Rollins Inc.
First Quarter 2025 Earnings Conference Call
April 24, 2025

<u>**Presenters**</u>
Lyndsey Burton - Vice President of Investor Relations
Jerry Gahlhoff - Chief Executive Officer and President
Ken Krause - Executive Vice President and Chief Financial Officer

<u>**Q&A Participants**</u>
Tim Mulrooney - William Blair
Ronan Kennedy - Barclays
George Tong - Goldman Sachs
Jason Haas - Wells Fargo
Toni Kaplan - Morgan Stanley
Josh Chan - UBS
David Paige - RBC Capital Markets
Stephanie Moore - Jefferies
Brian McNamara - Canaccord Genuity

Operator

Greetings. Welcome to the Rollins, Inc. First Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce Lyndsey Burton, Vice President, 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. Ther company's earnings release discusses the business outlook and contains certain forward-looking statements. These particular forward-looking statements and all other statements that have been made on this call, excluding historical facts, are subject to a number of risks and uncertainties, and actual results may differ materially from any statement we make today. Please refer to yesterday's press release and the company's SEC filings, including the Risk Factors section of our Form 10-K for the year ended December 31, 2024.

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

Jerry, would you like to begin?

Jerry Gahlhoff
Thank you, Lyndsey. Good morning, everyone. I'm pleased to report Rollins delivered strong first quarter results. Overall, we continue to see solid growth across all major service lines with total revenue growth of nearly 10% and organic growth of 7.4% despite one less business day.

Earlier this month, we announced our acquisition of Saela Pest Control. We have known and admired Saela's business for a number of years. In fact, Mitch Smith, Saela's President, is a former Orkin division President, so we're happy to welcome him and the rest of our Saela teammates to the Rollins family.

Ken will share more of the financial details associated with the transaction in a moment, but Saela is a wonderful addition to the Rollins family of brands for several reasons. First and foremost, they have a strong culture that is focused on people, people who deliver amazing service. Second, Saela has a scaled operation with a strong track record, enabled by their focus on operational execution. Third, their presence in key geographies, including the Pacific Northwest, Mountain West and Midwestern United States, provides a platform for us to more effectively deploy our multi-brand strategy.

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

Earlier this month, I was able to meet many of Saela's teammates in Utah and Colorado, and I was really impressed. I'm proud to welcome them all to Rollins, and I'm confident that Saela's business is well-aligned to our strategy for sustainable profitable growth.

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

On the commercial side of the business, we are encouraged by our momentum. Overall, we delivered solid double-digit commercial growth for the first quarter, despite some softness of commercial one-time special services such as commodity fumigation. Over the last year, we have strategically added resources to support our dedicated commercial division within Orkin. These resources are paying off as Orkin Commercial delivered double-digit recurring revenue growth in the first quarter.

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 gross margin improvement in the quarter as we executed our pricing strategy, leveraged our cost structure and drove efficiencies throughout the business. This is somewhat offset by ongoing investments we have made to support our long-term growth objectives, but we remain confident in our ability to yield a strong return on these investments in the quarters and years ahead.

And finally, before I turn it over to Ken, I would like to take a moment to welcome Paul Donahue, who was elected to our Board of Directors at our Annual Shareholder Meeting earlier this week. Paul serves as Non-Executive Chairman of Genuine Parts Company and was previously CEO and Chairman there, as well. His extensive leadership experience, business expertise and commitment to the community bring great value to Rollins, and we look forward to the impact he'll have on our company.

In closing, we're excited about where our business stands today. The year is off to a solid start, and demand from our customers remains strong. Our teams in the field are ready to support our customers 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 Krause
Thanks, Jerry, and good morning, everyone. The first quarter reflects continued strong execution by the Rollins team. A few highlights to start - growth was robust to start the year. We delivered revenue growth of 9.9% year-over-year. Organic growth was 7.4% despite 40 basis points of headwind from foreign currency as well as an impact from one less business day in the quarter versus last year. Organic growth would have exceeded the high-end of our 7% to 8% range were it not for these two factors.

On the profitability side, we continue to make progress. Gross margin of 51.4% is the highest first quarter gross margin that we have recorded in recent history.

As expected, strategic growth investments did temper EBITDA margins a bit in the quarter, but we continue to anticipate an improving margin profile as we move through the back half of the year.

