We protect Japanese houses from termites

**Asante Incorporated**

# Company Introduction



【TSE First Section Securities Code 6073】

**May 2020**

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# Company Overview

| | |
|---|---|
| Company Name | Asante Incorporated （Securities Code 6073） |
| Head Office Location | 33-15, Shinjuku 1-Chome, Shinjuku-ku, Tokyo |
| Locations | 79 locations (Branches: 14, Sales Offices: 65) |
| Representative | Sei Miyauchi |
| History Overview | May 1970 established |
| | Sep. 1973 reformed into a stock company |
| | Apr. 2014 Listed on Tokyo Stock Exchange First Section. |
| Capital Stock | 1.1 billion yen (End of FY3/20) |
| Net Sales | 14.4 billion yen (FY3/20) |
| Number of Employees | 962 (including contract staff) (End of FY3/20) |

# Corporate Philosophy
# “Protecting people, houses and forests by fostering our own people and technology”

- Protect and convey the Japanese wood culture to the next generation
- Maintain the value and extend the lifetime of wooden housing to meet social needs
- Provide customers with safety and security in life



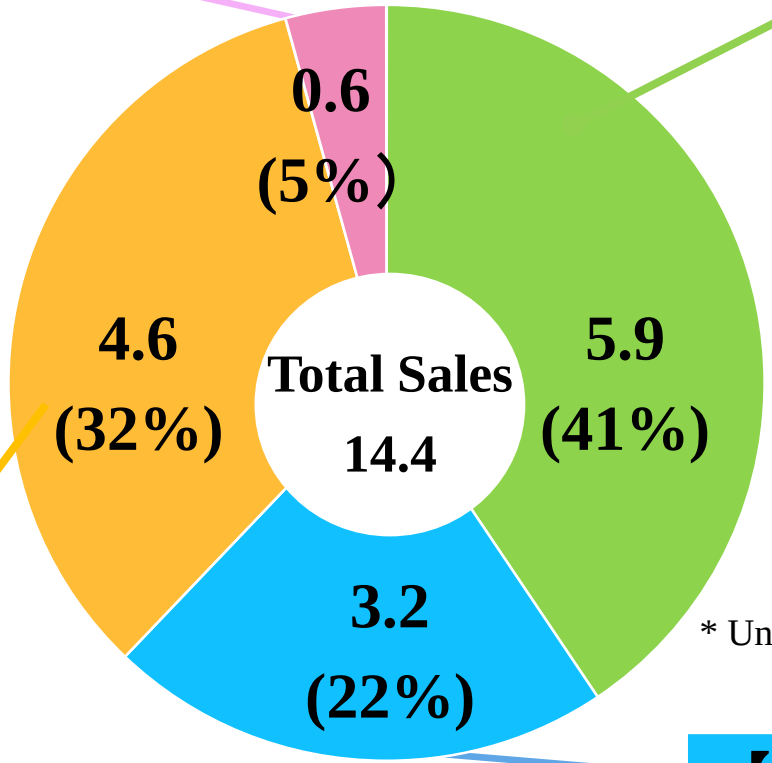
**Raise quality and the diffusion rate of our service**

# Business Contents

| Target | Product (Service) | Details |
|---|---|---|
| Existing wooden houses | **Termite Control** | Prevention and extermination of termites |
| | **Anti-humidity Measures** | Prevention of rot, mold and termites |
| | **Anti-earthquake Measures** | Repair of the basic concrete<br>Reinforcement for the wood junction |
| | Maintain Measures | Housing renovation, new building construction, Seismic retrofit |
| | Maintenance Measures | Construction of photovoltaic power system |
| Hotels<br>Offices<br>Restaurants | Pest control | Prevention and extermination of harmful insects<br>(like cockroach, tick, bedbug, bee, etc.) |
| | Anti-harmful Animal Measures | Prevention and extermination of harmful animals<br>(like rat, dove, etc.) |
| | Sanitary Measures | Sterilization etc. according to sanitation levels of hospitals and other facilities |

