Financial Results for the Second Quarter Ended September 30, 2019

November 14, 2019

Detection Dog Team “Kunkuns”

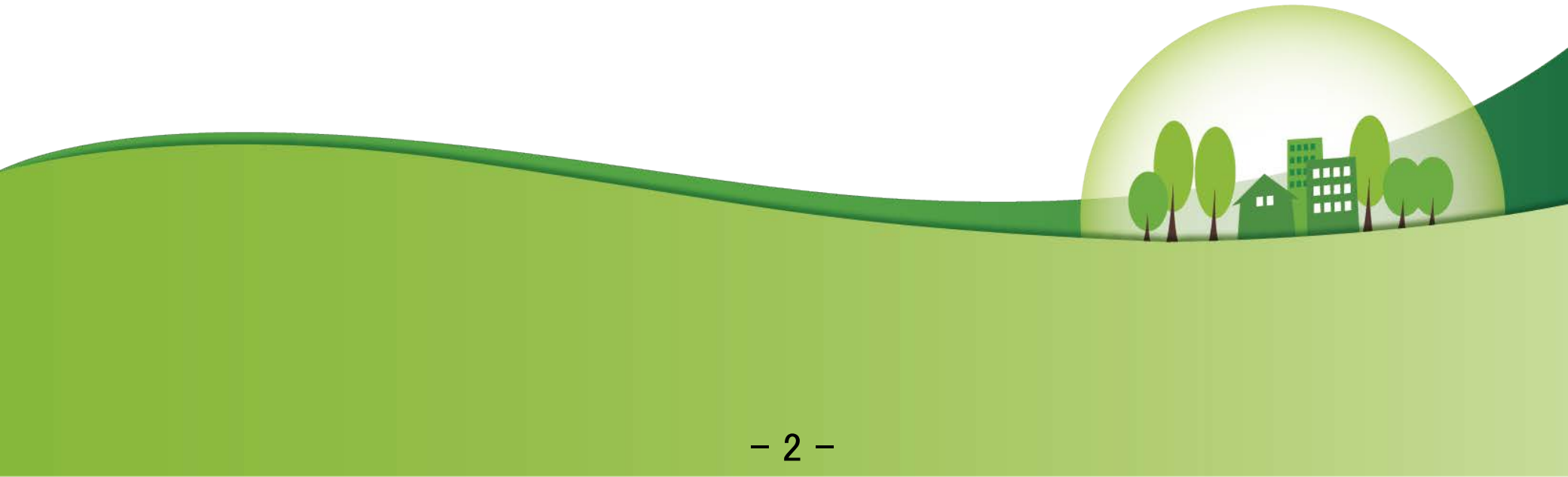


Asante Incorporated 【TSE First Section Securities Code 6073】

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I. Overview of Financial Results for the Second Quarter of FY 3/20



Business Environment

The economy has been on a moderate recovery trend backed by corporate earnings improvement. But concerns about labor shortages have been at a high level.

Consumer sentiment remains relatively weak, and consumers' intent to economize is still strong.

Awareness of extension of housing lifetime increased backed by housing policies aimed at expanding the existing housing distribution and renovation markets.

The hiring environment is becoming more severe due to continued tight labor supply-and-demand situation.

Industry (Potential Demand of Termite Control for New Customers)

- **Number of Wooden Residences** **26 million**

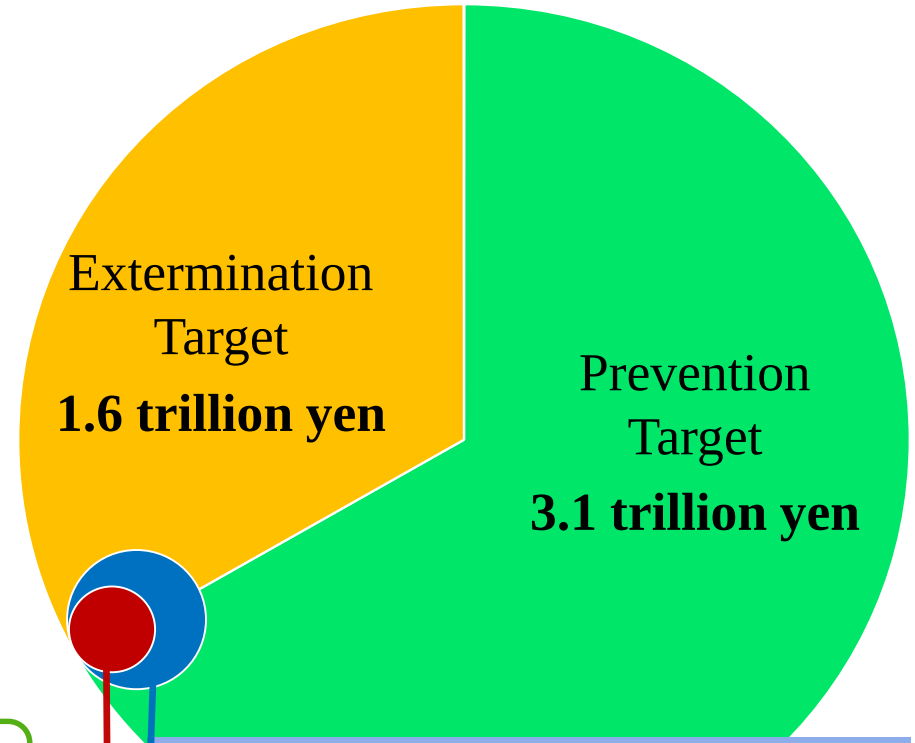
  (Statistics Bureau, MIC[*1], “2018 Statistical Survey on Housing and Land”)

- **Potential demand** **Approx. 4.7trillion yen**

  (Termite control for new customers only)

- **Probability of termite damage** **1 in 3 houses**

  (The Japan Termite Control Association)



- Major potential for market to grow
- Effective length of chemicals is 5 years.

2018
Estimate of total industry sales (Forecast)
47.8 billion yen (Termite control only)※2

Estimate by our company
of the total sales of top 10
companies in the industry
22.3 billion yen
(including underfloor ventilation systems)

[*1] MIC …Ministry of Internal Affairs and Communications

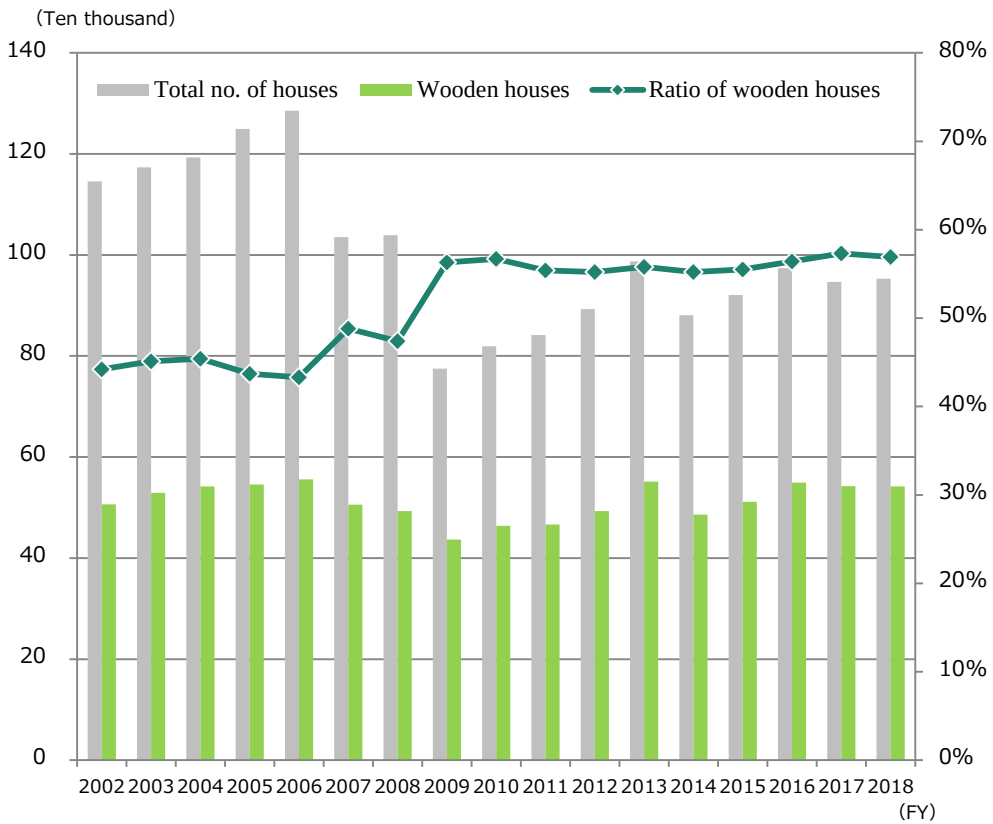
[*2] Reference: Yano Research Institute Ltd.
“2019 Edition: PCO/TCO/Fumigation Services Market Realities and Mid-term Prospects”

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Trends of Wooden Houses

Changes in ratio of wooden house for the number of new housing starts

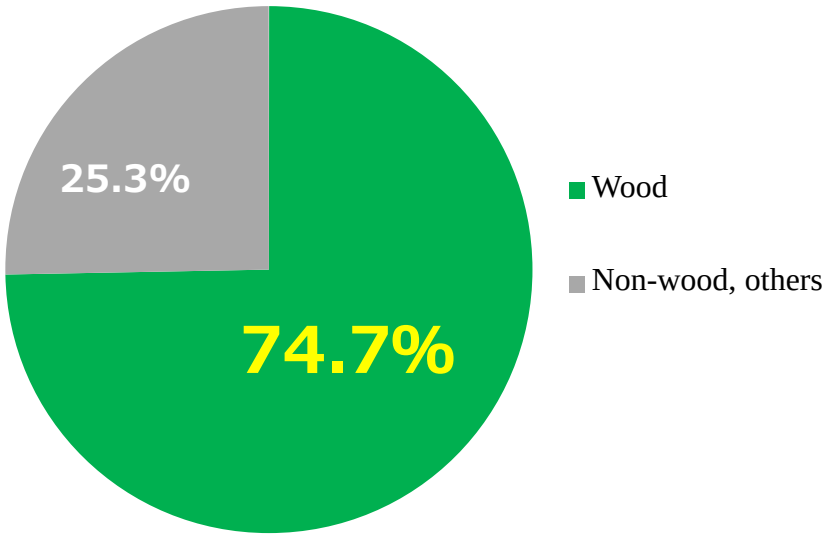
＊ Reference: Materials of MLIT



Intentions regarding wooden houses

＊ Reference : “Awareness and intention survey on cyclical use of forest resources”
(2015 Japan’s Ministry of Agriculture, Forestry and Fisheries

Q: What kind of houses do you want to choose when you build or buy a new house?