And finally, we delivered operating cash flow of $147 million and free cash flow of $140 million up 15% and 17% respectively versus last year, enabling a balanced capital allocation strategy. Diving further into the quarter, we saw good growth across each of our service offerings.

In the first quarter, residential revenue increased 8.2%, commercial pest control rose 10.2% and termite and ancillary increased by 13.2%. Organic growth was also healthy across the portfolio with growth of 5.7% in residential, 7.4% in commercial and 11.1% in the termite and ancillary area. Importantly, our organic growth rate on our recurring base of commercial business grew at nearly 10%. We remain encouraged that our investments in this area are paying off.

Turning to profitability, our gross margins were healthy at 51.4%, up 20 basis points versus last year. We continue to be positive on the price cost equation and saw good performance across several key cost categories. Looking at our four major buckets of service costs, people, fleet, materials and supplies, as well as insurance and claims, we saw improvements in margins associated with people costs, materials and supplies as well as the insurance and claim area, which was somewhat offset by higher fleet expense.

Quarterly SG&A cost as a percentage of revenue increased by 70 basis points versus last year. We saw healthy leverage on administrative people costs, which enabled reinvestment in incremental advertising and selling expenses associated with the growth initiatives that we've discussed previously.

First quarter GAAP operating income was $143 million, up 7.7% year-over-year. Adjusted operating income was $147 million, up 6.7% versus prior year. First quarter EBITDA was $173 million, up 8.1% and representing a 21% margin. Interest expense was $2 million lower year-over-year due to lower average debt balances and a lower average rate versus last year.

We expect interest expense for the remainder of the year to be slightly elevated compared to last year due to higher debt levels associated with our recent M&A activity. Notably, we expect interest expense to be $8 million to $10 million in Q2 on the higher borrowings. The effective tax rate was 23.5% in the quarter, lower than the 26% we expect for the year due to timing of certain tax benefits associated with divesting of restricted shares. We expect the second quarter tax rate to approximate 26%.

Quarterly GAAP net income was $105 million or $0.22 per share, increasing from $0.19 per share in the same period a year ago. For the first quarter, we had non-GAAP pre-tax adjustments associated with the Fox acquisition related items totaling approximately $4 million of pre-tax expense in the quarter. Accounting for these expenses, adjusted net income was $108 million or $0.22 per share, increasing 10%.

Turning to cash flow and the balance sheet, operating cash flow increased 15% in the quarter to $147 million. We generated $140 million of free cash flow, a 17% increase versus last year. In cash flow conversion, the percent of income that was converted into operating cash flow was very strong as well above 130% for the quarter.

As a reminder, our second quarter cash flow will be impacted by a deferred tax payment associated with a disaster relief measure granted to those with operations impacted by Hurricane Helene that we discussed on our fourth quarter call. We made acquisitions totaling $27 million, and we paid $80 million in dividends in the first quarter.

During the quarter, we executed our inaugural bond offering, issuing $500 million of 10 year notes with the tightest bond IPOs credit spread for any industrial company since 2016. We also established a $1 billion commercial paper program, which will generate ongoing savings as short-term funding needs arise.

Our leverage ratio stands at .8 times. Our balance sheet is very healthy and positions us well to continue to execute on our balanced capital allocation strategies.

As Jerry mentioned, we closed the Saela acquisition earlier in April and are excited about the strategic growth opportunities this acquisition will provide us.

Let me share a few financial details on the acquisition. We expected to add between $45 million to $50 million of revenue in 2025 with approximately $15 million in Q2. From an EBITDA standpoint, Saela's margin profile is neutral to ours, and we anticipate the deal to be accretive to earnings in the first full-year of ownership. We are in the process of finalizing our purchase accounting, and we'll provide an update on this during our Q2 call in July.

As we look to the remainder of 2025, we remain encouraged by the strength of our markets, our recession resilient business model and the execution of our teams. We are fortunate to have limited exposure with respect to tariffs. To give you some perspective, our greatest area of potential impact from tariffs could be in our fleet.

Fleet costs in total represent just over 5% of our income statement, and it's important to dissect that further and recognize that automobile lease costs represent roughly 3% of our income statement. We are positioned extremely well to deliver on our financial objectives despite uncertainty in the current macroeconomic environment.