# Sales Composition by Service (FY3/20)

**【 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



# Work under the Floor (Inspection and Construction)

## Wealth of human resources who can perform high-quality jobs in a severe environment

- Training under the floor of model house





- Working under the real floor

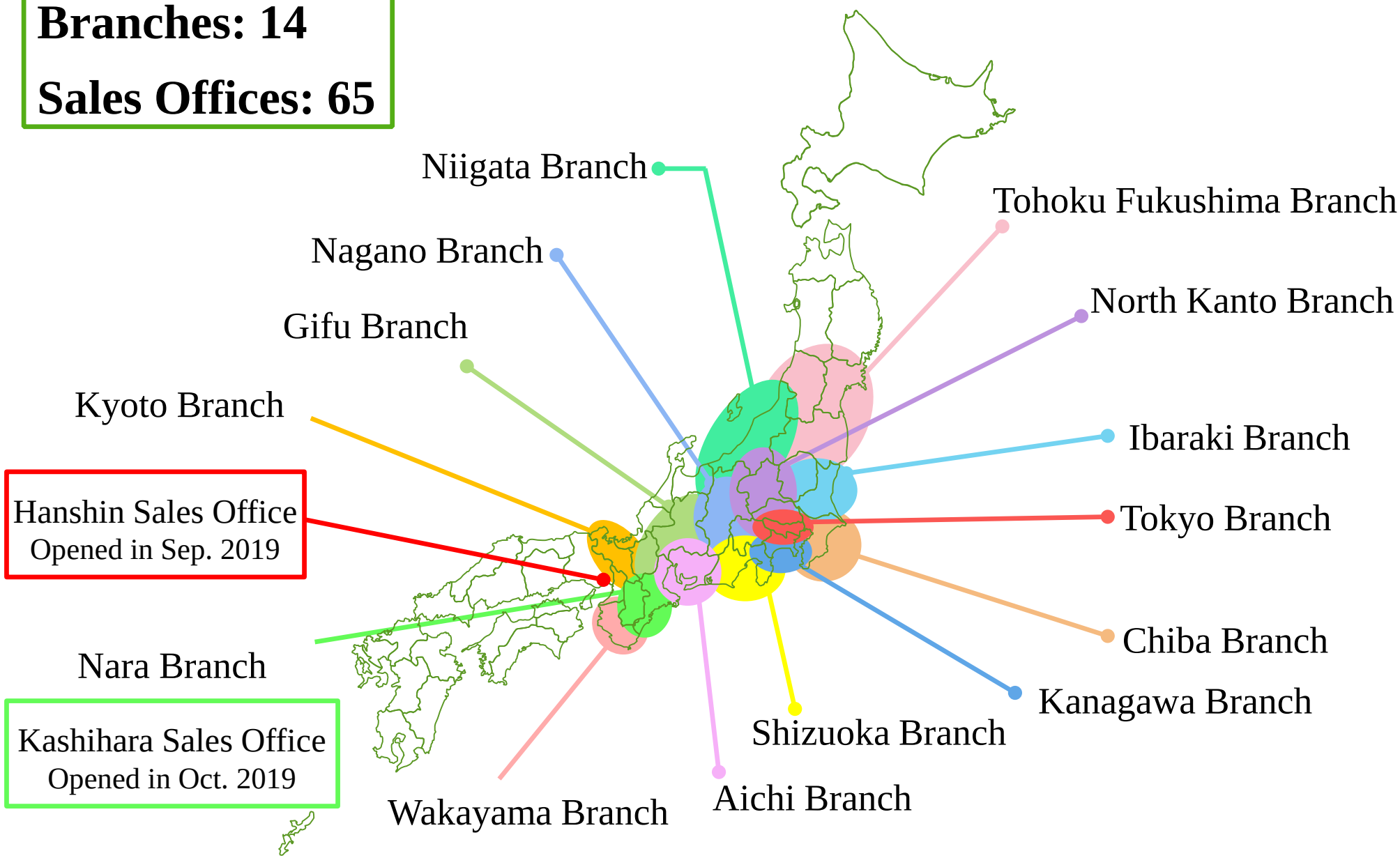




# Marketing Area Development

**Branches: 14**

**Sales Offices: 65**



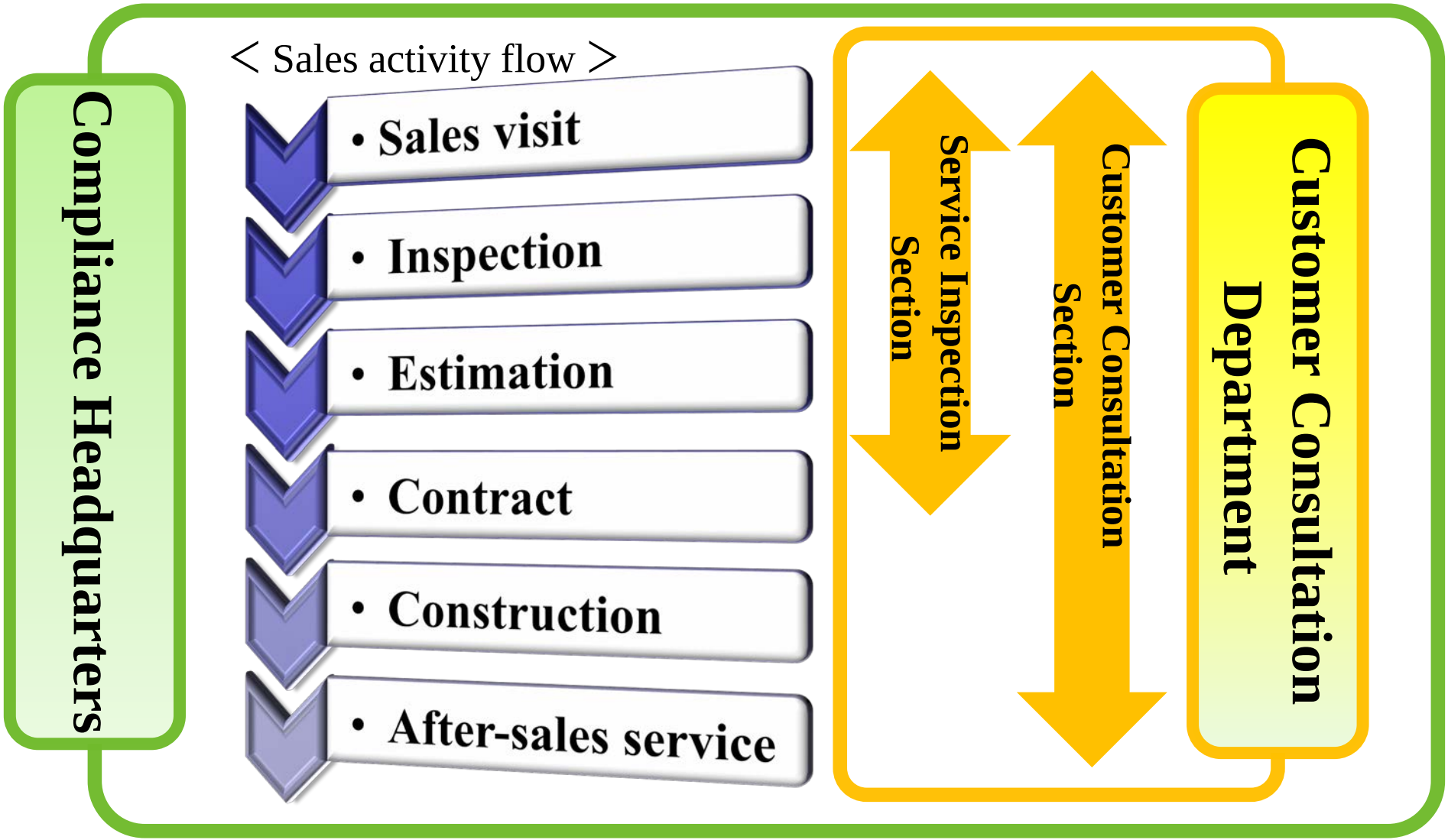
# Strengths 1 ( Overall Strength )

