding more sales staff to increase the number of customers with more than one service for us.

And that's why we continue to be so successful adding our home sales inspectors to offer those types of ancillary services.

And another great opportunity is selling more recurring termite. We have a lot of customers that have pest control that don't have termite control that we can continue to offer that service to through cross-marketing, cross-selling campaigns. So, we're pretty good at sticking to what works. There's so much opportunity there and we're just continuing to invest and drive that part of the business.

David Paige

Okay, great, thanks. And just a follow-up on--in terms of inorganic investment, given the robust free cash generation, the low debt leverage. Anything we should keep in mind for there in terms of verticals or geographies that you'd be targeting?

Ken Krause

No, nothing noteworthy there other than we're going to continue to deploy capital and M&A. We continue to have a focus on delivering 2% to 3% of revenue growth from M&A, each year.

Markets remain very healthy, an incredibly attractive market, so you certainly do have competition from time to time. But we've been able to separate ourselves by how we treat the acquisitions that we bring into the fold and how we treat the teams and the brands. And that's a meaningful difference for us in our markets.

But in terms of new markets, we see so much opportunity. It's such a fragmented, such a large and growing market, the pest control market, that we're going to continue to remain committed to that area.

David Paige

Thank you.

Operator

Thank you. Our next question comes from the line of George Tong with Goldman Sachs. Please proceed with your question.

George Tong

Hi, thanks. Good morning. You mentioned seeing disruptions to operations from Hurricane Helene during the last week of the quarter. Can you discuss which parts of the business this impacted the most and whether you expect any spillover effect in 4Q?

Jerry Gahlhoff

So it was really the--obviously, the Southeast United States, the coastal areas of Florida where we have a strong presence, both in the Orkin brands as well as brands like HomeTeam in Northwest, all up the West Coast of Florida and parts of the East Coast of Florida, too, as that

storm had pushed through and had tornadoes in the southeast and central part of the Eastern Coast of Florida. So there was a lot going on there.

We had a lot of branch closures for several days. We focus on making sure we are prepared for the storms as they're coming and letting our people prepare. We know that the more people prepare, the faster we can respond and get back to work, if people are in a good place themselves. So, we had a lot of branch closures for several days. We got back up on our feet after Helene. And then, wham, you get another one that caused significantly more challenges.

Talking to our people in the field, number one, it happened very early in the quarter, in the fourth quarter, so it gives us plenty of time to respond and recover. I'm sure there will be some customer losses along the coastal--the immediate coast. But I don't think that's anything too severe that we can't recover from. We've looked at our forecast for October and the future and there's really nothing there, Ken, that we've seen in the Southeast U.S. that gives us a lot of pause about the fourth quarter, is there?

Ken Krause

No, not the outlook. Not really impacting the outlook all that much. But the quarter, you look at Southeast, it was probably one of the slower growing regions in the quarter because of the hurricane impact late in the quarter. To the earlier question we had on the call, I do think that if we did not have the impact of that hurricane the last couple of days, we probably would have seen organic growth even stronger coming through, as opposed to the 7.7%.

So it did impact us. But as we think about the outlook, we feel like, as Jerry said, we have enough time here left in this quarter to make up for what we had in October.

George Tong

Got it, that's helpful. And then as it relates to your growth investments, can you elaborate on what you saw this quarter that prompted you to step up the spend? How would you assess the possibility that growth investments will remain elevated at 3Q levels going forward if market conditions support it?

Ken Krause

I think the thing that gave us the most hope was the fact that we were seeing 8% organic growth coming through. Leads were strong. Market was very healthy. So we continue to see that, and it's provided Jerry and I and the business leaders, Pat and Stanford, the level of confidence to invest. And it's not that we're investing in every single one of our brands at the same pace, but we did certainly, were able to identify certain areas and make more significant investments in certain areas. And so, that's really what came through.

As far as the outlook and next steps go, yeah, we're going to--we can't say what pace we're going to invest in at this point, but we certainly are going to continue to invest. We firmly

believe this is a growth market. This is a growth opportunity. And in order to be most successful, we've got to invest in our people and capturing additional customers.

Jerry Gahlhoff

And I think part of the algorithm is that you want to acquire customers in the second and third quarter, build your base. Because the phones aren't ringing near as much in the fourth quarter and the first quarter as they do in peak season. So in Q2, Q3 is where you grow your recurring customer base, and that's your bread and butter as you go into the fourth quarter and in the first quarter of 2025, is having a significantly higher customer base in which to serve. And so that makes me very comfortable with the outlook knowing the customer base is healthy and strong.