We continue to expect organic growth in the 7% to 8% range for the year, but expect that the addition of the Saela business will take anticipated growth from M&A to 3% to 4% for the year versus the 2% to 3% we discussed previously. 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 2025.

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

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

Operator
Thank you. 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. You may press star, two if you would like to remove your question from the queue. And for participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Please ask one question and one follow up. One moment while we poll for questions.

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

Tim Mulrooney
Ken, Jerry, good morning.

Ken Krause
Good morning.

Jerry Gahlhoff
Good morning, Tim.

Tim Mulrooney
Okay. A couple of questions - so first, just in terms of your -- I guess, this would be more your consumer facing businesses, resi and termite. We've heard from some other industry participants that lead volumes in North America have been a little bit weaker to start the year. I'm curious what you're seeing in the market as it pertains to demand trends. Obviously, everything sounds good, but is there anything in the data to suggest that things are slowing down at all maybe towards the end of the quarter or after the quarter as macro uncertainty continues to ramp up here?

Jerry Gahlhoff
Ken, I guess I'll kick off. January and February were certainly a little tougher, got better in March. I would characterize demand was still pretty good. We did see also some uptick in our technician sales efforts and things along those lines that also helped drive the residential creative selling on the termite and ancillary side of the business; those helped in that area. I wouldn't -- for us at least, we didn't see some -- any type of demand signals or changes that gave us pause.

Ken Krause
Yeah, the only thing I would add, Jerry, is, when you look across the business, the residential business continues to perform well. We're happy with the recurring revenue growth we're seeing in that business. When you look at the commercial area, I pointed out in my prepared comments that that business, the recurring organic growth was close to 10%, and then the termite and ancillary business continues to be a strong contributor.

The teammates and the team across the organization just do an exceptional job navigating an uncertain economic environment. But again, our business remains very recession resilient, and we've seen that through a number of cycles in the past, and we're seeing that now. As we go through April, we're executing well, we're seeing good results, continue to see and continue to expect to be able to deliver on our organic growth commitments.

Tim Mulrooney
Okay. That's very clear. You guys aren't seeing it at all. And if anything, it sounds like things got better as you moved through the quarter. So that's all very clear. Thank you.

And just to build on that comment that you were making there, Ken, on your Commercial business, I think, and please correct me if I'm wrong, but I think a lot of the investments that have been weighing on margins the last couple of quarters are in Orkin Commercial specifically. So, this really strong result that you're seeing in your commercial business, do you think that that's a direct result of these investments that you're making, adding feet on the street, splitting up the branches, those kind of things? Do you think you're starting to see the benefit of those investments that those are paying off, or is it too early there?

Ken Krause
No, I think it is. I mean, when I look at that business and think about what Scott Weaver is doing with leading that business, the performance we're seeing is certainly -- certainly is correlated I believe to the level of focus and the emphasis and the investments we're making in that business. And, we feel like they're paying off. We continue to be bullish on that segment. We're also -- when you step back and look across the business, we're bullish in the other areas, as well.

You look at the termite and ancillary business, and what we're seeing there, dissecting that and looking at some of the ancillary growth we're seeing gives us a sense of optimism when we think about the -- how healthy our customer base might be because those are larger ticket items. But, we think generally across the board, we're seeing good returns on the investments we're making.

Jerry Gahlhoff
And I would add, Ken, that it takes -- the sales cycle on the B2B side is longer. So those investments that we make in the back half of last year really don't start paying off until the middle of this year unlike residential that tends to have a little quicker ramp up, things like that. So these investments in the commercial business take time. It takes focus. It takes a commitment to really stick with it and keep driving away at it, and we'll focus heavily this year on productivity of the sales force that we've built much of the last couple of years, and now we can focus on productivity.

Tim Mulrooney
Got it. Thanks, guys.

Jerry Gahlhoff
Thank you.

Operator
Our next question is from Manav Patnaik with Barclays. Please proceed.

Ronan Kennedy
Hi, good morning. This is Ronan Kennedy on for Manav. Thanks for taking my question. I think it'd be fair to say that you guys have been remarkably resilient throughout the cycle. Could you just touch on from I guess a high level standpoint, the drivers of the topline growth, if you see contributions from new up cross pricing and inorganic change, the drivers of margins and, say, a downturn? And then anything to note for resiliency by segment if there's any nuances there?