Maintain an enormous stock of wooden houses

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Outline of New Organizational Structure

- **Transition to a three-division structure**

  Appoint directors as heads of divisions

- **Establishment and consolidation of departments**

  Strengthen the functions of the education department

  Integrate divisions to improve technological and R&D capabilities

Strengthening the functions of each department and speeding up decision-making

Business Plan & Specific Initiatives in 1H

1. Strengthening of compliance and increase of customer satisfaction

- Strengthen internal cooperation by integration of related departments

2. Securing of excellent human resources and strengthening of education system

- Focus on increasing retention of new employees and making them as helpful workforces early.
- Strengthening of management capability by augmenting managerial training

3. Promote efficiencies of business and enhancement of productivity

- Strengthening of functions to improve sales efficiency using smartphones
- Efficiently capture demand through advertising and sales promotion

4. Sales area development to increase potential customers

- Establish the Hanshin Sales Office in Hyogo Prefecture, a new marketing area

Advertising and Sales Promotion

- Run new TV commercial, insert leaflets in newspapers and place advertisements on website

TV commercial

- May – June (Entire marketing area)



- September (Some marketing areas)



Leaflets & web advertisements



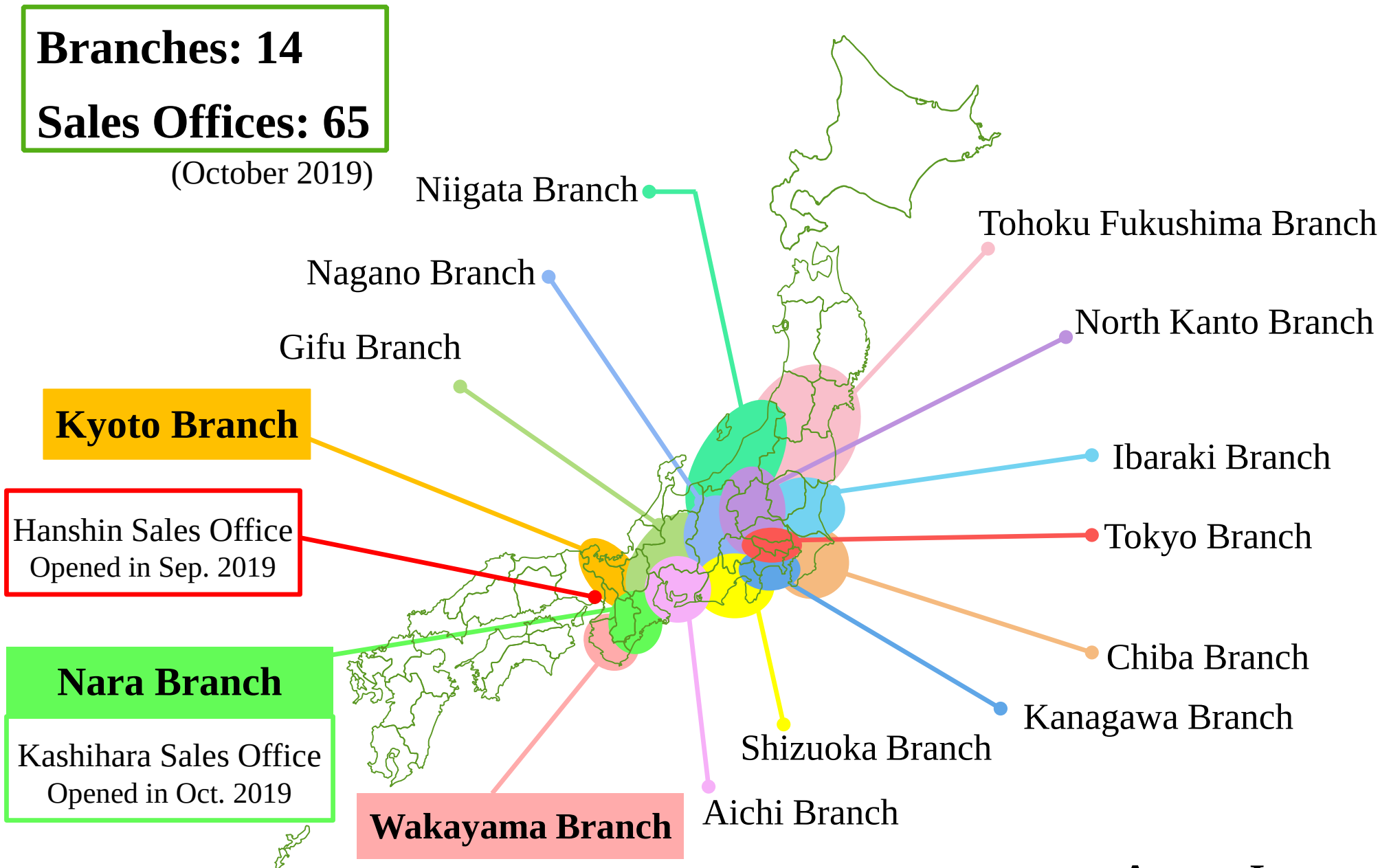
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Marketing Area Development

Branches: 14

Sales Offices: 65

(October 2019)



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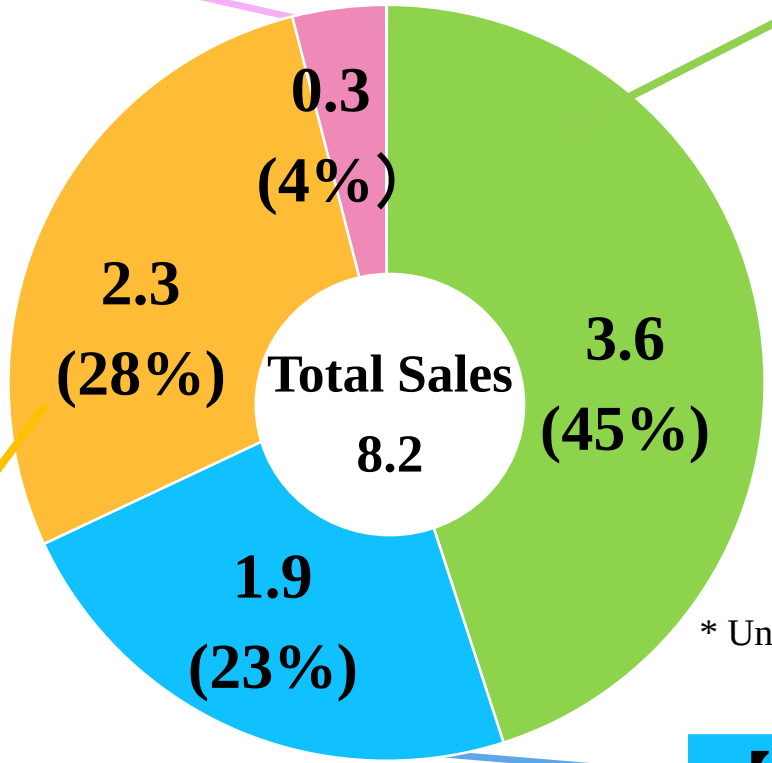
Results for Profit and Loss (1H YoY)

- Net sales increased by 223 million yen
  Operating income increased by 120 million yen

(Unit: Million yen)	FY3/19 1H	FY3/20 1H	YoY	
	Results	**Results**	Change	Change in Ratio
Net Sales	8,015	**8,238**	223	2.8%
Gross Profit	5,837	**6,012**	175	3.0%
Gross profit ratio	72.8%	73.0%	+0.1pt	—
Operating Income	1,652	**1,772**	120	7.3%
Operating income ratio	20.6%	21.5%	+0.9pt	—
Ordinary Income	1,672	**1,783**	111	6.7%
Ordinary income ratio	20.9%	21.6%	+0.8pt	—
Net Income	1,121	**1,201**	79	7.1%
Net income ratio	14.0%	14.6%	+0.6pt	—
EPS (yen)	90.85	**97.32**	6.47	7.1%

Sales Composition by Service (1H)

【 Other 】
Pest Control
Housing Renovation
Others



【Termite Control】



* Unit: Billion yen

【 Anti-earthquake Measures 】

Repair Housing Foundations



Housing Reinforcement



【 Anti-humidity Measures 】

Underfloor Ventilation Fans



Humidity Adjusting Materials



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Net Sales by Service (1H YoY)

- Major services increased overall
- Termite Control: +4.8%
  (Termite control for new customers: +0.5%, Renewal termite control : +9.7%)

(Unit: Million yen)	FY3/19 1H		FY3/20 1H		YoY	
	Results	Composition ratio	**Results**	**Composition ratio**	Change	Change in ratio
Net sales	8,015	–	**8,238**	–	223	2.8%
Termite control	3,513	43.8%	**3,680**	**44.7%**	167	4.8%
New	1,884	23.5%	**1,893**	**23.0%**	8	0.5%
Renewal	1,629	20.3%	**1,787**	**21.7%**	158	9.7%
Anti-humidity measures	1,900	23.7%	**1,915**	**23.2%**	15	0.8%
Anti-earthquake measures	2,269	28.3%	**2,309**	**28.0%**	39	1.8%
Others	332	4.1%	**333**	**4.0%**	1	0.4%