## Strengths are related to each business processes

| | Sales/Marketing | | | | Profit |
|---|---|---|---|---|---|
| | Direct Sales Contracts | Construction | After Maintenance | Claims Handling | To Maintain High Profit Ratio |
| Points of Strengths | High Contract Ratio | Accumulation of know-how | Increase Existing Clients' Sales Acquisition of Re-contract | Improved Customer Satisfaction | |
| **Thorough Compliance System** | ● | ● | ● | ● | ● |
| Customers First | ● | | ● | ● | |
| Accumulated Technical Skills | | ● | ● | ● | ● |
| **Enrichment of Educational Systems** | ● | ● | | ● | |
| **Operating Efficiency** | ● | | ● | | ● |
| **Sound Finance** | ● | | | | ● |

# Strengths 2 ( Thorough Compliance System )

**A thorough compliance system that creates trust and competitiveness**



# Strengths 3 ( Enrichment of Educational Systems )

## Allocate a comprehensive training center for north and south business areas

**Mikkabi Comprehensive Training Center** (Shizuoka)

*Established in 1990, rebuild in Mar. 2015







**Inawashiro Comprehensive Training Center**

(Fukushima) *Established in 2002



# Strengths 4 ( Operating Efficiency )

## Company listed on the Tokyo Stock Exchange

- Improvement in creditworthiness and awareness

## Industry-leader in termite control

- Established superiority of industry leader

## Tie-ups with JA through a wide area

- The Company's own business model
- Community-based business operations

**Achieved differentiation from other companies and realized high operating efficiency**

# Strengths 5 ( Sound Finance )

## High Safety and Profitability

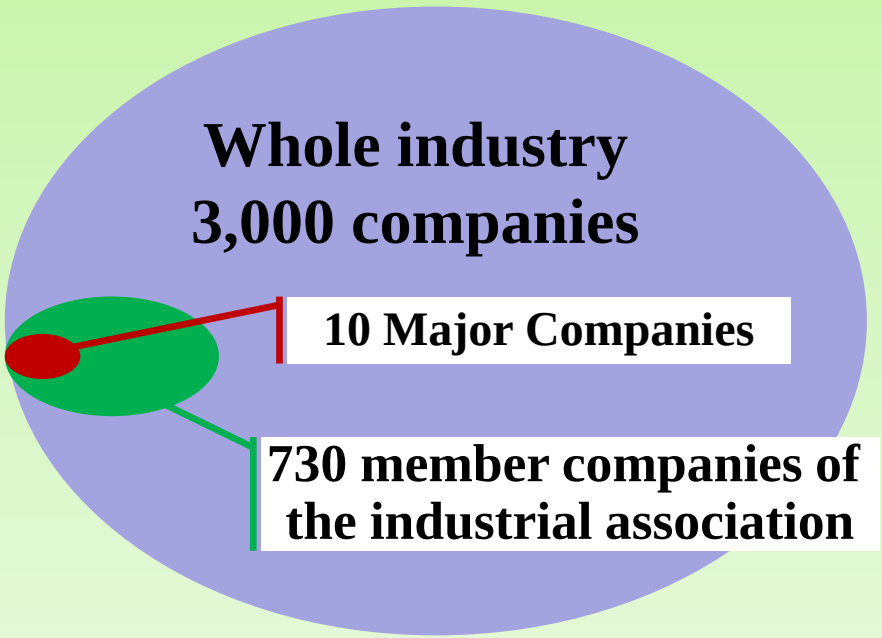
- Financial safety is further improved
- Maintains high operating income ratio and ROE