Ken Krause
A number of different questions; I'll try to take them and make sure I address them. But when you look at the resiliency of the business and you look at the contributors to growth, I have to start with pricing. We continue to see good pricing in our business, CPI plus level of pricing, 3% to 4% price increases. It's not just -- every customer is not seeing the same price increase. It certainly is market specific, but we're seeing good traction on that side.

Volume growth continues to be healthy. When you look at all of the various segments I pointed out previously and the contributions in those segments, certainly feel like we're seeing good volume growth and share gain. When you think about the M&A environment, it remains very healthy as you saw us execute on Saela - great business and with a lot of great people that we've acquired and really looking forward to the contributions of that business, but we continue to remain active and looking at a number of additional opportunities.

And so we continue to build the pipeline on the M&A. So generally across all of that, we feel pretty good. And when you look at downturn, what do you do in a downturn? We're a very labor intensive business, so we have a very high variable cost model in the business. And so if the business -- we don't see it -- I have to say that. We're not seeing a slowdown, but if it were, that would certainly be a lever that one would address. But today, we see -- we're very much in a growth mode. We're investing in our business. We're investing in our teammates, and we're excited about the future.

Jerry Gahlhoff
And, Ken, I would add to that, when we talk about our revenue drivers and what keeps the gas in the engine, it's our multi-brand strategy. That's what -- when we have -- our eggs are in a lot of different baskets, and we have so many ways to go to market and capitalize on the opportunities that are there. That's really the -- probably the single biggest difference maker as it relates to how do we drive consistent revenue across all of these categories. It's our multi-brand approach that gets us there.

Ronan Kennedy
That's very helpful. Thank you. Thank you for taking the multifaceted question. On M&A, can I just ask that you reconfirm how the pipeline looks? I know with the Saela execution -- or

acquisition, some upside from M&A there. But also, if you are seeing, with the uncertain market environment, if that puts potential pressure on competitors and potentially valuations, and therefore, you may be inclined to do a more sizable transaction?

Ken Krause
When we look at the M&A pipeline, the pipeline is healthy. But as I've said a number of times, there's no urgency to chase any one individual asset or opportunity. We remain in a very enviable position when it comes to M&A. We're very strategic, but also very pragmatic when we think about the steps we take in the M&A side.

The market remains healthy, but the one thing -- even though we do have a significant amount of financial bandwidth, we're always looking at the pace that we're acquiring these businesses because it's a lot of work to integrate and to bring new businesses and new brands and new teammates on. So we're going to continue to be pragmatic and take the steps approach when it comes to M&A.

Ronan Kennedy
Thank you. Appreciate it.

Operator
Our next question is from George Tong with Goldman Sachs. Please proceed.

George Tong
Hi, thanks. Good morning. If I look at organic revenue growth for the residential and termite businesses, it looks like it's stepped down a little bit. Residential organic growth ticked down about a point, and then termite organic growth ticked down about 3.5 points going from 4Q to 1Q. So I know there was one fewer working day in the quarter, but what were some other factors that may have contributed to this growth moderation in residential and termite?

Ken Krause
Yeah, it's not something that we're overly concerned with, George. We feel good about the contributions of those businesses, continue to see good demand in those businesses. As you point out, we had one less business day. We also had roughly a 40 basis point headwind on currencies that impacted our business across the board.

And so -- but when we step back and we look at it, we feel good about how we exited Q1, but also how we're starting Q2. We feel like the business is very much intact.

Jerry Gahlhoff
And, George, I would add that, with the impact in the first quarter, when you lose that day, there are a lot of one-time -- there's a lot of one-time business that may not get -- you're losing a full day of one-time -- your recurring base is still there, and we're finding ways to get that work done.

But you do lose a lot of that one-time business, and a lot of that termite and ancillary work certainly could fit into that category. So some of it is just attributed to that.

Ken Krause
Yeah, the heaviest area of one-time is definitely termite and ancillary, so that's a great point, Jerry.

George Tong
That's helpful color. Thank you. And then with your acquisition of Saela that you closed in early April, can you confirm what the commercial and residential mix is?

Ken Krause
It's high 95% range residential. They're largely a residential company. They do some commercial, but it's not significant.

George Tong
Got it. Very helpful. Thank you.

Operator
Our next question is from Jason Haas with Wells Fargo. Please proceed.