Number of Staffs, Sales per Staff (YoY)

■ Average number of staffs decreased by 39

	FY3/19 1H	FY3/20 1H	YoY	
	Results	**Results**	Change	Change in ratio
Net Sales (Million yen)	8,015	**8,238**	223	2.8%
Within the three services	7,683	**7,905**	222	2.9%
Average number of staffs during the period	1,035	**996**	-39	-3.7%
Within the three services	833	**795**	−38	−4.6%
Within sales staffs	436	**392**	−44	−10.0%
Sales per staff (Thousand yen/month)	1,290	**1,378**	87	6.8%
Within the three services	1,536	**1,656**	119	7.8%
Number of staffs at end of period	1,010	**992**	-18	-1.8%
Within the three services	811	**791**	−20	−2.5%

- ”Number of staffs”: total number of staffs actually working including part-time employees and contract employees (excluding dispatched and seconded staffs)
- ”Sales of three services”: total sales of termite control, anti-humidity measures and anti-earthquake measures
- ”Number of staffs for three services”: total of staffs engaging in sales, technical, and clerical work and management of operational sites

Results for Profit and Loss (1H Ratio of Forecasts)

- Net sales　Achievement ratio on 1H forecasts : 96.2%
  Operating income　Achievement ratio on 1H forecasts : 102.1%

(Unit: Million yen)	FY3/20 1H			
	Forecasts	**Results**	Ratio of Forecasts	**Achievement Ratio**
Net Sales	8,562	**8,238**	-323	96.2%
Gross Profit	6,243	**6,012**	-231	96.3%
Gross profit ratio	72.9%	73.0%	+0.1pt	—
Operating Income	1,735	**1,772**	37	102.1%
Operating income ratio	20.3%	21.5%	+1.2pt	—
Ordinary Income	1,751	**1,783**	31	101.8%
Ordinary income ratio	20.5%	21.6%	+1.2pt	—
Net Income	1,180	**1,201**	20	101.8%
Net income ratio	13.8%	14.6%	+0.8pt	—
EPS (yen)	95.64	**97.32**	1.68	101.8%

Ratios to Estimates

- Net sales　Progress ratio on full-year forecasts: 53.4%
- Operating income　Progress ratio on full-year forecasts: 67.8%

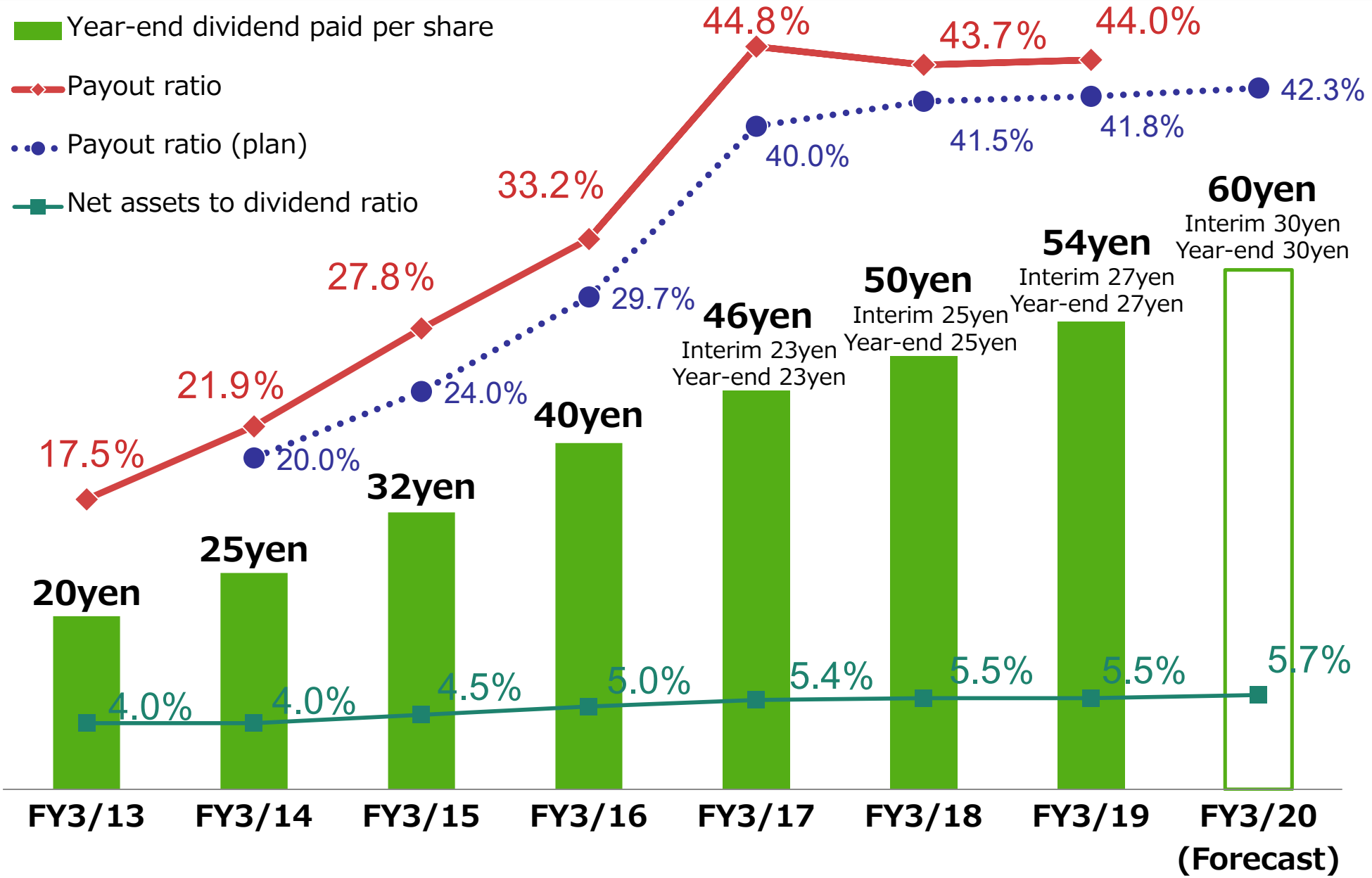
(Unit: Million yen)	FY3/20 1H	FY3/20 Full-year	
	Results	Forecasts	Progress Ratio
Net Sales	8,238	15,430	53.4%
Gross Profit	6,012	11,107	54.1%
Gross profit ratio	73.0%	72.0%	—
Operating Income	1,772	2,615	67.8%
Operating income ratio	21.5%	17.0%	—
Ordinary Income	1,783	2,628	67.9%
Ordinary income ratio	21.6%	17.0%	—
Net Income	1,201	1,752	68.6%
Net income ratio	14.6%	11.4%	—
EPS (yen)	97.32	141.96	68.6%

Specific Initiatives in 2H

1. **Effective use of internal human resources by suitable allocation of personnel**
2. **Securing of excellent human resources and strengthening of education system**
3. **Further expansion of marketing area**
4. **Promote efficiency of sales activities**

Dividend (Results and Forecasts)

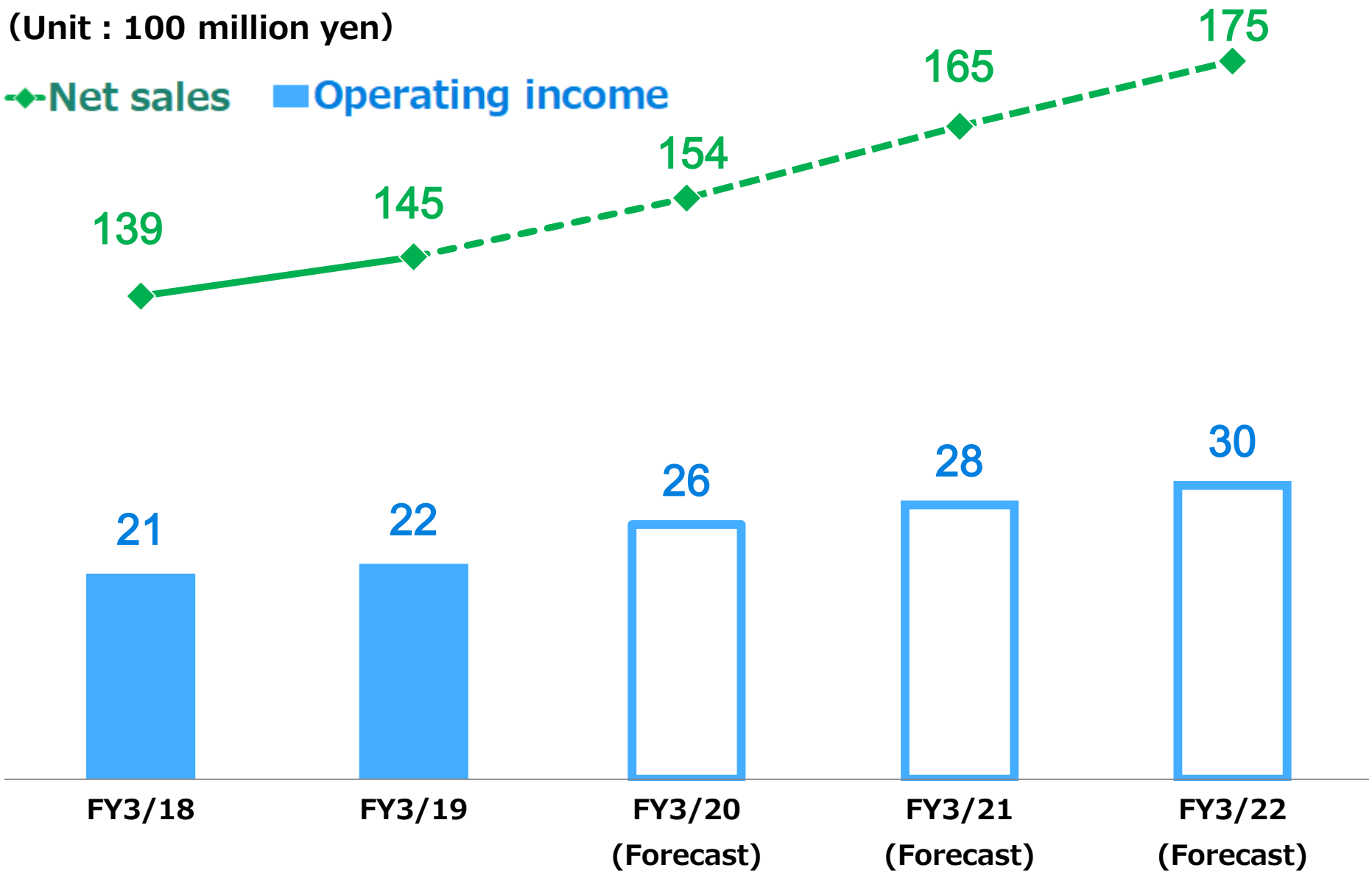
No revisions from the figures announced on May 17



