



Service Master Calls Bought into Rebound Move

Ticker/Price: SERV (\$39.75)

Analysis:

Service Master (SERV) with buyers of 3,500 January \$40 calls up to \$1.85 today and now volume over 5,000X. SERV also seeing activity in the February \$40 and \$45 calls as some positions from early November appear to be rolling up. Shares have been crushed over the last month from 52-week highs around \$57.50 and back to the 61.8% Fibonacci of the rally from the 2016 lows. There's a low-volume gap above the \$42 level that runs back up to \$50. SERV cut their guidance in October citing legacy risk overhangs from a number of damage claim suits over their residential fumigation business. They announced plans to manage the process with limited long-term exposure while affirming their commitment to the termite business over time but expecting profitability in the segment to be muted. The \$5.39B company trades 27.8X earnings, 2.66X sales, and 38.5X cash. SERV sees mid-single digit EPS growth in 2020 before returning to mid-teens in 2021. Their retention rates remains strong, up 3% last quarter, while they have focused a lot on bolt-on M&A to build out their commercial capabilities. SERV also closed their deal for Nomor AB that helps them expand into European markets, a major area of potential growth. Short interest is 2.4%. Hedge fund ownership rose 4.5% in Q3. Select Equity a notable buyer of shares and now over 8.7M, their fifth largest. On 11-11, a director bought 2000 shares at \$35, the first open market buys since March 2018 when another director bought stock at \$50. Analysts have an average target for shares of \$51. Jefferies starting at Buy on 11-21 while William Blair positive on 11-18 noting the totality of claims in Alabama is likely less than \$150M, much less than the market reaction is implying. They think SERV remains a well-capitalized leader in a very attractive industry.

Hawk Vision:



Hawk's Perspective: SERV has lost its uptrend and overall seems there are plenty of healthier and less risky names to be involved, so just an observer in this one.

Confidence Ranking: \$