Jason Haas
Hey, good morning, and thanks for taking my questions. In light of the Saela acquisition, can you talk about your playbook for driving synergies of the businesses you acquire? And I'm curious if there's a similar opportunity to what you saw with Fox? Thank you.

Ken Krause
When we look at these businesses, we certainly do look at integration, but we're buying really good businesses, businesses that are very attractive from a financial perspective. So we very much take a pragmatic approach to integration. With that said, we do help them on fleet, we do help them on materials and supplies and a number of other measures.

And when you look at the things we're doing around our modernization and our back office, looking at our finance and accounting and HR and IT teams, I think there's an opportunity to do even more as we go forward. So it's very much a pragmatic approach, but looking at how we can help them improve their business and how we might learn from them, as well.

Jerry Gahlhoff
Yeah, perfect example of a synergy that could be gained there quickly is I mentioned Mitch Smith who worked for us at one point in time in his career. He's familiar with the technologies that we have that enable our sales force like our BizSuite and our HomeSuite apps that are powerful tools for a sales team. And if we can help him mobilize those types of technologies and put those into the Saela business, we can help them accelerate their growth.

So, those are the types of maybe not traditional synergies, but it's the way that we share best practices, share technologies, share things to how do we make the business better. It's not always just about how we cut costs.

Ken Krause
Right, right. And very much, when you look at the Fox acquisition, a lot of that was revenue growth and how we were able to see an improvement in the -- or the multiple that we paid on that. And so the things Jerry just articulated are very much aimed at growth enablers.

Jason Haas
That's great. And as a follow-up, can you talk about what incremental margins might have looked like in 1Q if you exclude some of these one-time impacts in the one less workday, the FX and the investments you're making in the business? Excluding those, would you have been at your long-term target? And then how are you thinking about incremental margins? How should they trend through the remainder of the year?

Ken Krause
Great question, Jason, and thank you for that. When we look at incremental margins, a couple of things - you're right to talk about the growth. If it's 40 basis points of FX and maybe another 30 basis points to 40 basis points associated with the one -- or the loss of the business day, that's meaningful, but what's more meaningful is the investments we made and especially in the selling and marketing and advertising area.

We pulled forward some advertising. Every other year, we go out and shoot new television ads. We did that in the quarter, incurred that expense. If you set aside the selling and marketing expenses, you would have been in that 25% to 30% margin profile. With that improving gross margin, it enables us to be able to deliver that, but we did invest.

As we think about the future, as we said at the end of last year, as we did the call for Q4, we expect that incremental margin to improve as we go throughout the year, as we start to lap some of these more significant investments, as we see the growth come on, but we'll continue to update that as we go throughout this year.

Jason Haas
Great. Thank you.

Operator
Our next question is from Toni Kaplan with Morgan Stanley. Please proceed.

Toni Kaplan
Thanks so much. Wanted to sort of go back to the marketing and investments. Just wanted to ask how you're thinking about your strategy in terms of marketing just in the current period. I know you talked -- it's -- you haven't seen any impact yet. So I imagine you're still in a business as usual

mode and maybe gearing the spend based on traditional seasonality, but just wanted to get a sense of like what would change the trajectory dialing up or down the marketing spend?

Ken Krause
Really, it's business related. It's related to what we're seeing in our markets and the strategic initiatives that we talked about. And so, nothing outside of that I think would cause us to change our approach when it comes to the selling and marketing side. But it's more about how healthy our markets are and then execution of our strategy.

Jerry Gahlhoff
I mean, gosh, Ken, if something kind of crazy happened in the digital side and costs went dramatically up, which we've never seen happen that we couldn't mitigate or control or adjust, we'd just pivot, right? So, we'll take those dollars and use them in other ways and through other -- perhaps other channels and repurpose those dollars into perhaps more efficient ways if there were some of those dynamics that occurred that caused prices to go up.

Ken Krause
And that gets to the point you raised with the previous question, this multi-brand strategy. We've got so many different ways that we market to our customers, and we focused on that as part of our Investor Day last May where we showed various brands and how some are more reliant on digital, some are more reliant on billboards, some are more reliant on door-to-door and --

Jerry Gahlhoff
--Home builders--

Ken Krause
--Home builders, and so we very much have a diversified approach to marketing and capturing customers.