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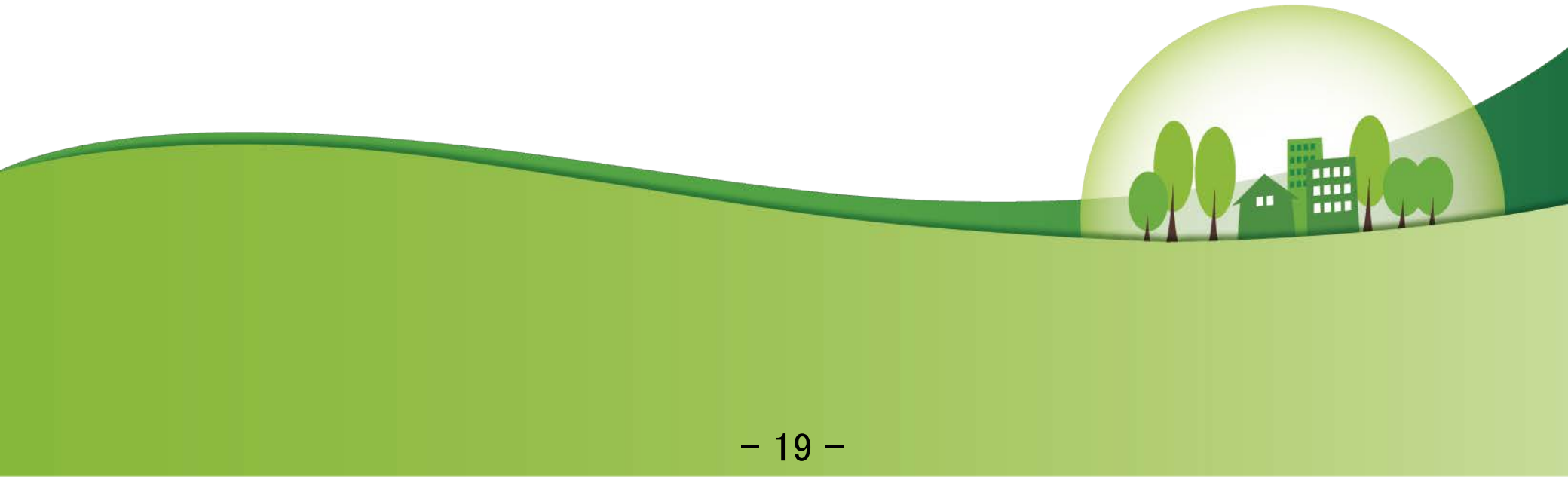
Mid-term Profit and Loss Plan (Rolling System)

No revisions from the figures announced on May 17



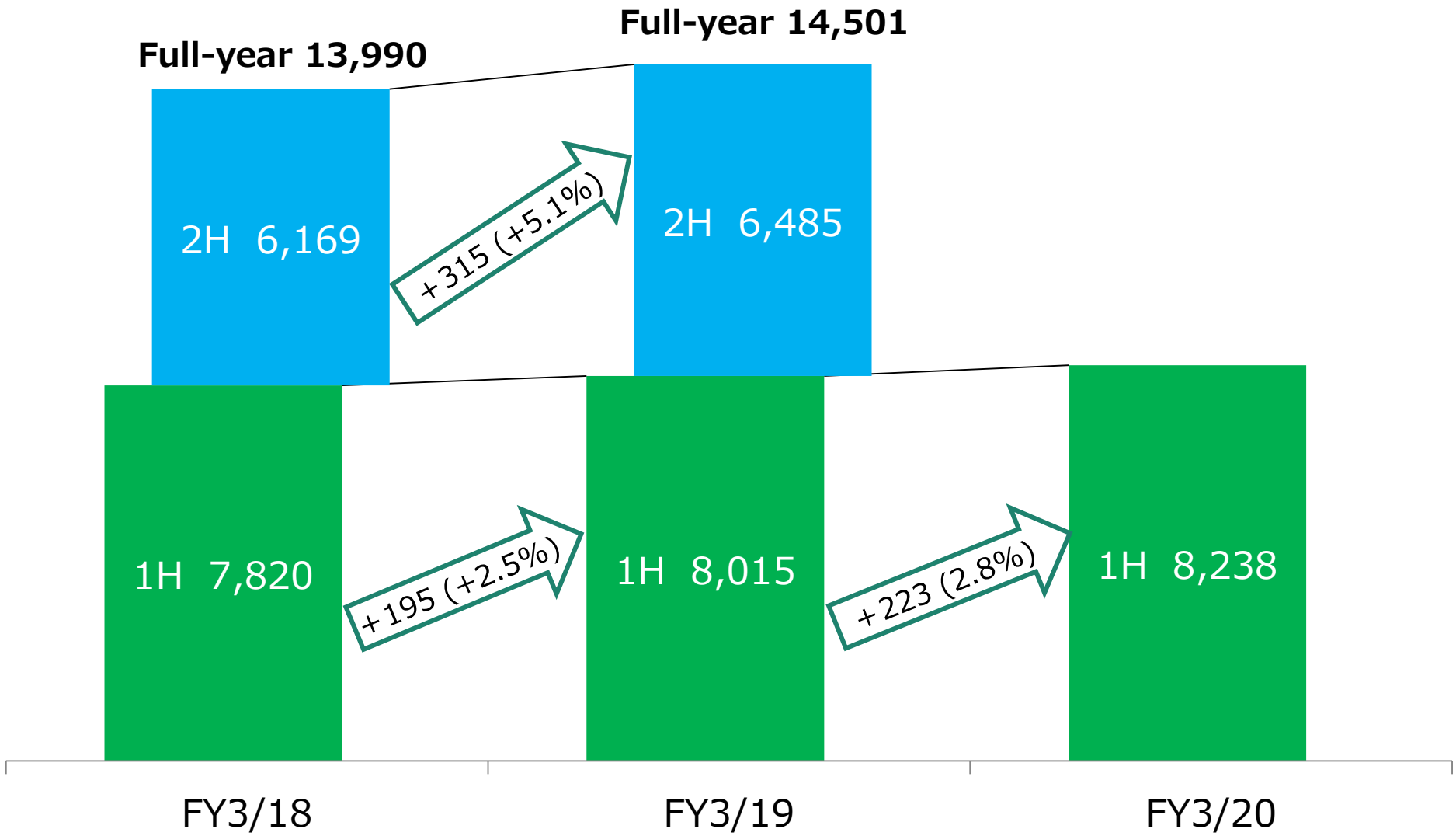
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II. Details of Financial Results for the Second Quarter of FY 3/20