George Tong

Very helpful. Thank you.

Operator

Thank you. Our next question comes from the line of Aadit Shrestha with Stifel. Please proceed with your question.

Aadit Shrestha

Hi, good morning. Thanks for taking my questions. Just going back to sort of the price. How did price cost spread trend in 3Q '24 versus, let's say, 2Q '24? And on a recurring basis, what sort of margin expansion would you expect from just that spread alone? And would you expect a similar trend in FY'25?

Ken Krause

Hard to say what 2025 will be at this point just yet in terms of margin opportunity and spread. But when you're getting 3% to 4% price increase in this business, you should see margins improve. If I look at the quarter and I unpack the quarter, we had 20 basis points of improvement in gross margin. But we invested 30 basis points in our service area.

So when you set that aside, you had about 50 basis points of leverage coming through in the quarter in gross margin. It was good to see. And we're hopeful that we'll be able to continue to deliver that pace of improvement going forward. But you know as well as I do that from a quarter-to-quarter basis, things can shift.

Aadit Shrestha

Alright, thank you. And just a follow-up. Commercial growth has been pretty strong because of the investments you've been making. And do you see this sort of as high single-digits growth, organic growth in 2025 as well, just because of what you've done already, and the sales and sort of ad spend that you've been investing into that business?

Ken Krause

I think to answer that question, we would look at what we communicated at Investor Day back in May. And really, our plan and our hope is to see Commercial business grow at a faster rate than our overall business. You might see Resi a little bit slower from time to time, but your overall Commercial business should be accretive to the overall organic growth profile of the business as we think about the near-term and the investments we're making.

Aadit Shrestha

Great, thanks for taking my questions.

Ken Krause

You're welcome. Thank you.

Operator

Thank you. And as a reminder, if anyone has any questions, you may press "*", "1" on your telephone keypad to join the queue. Again, we do ask to limit yourselves to one question and one follow-up. Our next question comes from the line of Josh Chan with UBS. Please proceed with your question.

Josh Chan

Hi, good morning, Jerry, Ken, and Lyndsey. Thanks for taking my question. In terms of your decision to hire people at this juncture of the year, could you just talk about the timing? Were you trying to address a little bit of a shortage, or are you trying to get people time to ramp up for next season? Just maybe unpack the timing of the hiring, that would be great. Thank you.

Jerry Gahlhoff

Yeah, so I don't--when you think about from a sales staffing, are you talking more on the sales staffing or the technician front?

Josh Chan

Yeah, it sounds like you invested in both, so would be curious your thoughts on kind of hiring people in the third quarter as opposed to maybe in the spring, something like that.

Jerry Gahlhoff

Yeah, so if you have the right amount of growth and you have route splits and branch openings and things like that, that were--and you're trying to maintain the right balance of the number of customers on, say, a service technician's route, things like that, we'll always add. And usually, that could occur toward--more towards the end of season, in the third quarter where we do route splits and things along those lines. And that's the right time to add those customers--or add those technicians.

On the sales side we have, over the last several years, taken and hired really year-round and continuing to. What we're cognizant of is one of the things I mentioned, is like how fast can you scale, how fast can you train the right amount. So we're trying to take a balanced approach

rather than hiring a bunch of onetime a year, trying to train. Let's say, it's easier to train 20 people in a class that you have four, five classes a year and you're adding 100 than it is to try to add 60 in a quarter and ramp it up because your success rate of hiring 60 versus hiring 20 and putting the time and attention to them in that you need is a little more challenging.

So, we've taken a more balanced approach to how we onboard and how we time those hires and add strategically, over time. And that means we will be making hires throughout the year. I will say generally speaking, though, when we get into the fourth quarter, we do tend to--especially on home sales inspectors on the Residential side, there's a lot less of that hiring. It will usually begin again in the January, February timeframe before we head in the season. While on the Commercial side, it's a little bit more of a year-round type of event.

Ken Krause

It's interesting you say that and you finish with that, Jerry, because if you just look at the quarter, what we saw was we gained leverage in those areas in September. And so more of our significant--more significant investments were made in July and August. We didn't see as much investment coming through in September as you did, earlier in the third quarter.

Jerry Gahlhoff

That's a good point, Ken, because a lot of that in the quarter was very front-end loaded in the early part of Q3. And then we began to kind of wind it down.