Toni Kaplan
Great. And just as a follow-up, I wanted to ask about sort of a longer-term picture on termite. You've had double-digit organic growth there in the last four quarters and at least high-single to low-double basically for years. And so when you sort of just think about the main factors that have driven that high level of growth, do you find that you're taking share over the past five years or so? Are you able to command more pricing in that market? Like I guess what are just long-term factors that are really driving the elevated growth there? Thanks.

Jerry Gahlhoff
To us, Toni, it has to do with the relationships that we have with our existing customer base and being able to cross-sell additional services to them. If they know you, if they trust you and you're in their homes, if you're in their attics and you're in their crawl spaces doing inspections on a regular basis and you notice things that they need to take care of, they trust in you to do that.

It’s really as simple as that. And then if we have cost structures or things that go up with materials and supplies, we just have to adjust our pricing, but we have an incredible opportunity. It’s where you see this continuing to grow, this sort of creative selling. We’re not relying on digital leads to drive this business, especially in termite.

These are creative type of benefits that we have by having such a strong recurring customer base with good relationships, high net promoter scores, customers that trust us, trust our brands, and that’s what really drives the business. That’s why I think you have seen it be such a sustainable number going -- historically.

Ken Krause
The relationships are there, Toni, and the opportunity is there. And so, when you look again back at May of last year, we showed -- and it's hockey playoff season, so we showed nine shots on goal with the customer, I believe.

And so there’s so many different opportunities that we can go after as long as we’re providing the services, we’re investing in the relationship. We’ve got that -- if we have that intact, we have an opportunity to grow the business.

Toni Kaplan
Thank you.

Operator
As a reminder, it is star, one on your telephone keypad if you would like to ask a question.

Our next question is from Josh Chan with UBS. Please proceed.

Josh Chan
Hi, good morning, Jerry, Ken; congrats on a very strong quarter.

Ken Krause
Hi, Josh.

Josh Chan
Hi, good morning. I guess two commercial questions for me - first one, just strategically, as you make these investments, what’s kind of your strategy in picking up new accounts? I assume you’re going to have to displace existing competitors, and so just wondering how you’re going about gaining the new accounts on commercial? Thank you.

Jerry Gahlhoff
So I can give you a little bit of color here, but obviously, I don’t want to say too much about what our strategies are competitively. But when you have clearly defined territories, trained teammates that know what verticals they like to sell in, where the opportunities are, what those

opportunities are and you point them in the right direction, you've got to have really strong sales management processes, sales management tools, sales management disciplines, that's really more of what it's about.

And when you have people, you have the brand, you have scale, we can handle just about any type of thing that anybody could throw at us, it's just a -- that's our competitive advantage is our people. Other than that, I wouldn't say there's anything magical competitively out there in the market that is going on, any dynamic there.

It's just a function of looking at what we do, investing in our people, investing in our teams, investing in our technology that helps us in that regard and just going after the business. And yeah, you're displacing others. Some people maybe don't have a service if it's maybe -- maybe there's an office building or something like that that hasn't considered pest control yet, and we happen to show up and present what we have to offer, cold calling and those types of things, that -- your presence gets expanded with feet on the street, and that's the investment that we've made.

Josh Chan
That makes a lot of sense. Thanks for the color, Jerry. And then on the -- maybe a more numbers question on commercial. I know, Ken, you mentioned Orkin recurring organic growth was almost 10% and the segment was 7%. So could you just kind of bridge us -- are there any other pieces there between Orkin and the one-time, how the 10% gets to 7%, and then how you expect kind of these pieces to kind of flow going forward? Thank you.

Ken Krause
Certainly. And that close to 10% is across the business. So it's not just the working area, but it's across the business. Team's doing a really good job at driving that level of performance. But we do have a one-time part of the business. There is a one-time aspect of commercial fumigation work, other work that is more one-time oriented.

We just saw a little bit weaker one-time business in the quarter. That one less day certainly has an impact when it comes to that with the contribution. And so when I think about it, that's probably the single largest contributor is just having one less day in that part of our business and drawing that down.

Josh Chan
Great. Thanks for the color, and good luck on the rest of the year.

Ken Krause
Thank you, Josh.

Operator
Our next question is from Ashish Sabadra with RBC Capital Markets. Please proceed.