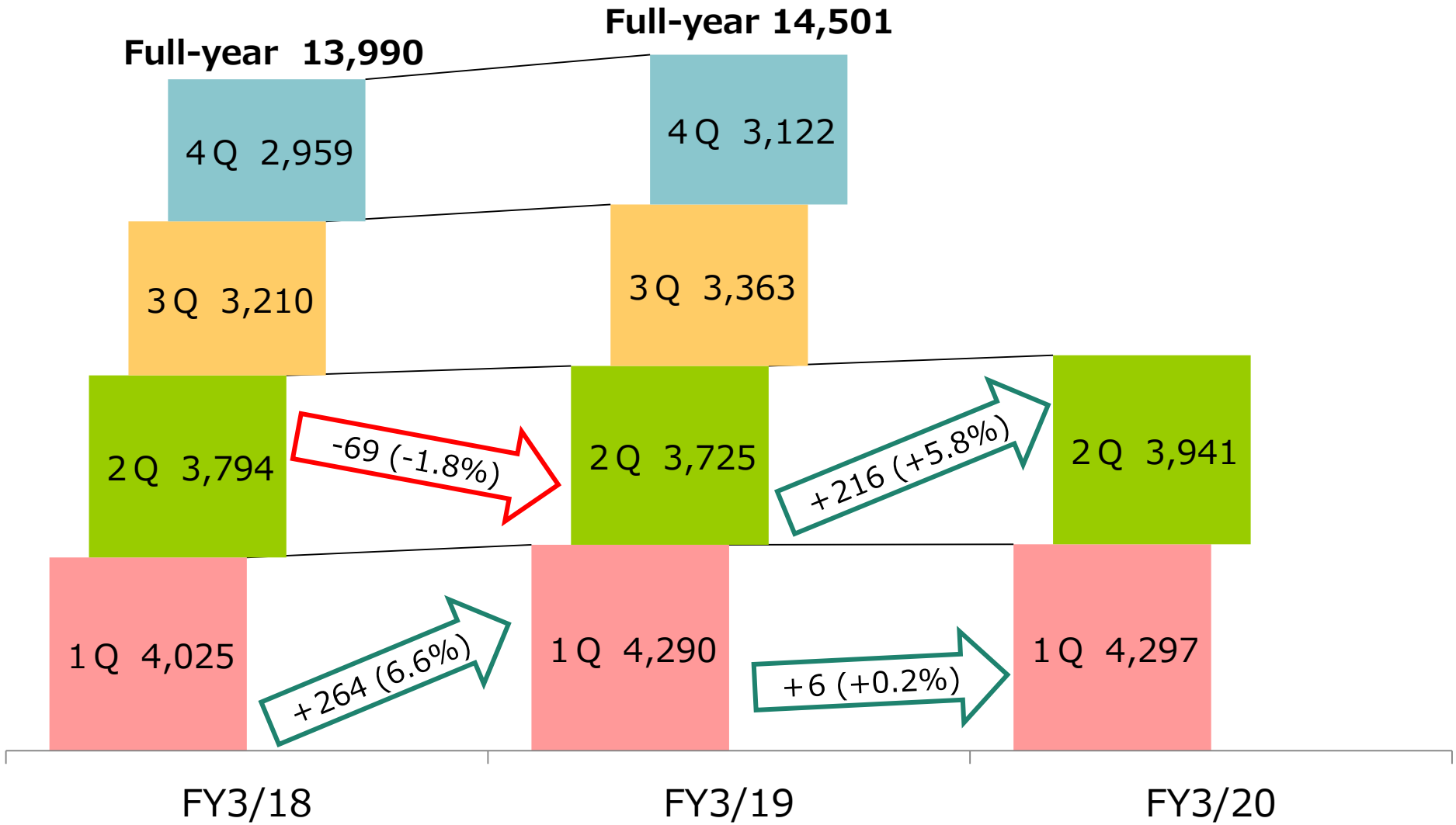
Net Sales by 1H and 2H

(Unit : Million Yen)



Net Sales by Quarter

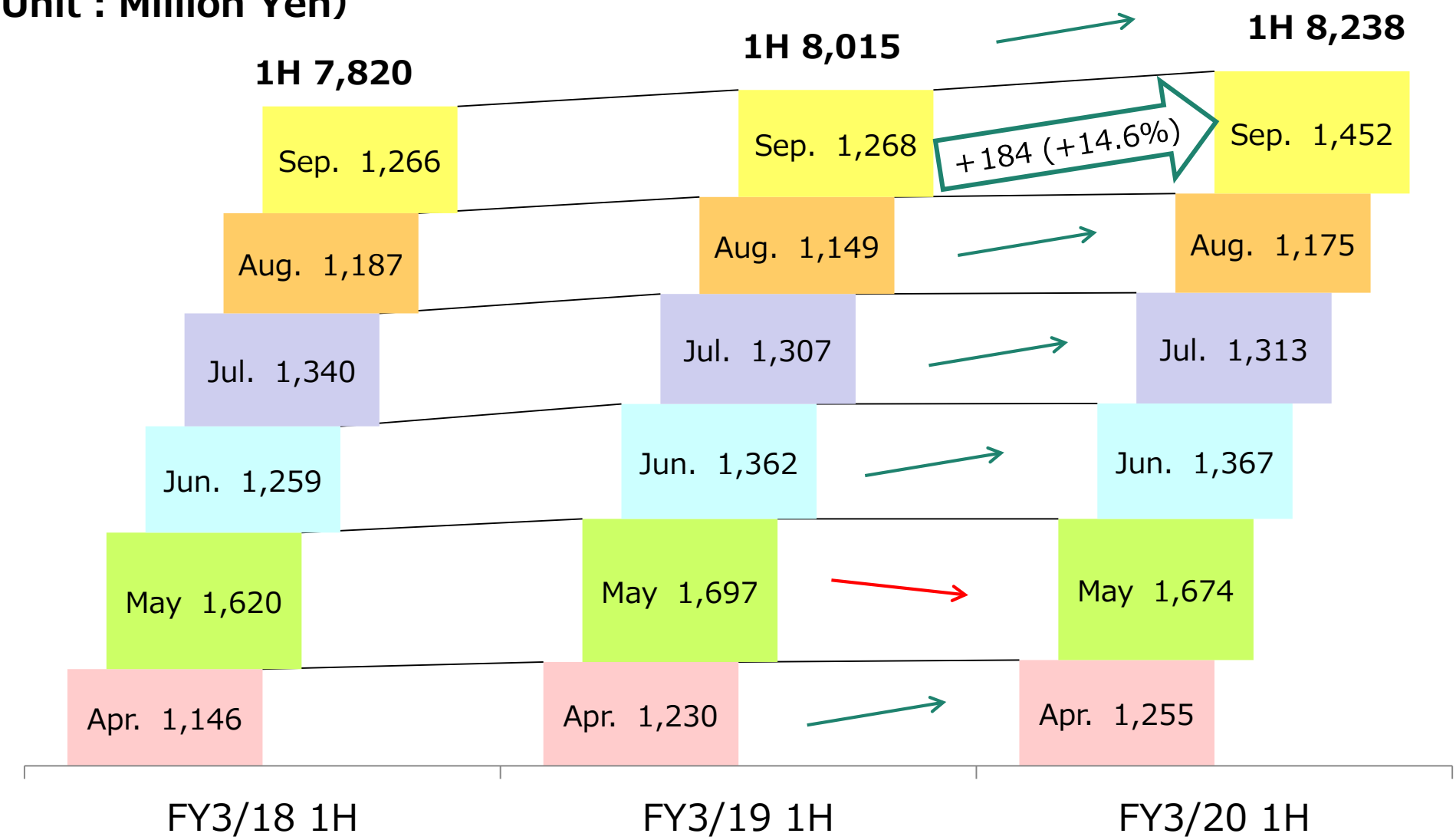
(Unit : Million Yen)



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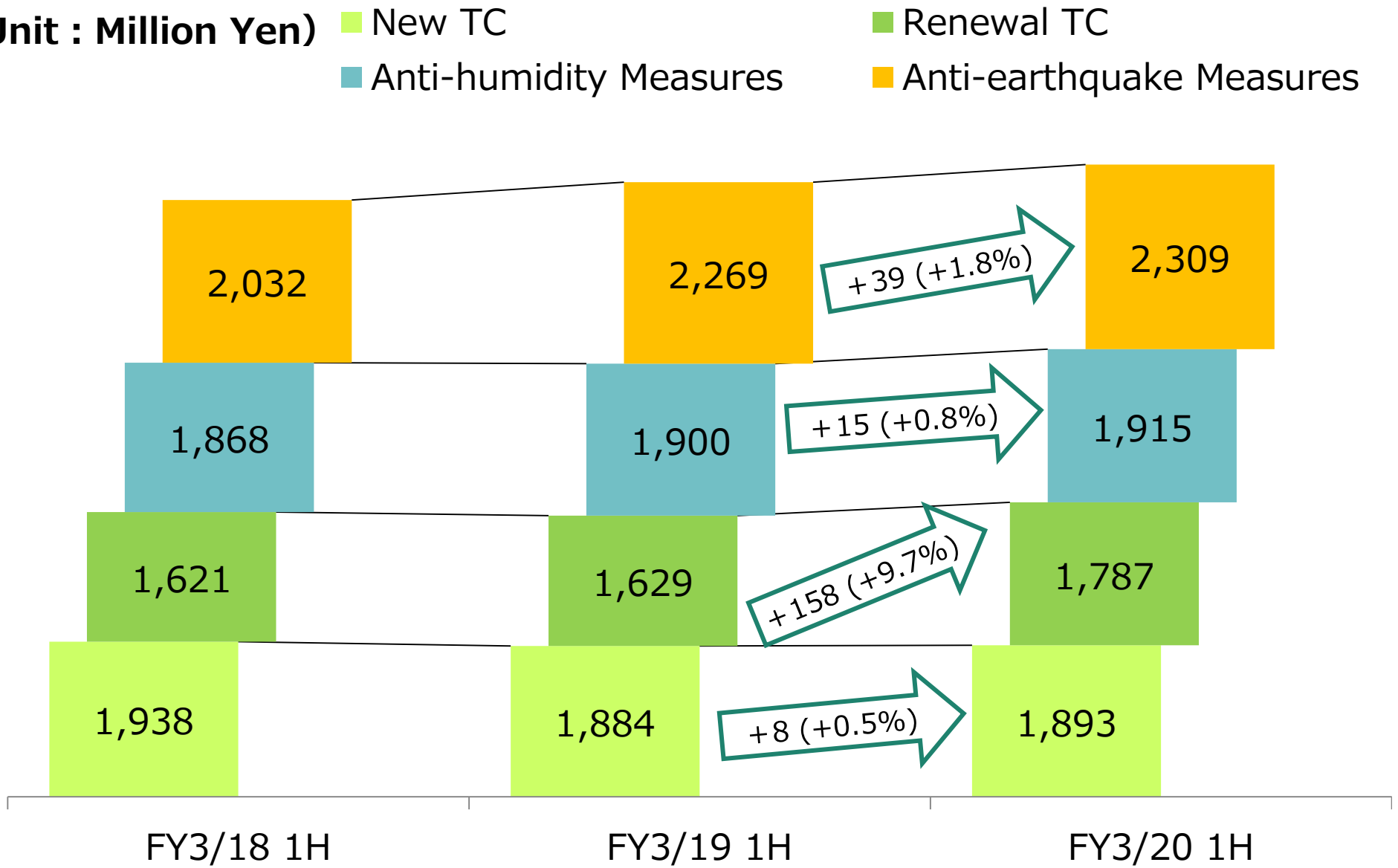
Net Sales by Monthly

(Unit : Million Yen)