Josh Chan

Okay, that makes a lot of sense. I really appreciate that color there. And then on the advertising spending, do you track kind of the returns on advertising; some returns metric related to advertising spend? And could you talk about whether those metrics have kind of changed over the last, call it, six to 12 months or so?

Jerry Gahlhoff

Yeah, we do measure return on ad spend or roll off. That's a key metric. And that's what makes the--in particular in the digital channel so dynamic. And where if you look at Q2, when we spent a little less, you're looking at the market, you're looking at the cost to drive the leads in the digital space and you're making adjustments. You may decide to hold off. You may have--maybe there's some local regional competitors doing some things and you just say, hey, I'm going to back off for a little while and wait for this to settle down.

And then we're going to--and then you're going to invest a little bit more a little later in the season and into the third quarter where you can drive lower cost of customer acquisition and a better return on your ad spend. So we're always looking at that. And we have been able to manage those costs pretty well to that point, too, of--well, again, I know we've said this like a broken record, but we're still going to continue to be disciplined in our advertising spend such that as a percent of revenue, say, on the Orkin brand, they're going to spend as a percent of

revenue a very similar amount as a percent of revenue that we have been committed to for years; that amount.

So it's a little more in dollars, year-to-year, as the business grows. But in order to do that, we've got to do--we've always got to strive to do more with those dollars, acquire customers at a lower cost. So that's a metric that--return on ad spend is a metric that our team is very focused on and makes decisions behind.

Josh Chan

Great. Thank you for the color and thanks for your time.

Jerry Gahlhoff

Thank you.

Ken Krause

Thank you.

Operator

Thank you. Our next question comes from the line of Stephanie Moore with Jefferies. Please proceed with your question.

Peter Sullivan

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

Ken Krause

Hey, good morning.

Jerry Gahlhoff

Hey, Peter.

Peter Sullivan

I was just curious, I know you guys talked a little bit about modernization of SG&A expenses, specifically M&A expenses in 2Q. I'm curious if you could give a little bit more context on how those cost-cutting initiatives are developing and the progress you guys are making. Thanks.

Ken Krause

Yeah, we continue to make good progress. When you look at the earnings presentation, you'll see that the administrative side continues to improve. And so as a percentage of sales, we continue to see slight improvements in that area. We're pretty pleased with it in terms of the performance. But we continue to look at ways that we can continue to invest in the modernization of our business. And so--but overall, we're pretty happy with the returns we've seen on the restructuring dollars we spent a little over a year ago now.

Peter Sullivan

Perfect, thanks, guys.

Jerry Gahlhoff

Thank you.

Ken Krause

Thank you.

Operator

Thank you. Our next question comes from the line of Oliver Davies with Redburn Atlantic. Please proceed with your question.

Oliver Davies

Hey, good morning, guys. Just thinking into next year, and I guess given the investments you've made, would it be fair to assume you'd expect organic growth to kind of accelerate from the 7% to 8% range? Or is it kind of becoming more costly to maintain those above market growth rates?

Ken Krause

It's--I'm not sure if it's a question or a comment. But from a standpoint of our organic growth of 7% to 8%, we're pretty happy with that level of growth, especially when you look at the quarter and you're trending closer to 8%, as opposed to 7%. I'm pretty happy with the returns we're seeing. I'm not sure that we're ready to sign up for increased growth going into next year. But we're pretty happy with the pace of growth we're seeing in the business.

Jerry Gahlhoff

And I wouldn't think that achieving those levels of growth should cost us more to drive that growth. I don't see that there's some sort of increase in advertising or selling expense that we would anticipate at this point that would need to be invested in the business in order to maintain those rates.

Oliver Davies

Okay, great. And then just following on, you mentioned the kind of investment eased in the back end of the quarter. I guess, is that true on both the sales and sort of digital advertising side?

Ken Krause

Yes, that is true. What we saw, just looking at the numbers here and checking that. But what we saw is generally across the board, you saw in September more leverage come through the model than what you saw in July and August. And that's a big reason why when we were on our public webcast in mid-September, we talked about the fact that we were investing. We might

see more investment come through. A big reason why is because of what we saw in July and August.

Oliver Davies

Great. Thanks very much, guys.

Ken Krause

Thank you, appreciate the question.

Jerry Gahlhoff

Thank you.

Operator

Thank you. And we have no further questions at this time. I would like to turn the floor back to the management for closing remarks.

Jerry Gahlhoff

Thank you, everyone, for joining us, today. We appreciate your interest in our company and look forward to speaking with you on our fourth quarter earnings call, early next year.

Operator

Thank you. This does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.