David Paige
Hi, good morning. This is David Paige on for Ashish. Thanks for taking our questions. I had a question. I know you mentioned the fleet was maybe less than 5% of cost, but I was curious to know how much of the fleet has been actually refreshed or how much will be needed to be refreshed over let's say the next like one to two years? Thank you.

Jerry Gahlhoff
It's hard to give a precise number on how much of our fleet is going to get refreshed over the next 12 months, but what I would say and the reason I think we have some confidence is we feel good about our level of fleet in '25 here. We'll continue to evaluate '26 and beyond, but we'll continue to look at that. We have an opportunity to keep trucks longer if we need to. We have an opportunity -- we continue to look at a number of different sources, but we feel pretty good about our position in that area.

Ken Krause
Yeah, we'd have to do the math to say what are we -- what's the potential exposure to increase repair and maintenance costs by keeping some trucks longer versus the increase of say truck and tariffs and things like that. So -- but at the same time, we also need to be looking for maybe lighter duty smaller utility vehicles that we can -- maybe there's some options that we can find out there that we can get less expensively and offset some of those costs, as well. So we're looking at all those opportunities and levers.

David Paige
Okay. Makes sense. Thank you. Just as a follow-up, in terms of like big ticket items or non-recurring revenue, you have a slide in the deck here, Slide 9 of the past slowdown, GFC industrial slowdown, COVID, etc. How is those non-recurring or big ticket items, how did they fare during those downturns, just as a reminder? Thank you.

Jerry Gahlhoff
So it's always hard to compare our business today to the great financial crisis because it's just so different. We have so many different brands today than we had back in 2008 and '09. And so, the business has continued to evolve. If anything, we have a much more defensive business. We've got more diversification in the base. And when we look at our performance, it's interesting. We are seeing great performance across those one-time areas, notably in the termite area, which is the largest.

And so that's an area that we certainly see good demand levels for, continue to see good levels of interest. We also provide opportunity for customers to access our Acceptance Corp for credit. We certainly have pretty tight credit standards when it comes to that, but we also have an opportunity to provide our customer and our sales folks with another tool in the toolbox to sell those products -- or sell those services. But generally, when we look at it, we feel good about the one-time business.

And, the one area we look at again is the termite and ancillary and how that's performing and it continues to perform very well.

Ken Krause
David, here's -- this is my perspective on the reality of this is, if my attic at my house had rodent infestation with rodent droppings and rodent urine throughout and in the insulation, I can assure you that, no matter what the economy is, I'm going to find a way to figure that out and remediate that situation because I don't want to live like that. And then on top of it, you add our financing options, how you can pay over time and -- or finance that type of work over time, those are tools that we have to help us navigate these types of events because the reality is, quality of life being what it is today, people don't want to live like that.

And we have a -- we offer a very valuable and essential service to people that that's what makes us I think as resilient as you've seen in those charts.

David Paige
Yeah, couldn't agree more. Thank you very much.

Operator
Our next question is from Stephanie Moore with Jefferies. Please proceed.

Stephanie Moore
Hi, good morning. Appreciate it. I guess continuing on the theme of potential recessions here, it's been a while since I think we've -- and to your point, the business has evolved quite a bit since the last recession. But as you think about maybe the reoccurring side of the residential business, which I think from a relative standpoint is probably maybe less defensive than commercial or as you just described, some of these that are definitely necessities, but can you talk about maybe levers that you pull to maintain client retention in a recessionary environment? And also maybe your perspective about customers' willingness to potentially trade down or reduce their monthly bill and what levers you could pull just to kind of maintain kind of status quo? Thank you.

Jerry Gahlhoff
So, Ken, I'll try to take this. I'm going to put it in perspective of I remember in 2007, 2008, I was with the HomeTeam brand, and we were completely tied to homebuilding. We captured customers, and it was predominantly a residential business, and you had people losing their homes, people upside downing their homes, people walking away from their homes.

And yet, if customers were still in their house, our customer retention rate was still pretty solid, and it's because of the relationships that we had with our clients. Our customers had personal relationships with their technicians. And from a share of wallet standpoint, it just wasn't a lot of money for folks during those periods of times.

There were some markets that I remember -- gosh, this is going back a while now, but there were some markets I remember having to -- we would look at a customer that's been with us a while that was struggling financially and maybe we'd put them on a hold for a month or two months, or we'd work with them, or we'd work on -- back in those days, we didn't have monthly building plans. We would try to convert them to monthly building plans so they didn't have a larger outlay of cash every quarter.