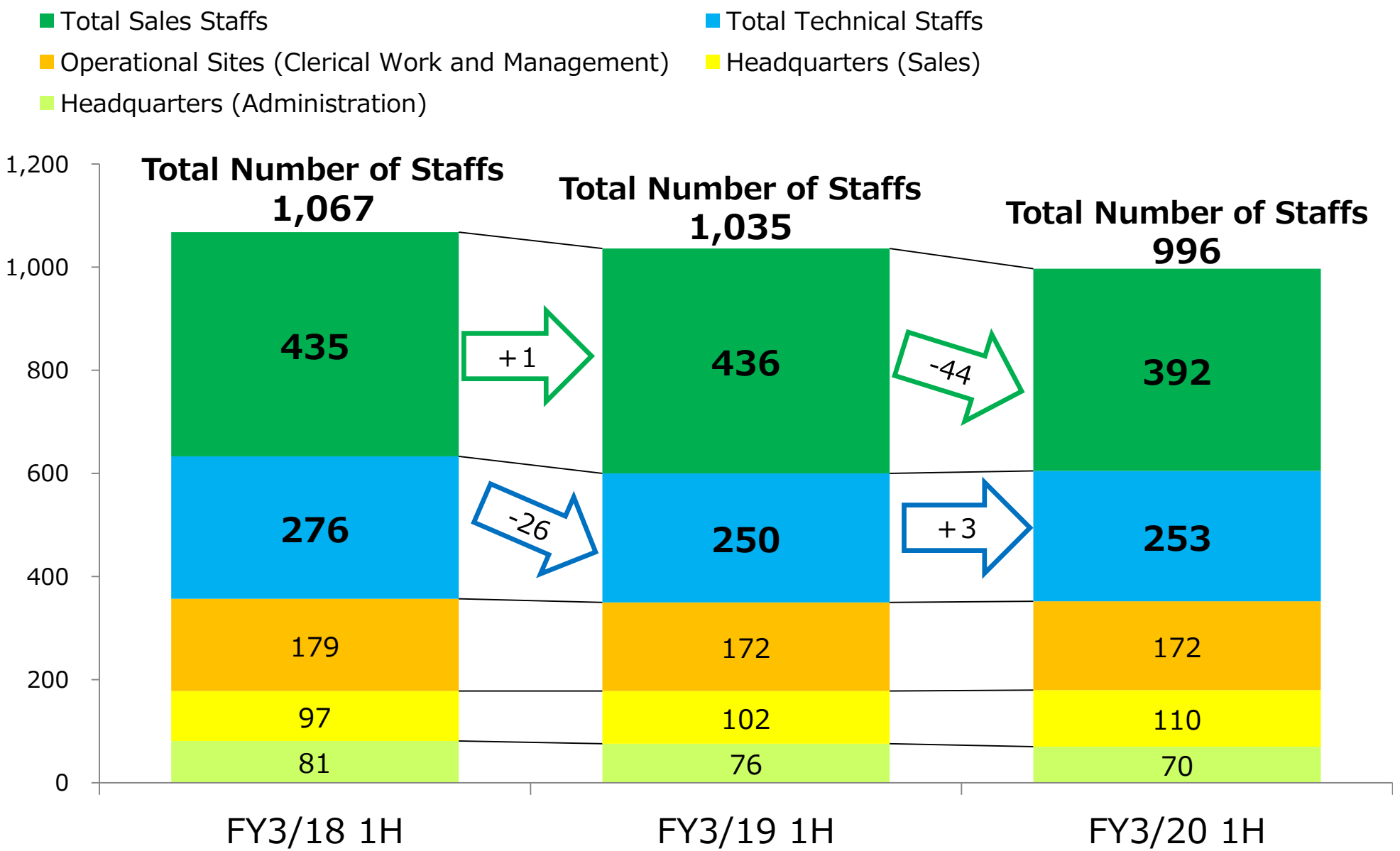


Net Sales by Service (1H)

(Unit : Million Yen)



Number of Staffs (1H)



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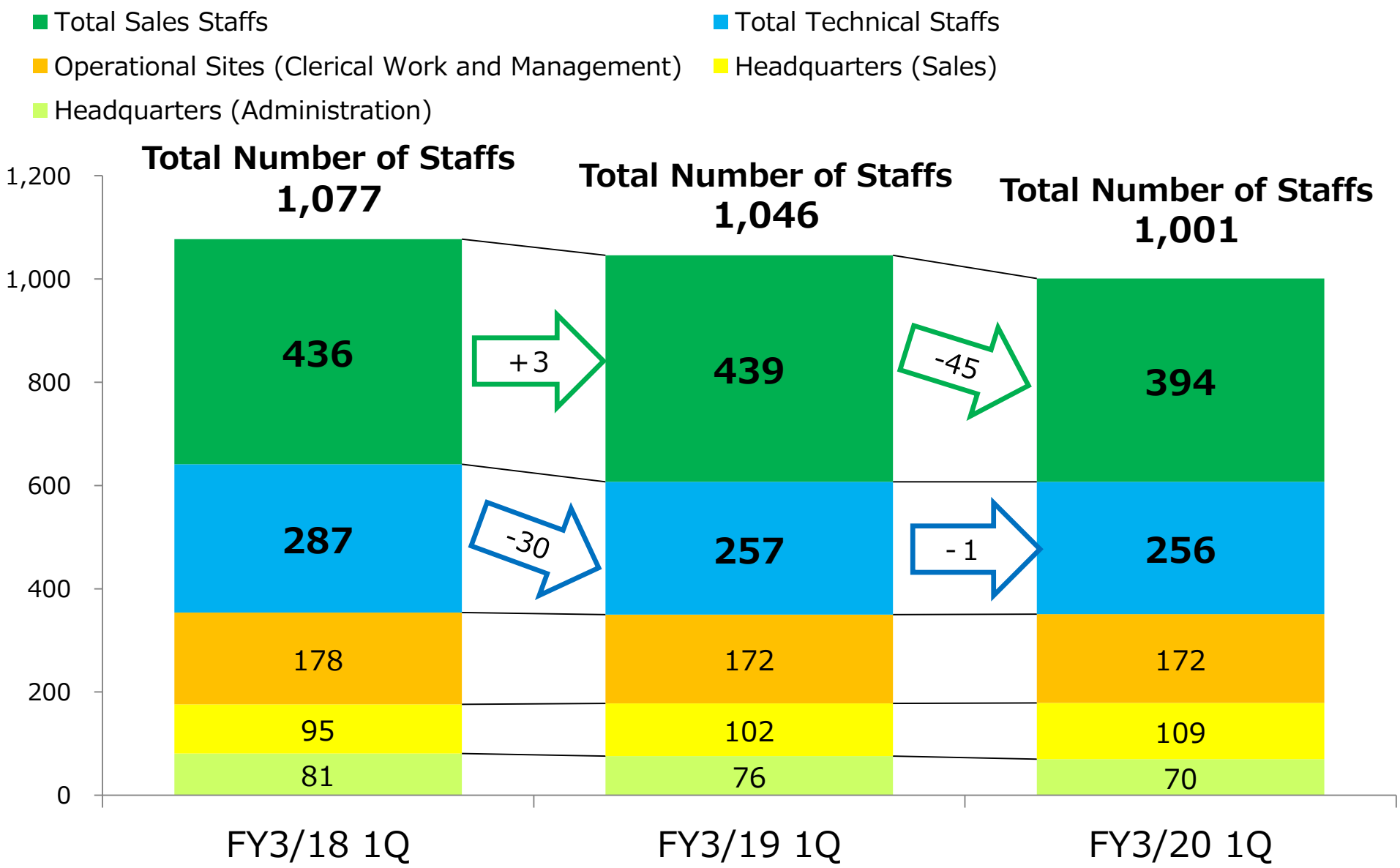
Number of Staffs, Sales per Staff (1Q YoY)

- In 1Q, the number of new hires decreased due to difficulty in securing enough applicants.

	FY3/19 1Q	FY3/20 1Q	YoY	
	Results	**Results**	Change	Change in ratio
Net Sales (Million yen)	4,290	**4,297**	6	0.2%
Within the three services	4,101	**4,133**	32	0.8%
Average number of staffs during the period	1,046	**1,001**	-45	-4.3%
Within the three services	844	**801**	−43	−5.1%
Within sales staffs	439	**394**	−45	−10.2%
Sales per staff (Thousand yen/month)	1,366	**1,430**	63	4.7%
Within the three services	1,619	**1,720**	101	6.2%
Number of staffs at end of period	1,046	**997**	-49	-4.7%
Within the three services	847	**796**	−51	−6.0%

- ”Number of staffs”: total number of staffs actually working including part-time employees and contract employees (excluding dispatched and seconded staffs)
- ”Sales of three services”: total sales of termite control, anti-humidity measures and anti-earthquake measures
- ”Number of staffs for three services”: total of staffs engaging in sales, technical, and clerical work and management of operational sites

Number of Staffs (1Q)



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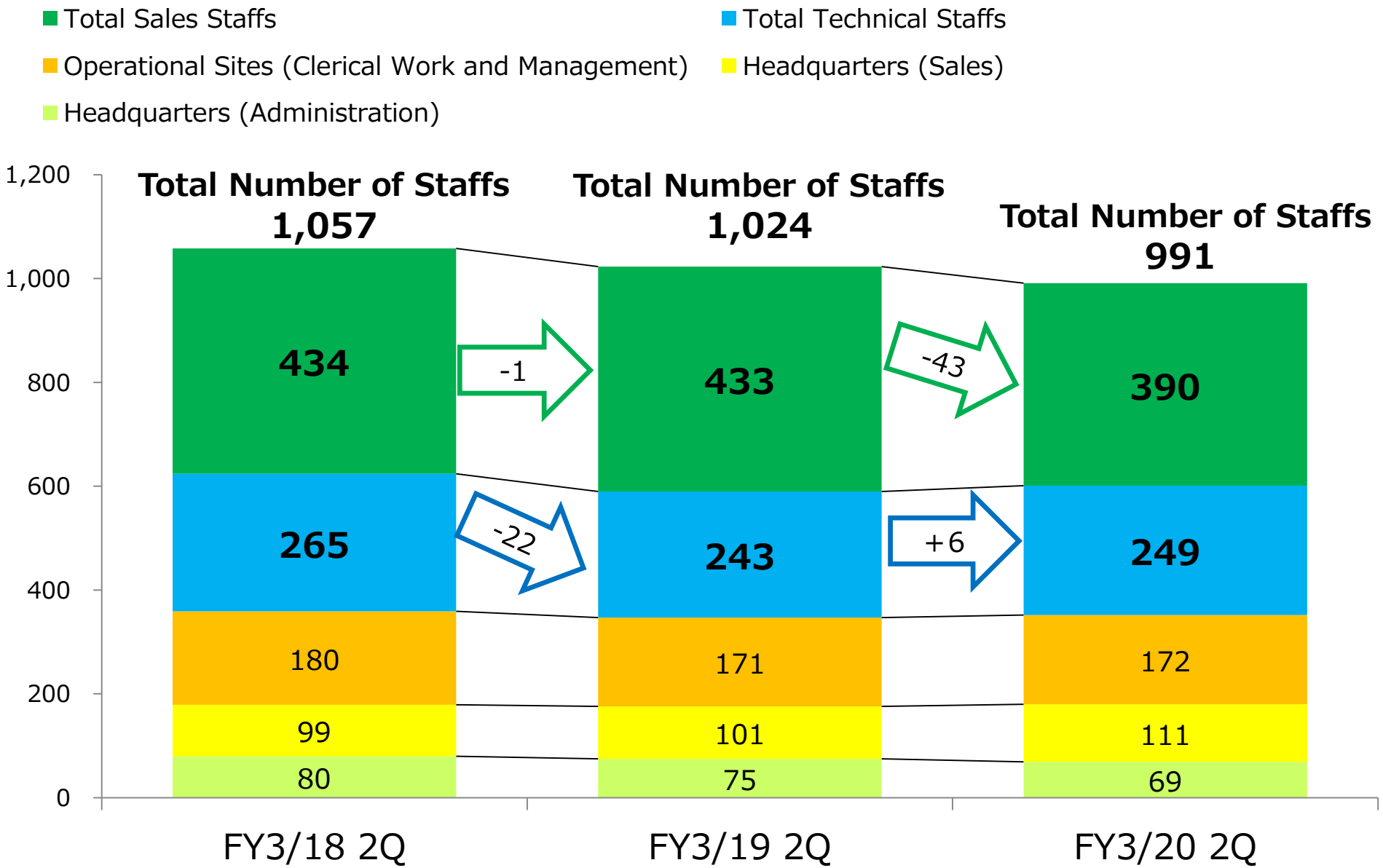
Number of Staffs, Sales per Staff (2Q YoY)

- In 2Q, the number of new hires is in improvement mode.

	FY3/19 2Q	FY3/20 2Q	YoY	
	Results	**Results**	Change	Change in ratio
Net Sales (Million yen)	3,725	**3,941**	216	5.8%
Within the three services	3,582	**3,772**	189	5.3%
Average number of staffs during the period	1,024	**991**	-32	-3.2%
Within the three services	823	**790**	−33	−4.0%
Within sales staffs	433	**390**	−43	−9.9%
Sales per staff (Thousand yen/month)	1,213	**1,325**	112	9.3%
Within the three services	1,451	**1,591**	140	9.7%
Number of staffs at end of period	1,010	**992**	-18	-1.8%
Within the three services	811	**791**	−20	−2.5%

- ”Number of staffs”: total number of staffs actually working including part-time employees and contract employees (excluding dispatched and seconded staffs)
- ”Sales of three services”: total sales of termite control, anti-humidity measures and anti-earthquake measures
- ”Number of staffs for three services”: total of staffs engaging in sales, technical, and clerical work and management of operational sites

Number of Staffs (2Q)



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Factors for Changes in Operating Income (1H YoY)

(Unit: Million yen)	FY3/19 1H	FY3/20 1H	YoY	Change in Ratio	Main factors for changes
Net Sales	8,015	8,238	223	+2.8%	
Cost of Sales	2,178	2,226	48	+2.2%	
Material Costs	965	961	-3	-0.4%	
Labor Costs	755	771	15	+2.1%	Increase in technical staffs
Other Cost of Sales	457	493	36	+8.1%	
Gross Profit	5,837	6,012	175	+3.0%	
SG&A Expenses	4,184	4,239	54	+1.3%	
Personnel Expenses	2,658	2,622	-35	-1.3%	Decrease in sales staffs
Recruiting Expenses	106	109	3	+2.9%	
Sales Promotional Expenses	313	390	77	+24.7%	
Other SG&A Expenses	1,106	1,116	9	+0.9%	
Operating Income	1,652	1,772	120	+7.3%	

- Sales Promotional Expenses：Advertising expenses related to promotional activities

Results for Profit and Loss (1Q YoY)

(Unit: Million yen)	FY3/19 1Q	FY3/20 1Q	YoY	
	Results	**Results**	Change	Change in Ratio
Net Sales	4,290	**4,297**	6	0.2%
Gross Profit	3,140	**3,152**	12	0.4%
Gross profit ratio	73.2%	73.4%	+0.2pt	—
Operating Income	875	**871**	-3	-0.4%
Operating income ratio	20.4%	20.3%	-0.1pt	—
Ordinary Income	870	**867**	-2	-0.3%
Ordinary income ratio	20.3%	20.2%	-0.1pt	—
Net Income	585	**585**	0	0.0%
Net income ratio	13.6%	13.6%	-0.0pt	—
EPS (yen)	47.44	**47.45**	0.01	0.0%

Factors for Changes in Operating Income (1Q YoY)

(Unit: Million yen)	FY3/19 1Q	FY3/20 1Q	YoY	Change in Ratio	Main factors for changes
Net Sales	4,290	4,297	6	+0.2%	
Cost of Sales	1,150	1,144	-6	-0.5%	
Material Costs	508	487	-20	-4.1%	
Labor Costs	401	404	2	+0.6%	
Other Cost of Sales	240	252	12	+5.0%	
Gross Profit	3,140	3,152	12	+0.4%	
SG&A Expenses	2,264	2,281	16	+0.7%	
Personnel Expenses	1,354	1,334	-19	-1.5%	Decrease in sales staffs
Recruiting Expenses	62	65	3	+6.2%	
Sales Promotional Expenses	278	321	43	+15.5%	
Other SG&A Expenses	569	559	-10	-1.9%	
Operating Income	875	871	-3	-0.4%	

- Sales Promotional Expenses：Advertising expenses related to promotional activities

Results for Profit and Loss (2Q YoY)

(Unit: Million yen)	FY3/19 2Q	FY3/20 2Q	YoY	
	Results	**Results**	Change	Change in Ratio
Net Sales	3,725	**3,941**	216	5.8%
Gross Profit	2,697	**2,859**	162	6.0%
Gross profit ratio	72.4%	72.5%	+0.1pt	—
Operating Income	776	**901**	124	16.0%
Operating income ratio	20.9%	22.9%	+2.0pt	—
Ordinary Income	802	**915**	113	14.2%
Ordinary income ratio	21.5%	23.2%	+1.7pt	—
Net Income	535	**615**	79	14.9%
Net income ratio	14.4%	15.6%	+1.2pt	—
EPS (yen)	43.40	**49.87**	6.46	14.9%

Factors for Changes in Operating Income (2Q YoY)

(Unit: Million yen)	FY3/19 2Q	FY3/20 2Q	YoY	Change in Ratio	Main factors for changes
Net Sales	3,725	3,941	216	+5.8%	
Cost of Sales	1,028	1,082	54	+5.3%	
Material Costs	457	474	16	+3.6%	
Labor Costs	353	367	13	+3.8%	Increase in technical staffs
Other Cost of Sales	216	241	24	+11.4%	
Gross Profit	2,697	2,859	162	+6.0%	
SG&A Expenses	1,920	1,958	37	+2.0%	
Personnel Expenses	1,303	1,288	-15	-1.2%	Decrease in sales staffs
Recruiting Expenses	44	43	-0	-1.7%	
Sales Promotional Expenses	34	68	34	+98.9%	
Other SG&A Expenses	537	557	20	+3.8%	
Operating Income	776	901	124	+16.0%	

- Sales Promotional Expenses：Advertising expenses related to promotional activities