So we tried to work with our customers because we know the cost to reacquire a customer is far greater than some cost to keep them. So our brands can easily put in playbooks to learn from the past and make those kinds of adjustments. But it's usually a market-by-market, kind of branch-to-branch kind of a situation based on what's going on there, household income, how hard a certain market is hit.

So for example, back in 2008, there were markets like California where it was -- and Florida that were hit way harder than say Texas was, right? So we had to pull those levers differently from market-to-market. So we're able to do that. We give our field autonomy to make those decisions, especially with customers that have been with us for a long time.

Stephanie Moore
Got it. No, that's really helpful. And then, maybe talk about, given the uncertainty in the market and maybe risk of recession or, gosh, who knows at this point, do you think this actually could be an enabler of your M&A strategy, sellers looking to just kind of throw in the towel in this more challenging environment, something you can take advantage of? Thank you.

Ken Krause
I don't know about -- I don't necessarily think that because I think, in this business, they'll have a lot of the same headwinds and tailwinds as we do. That's what's great about this entire industry. And we're going to have fleet challenges. They're going to have fleet challenges. I don't think there's anything that's suddenly facing them. Maybe there's some market to market differences or some customers they serve that are impacted or something along those lines. But I haven't thought about that that much, but I wouldn't think it would cause a bunch of people to suddenly want to sell their business.

Jerry Gahlhoff
A lot of these businesses, Stephanie, are family-owned, multi-generation. They've been around for a very long time through a lot of different cycles, and they're not basing their selling decision -- the ones that we like to buy aren't basing their selling decisions based upon a short-term macroeconomic event. We're buying good businesses that have been around for decades, if not longer. Sure, there's other businesses that maybe haven't been around as long, but generally, our preferred approach is to buy those businesses that are looking at it through a long-term lens.

Stephanie Moore
Understood. Thank you, guys.

Operator
Our next question is from Brian McNamara with Canaccord Genuity. Please proceed.

Brian McNamara
Hey, good morning guys. Thanks for taking the question. I'm curious if you have an idea of how fast the industry as a whole is growing, kind of particularly in Q1. You guys have had pretty strong organic growth for some time now, and your larger peer clearly is lagging you in that regard. So there's share gains there, but any more color on maybe some of the smaller players would be helpful?

Ken Krause
I don't think we have a strong sense of how others are doing other than what you see I guess maybe in a public market. I would say wait for Tim Mulrooney's pest index report that come -- probably be out in the next month or so. You'll have a pretty good sense of what that looks like, but that's probably one of the better tools out there to help with that.

Jerry Gahlhoff
Market continues to be good. We feel like it's a good market, continues to be healthy. Market share and market data is very much art more than it is science. But we just feel like, from where we sit, we're growing and probably gaining a little bit of share.

Brian McNamara
And then, secondly, I was hoping you guys could provide some kind of update on your employee retention efforts, particularly with the first year techs, and how you think that evolves in a potentially softening labor market environment. I'm assuming that's probably beneficial there?

Ken Krause
We've made some -- I'm really proud of that. We've just spent this last week reviewing those numbers from the first quarter. I'm really proud of our operations teams. They've made marked improvement in our first year retention, double-digit improvements percentage wise in what we call the short-term retention, making sure that the folks that have been with us for less than a year are staying longer.

So I'm really proud of that. And as a result of that, we've had to make far fewer new hires in the first quarter than we did a year ago. And that's proof that -- of the improvements that we've made in that regard. We're really proud of that.

Jerry Gahlhoff
Certainly--

Ken Krause

--Still work to do, still have plenty of work to do on that front, but we are beginning to see light at the end of the tunnel on that one. And maybe the labor market is helping with some of that ,too.

Jerry Gahlhoff
Yeah, Pat Chrzanowski, the Head of our Orkin business, actually sent me a note this morning, and he was talking about that as one of his highlights, significant improvements in first year PC Pro Technician, was led by the Head of his HR and all of his Divisional Directors, seeing really good engagement and results.

Brian McNamara
Great. Thanks a lot. Best of luck.

Jerry Gahlhoff
Thank you.

Operator
With no further questions, I would like to turn the conference back over to 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 Q2 earnings call later this summer.

Operator
Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.