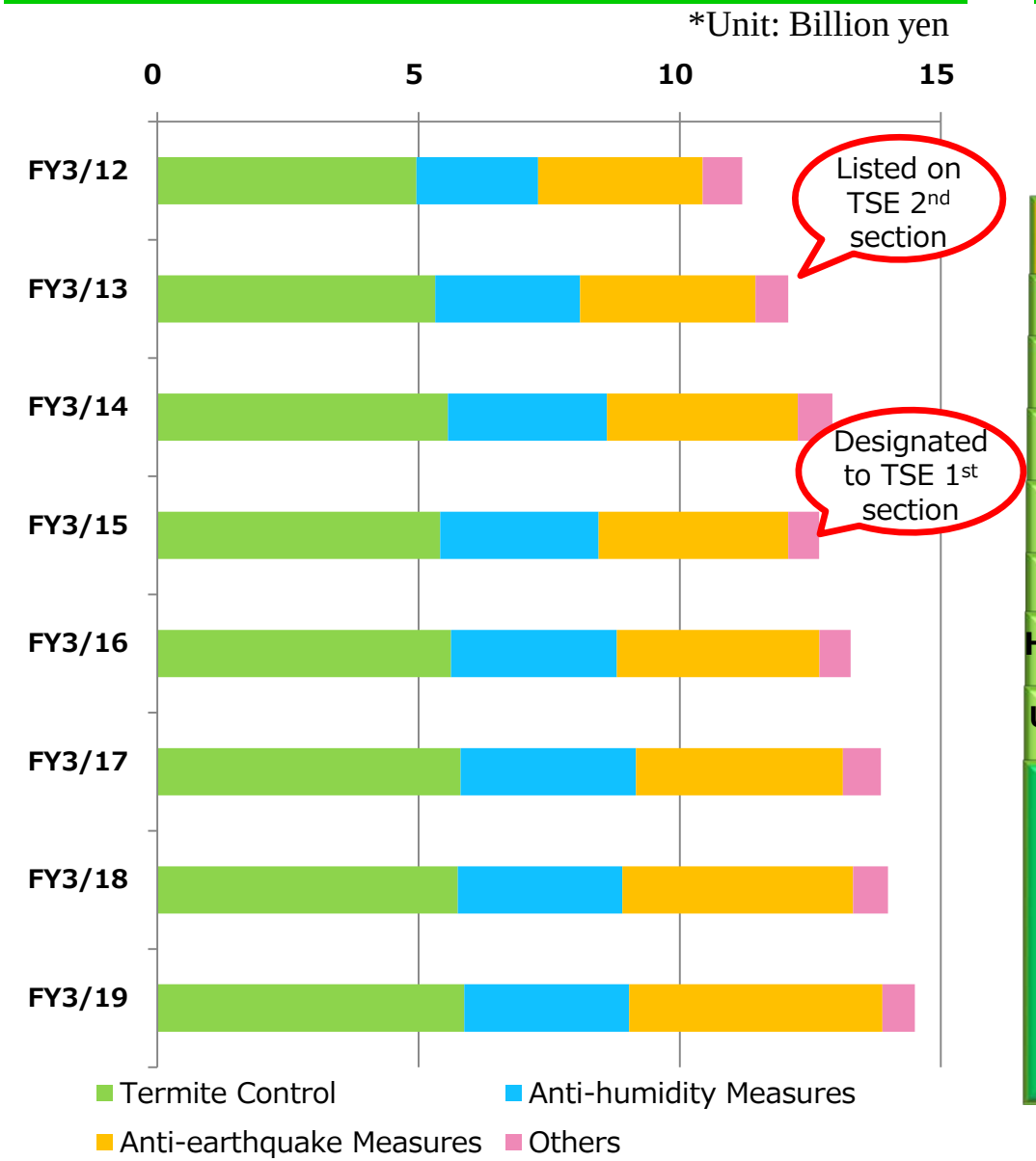
Mid-term Profit and Loss Plan (Rolling System)

No revisions from the figures announced on May 17

(Unit: Million yen)	FY3/19	FY3/20	FY3/21	FY3/22		
	Results	Forecasts	Forecasts	**Forecasts**	Compared to FY3/19	
					Change	Change in ratio
Net sales	14,501	15,430	16,500	**17,580**	3,078	21.2%
YoY Change in ratio	3.7%	6.4%	6.9%	6.5%	—	—
Operating income	2,285	2,615	2,887	**3,077**	792	34.7%
YoY Change in ratio	7.2%	14.4%	10.4%	6.6%	—	—
Operating income ratio	15.8%	17.0%	17.5%	**17.5%**	+1.7pt	—
Net income	1,515	1,752	1,943	**2,075**	560	37.0%
YoY Change in ratio	7.4%	15.6%	10.9%	6.8%	—	—
Net income ratio	10.5%	11.4%	11.8%	**11.8%**	+1.4pt	—

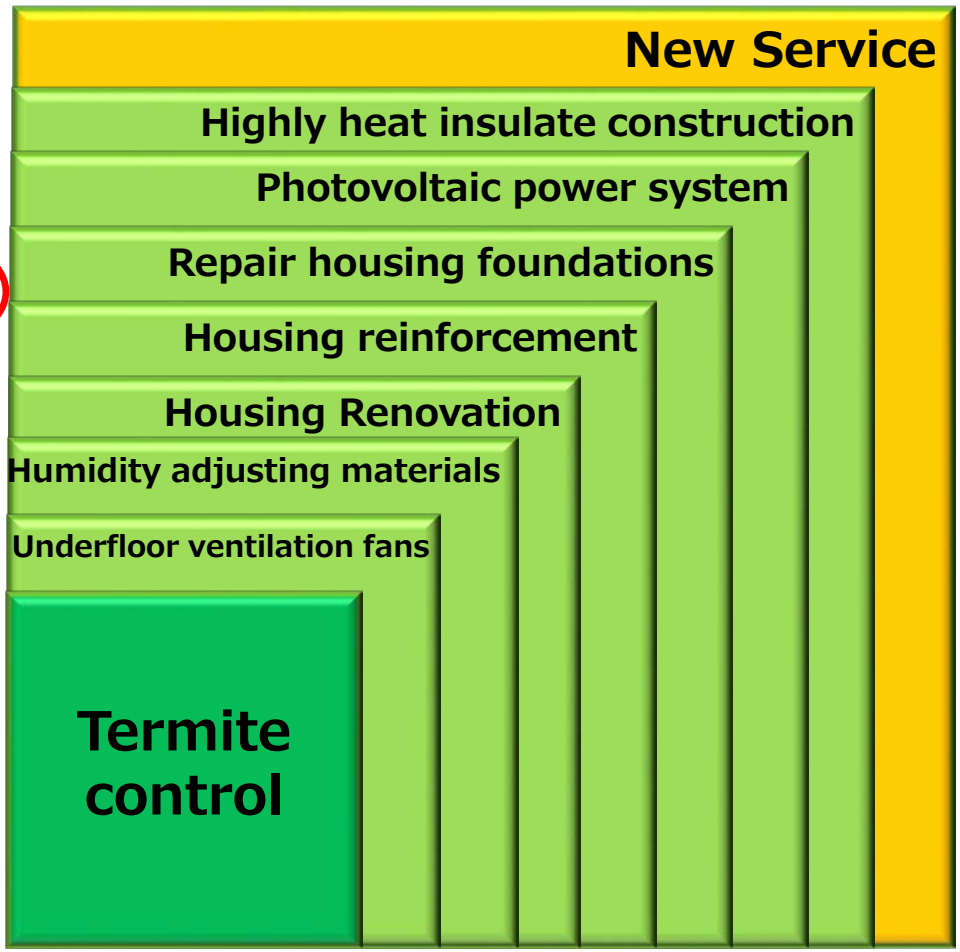
Growth Strategy 1 (Direction of the Service Field Expansion)

Change of Net Sales by Service



Expansion of the Field of Service

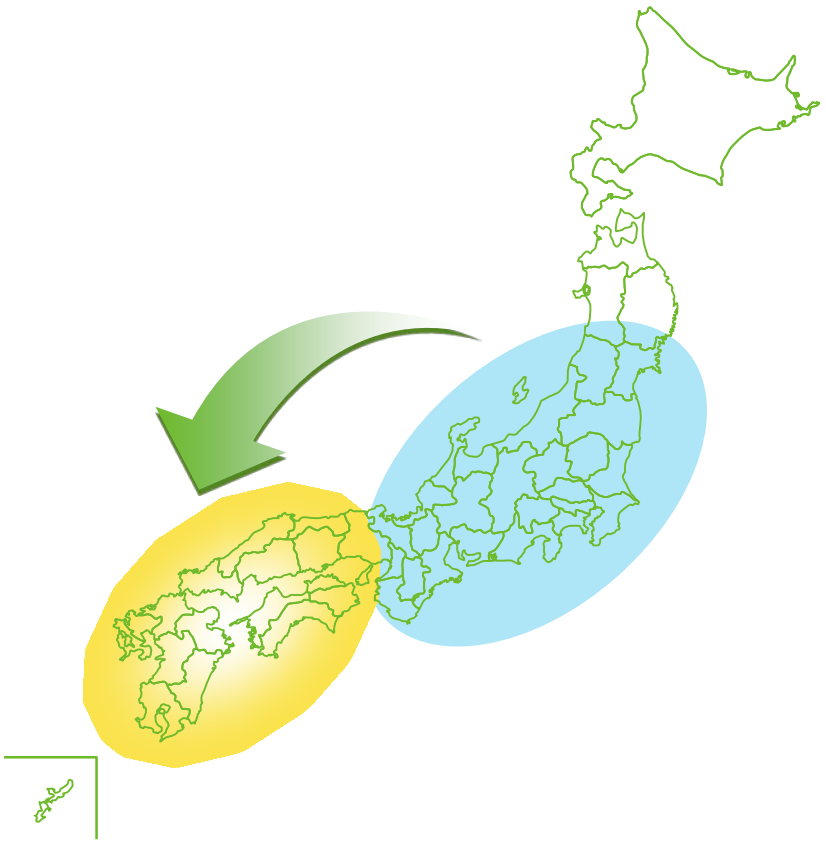
- Lineup of house maintenance services



Growth Strategy 2 (Direction of the Area Expansion)

Expansion of marketing areas

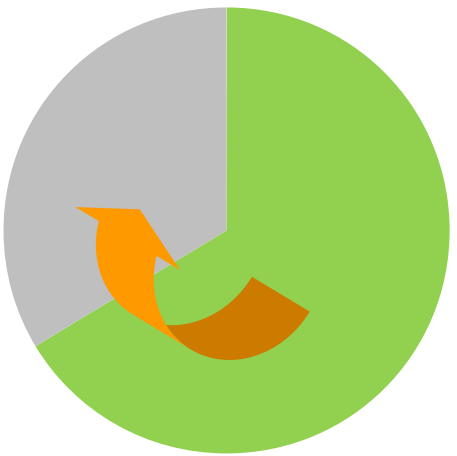
- Expand in to the west of Kansai
- Develop areas in tie-ups with JA



Cultivation of existing areas

- There is still room for development
- Rise in profit margin due to improvement in operating efficiency

Pct. of tie-ups with JA within the existing areas



Growth Strategy 3 (Future Image)

Sustainable growth with termite control-related services at the core



【Basis for growth】

- Huge potential demand
- Spur to national policy
- High-quality services
- Superiority of industry leader
- High profit margins

【Issues to be approached】

- **Expand areas** across the country
- Securing and fostering of **excellent human resources**
- Maintenance and improvement of **competitive advantage**
- Enhancement of **productivity**

【Target vision】

Realize a sustainable and stable growth

To a house maintenance industry-leading company

Notes on Future Forecasts

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