| | FY3/18 | FY3/19 | FY3/20 | YoY Change |
|---|---|---|---|---|
| Equity-to-asset ratio | 76.7% | 78.0% | **81.0%** | 3.0pt |
| Interest-bearing debt dependency | 5.5% | 4.5% | **4.1%** | -0.4pt |
| Cash and deposits (Billion yen) | 74 | 82 | **90** | 7 |
| interest-bearing debts (Billion yen) | 8 | 7 | **6** | -0 |
| Operating income ratio | 15.2% | 15.8% | **15.5%** | -0.2pt |
| ROA | 14.7% | 14.8% | **14.6%** | -0.2pt |
| ROE | 12.5% | 12.5% | **12.2%** | -0.3pt |

# Industry 1 ( Characteristics )

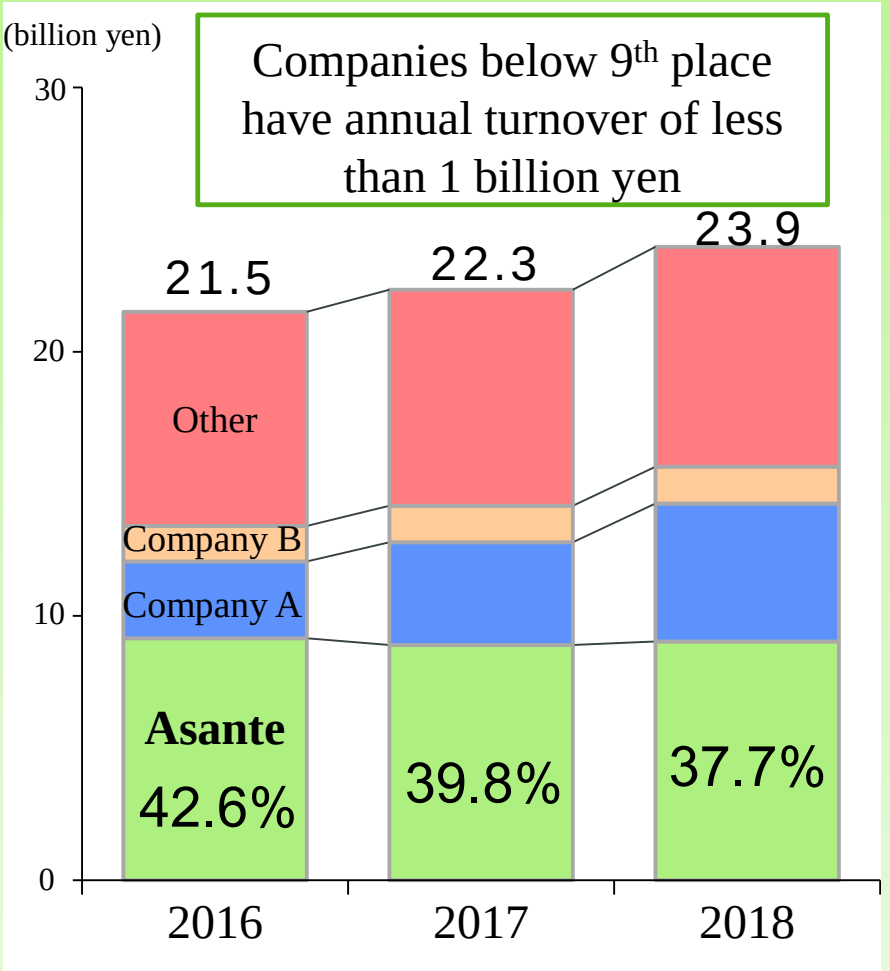
## Termite Control Industry Characteristics

- High composition ratio of small and medium sized enterprises
- Decrease in number of industry workers




* The Japan Termite Control Association recognize that the total number of companies is 4 times the number of member companies

## Total Sales of 10 Major Companies




*Estimated by our company
*Including the underfloor ventilation system etc.

# Industry 2 (Potential Demand of Termite Control for New Customers)

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

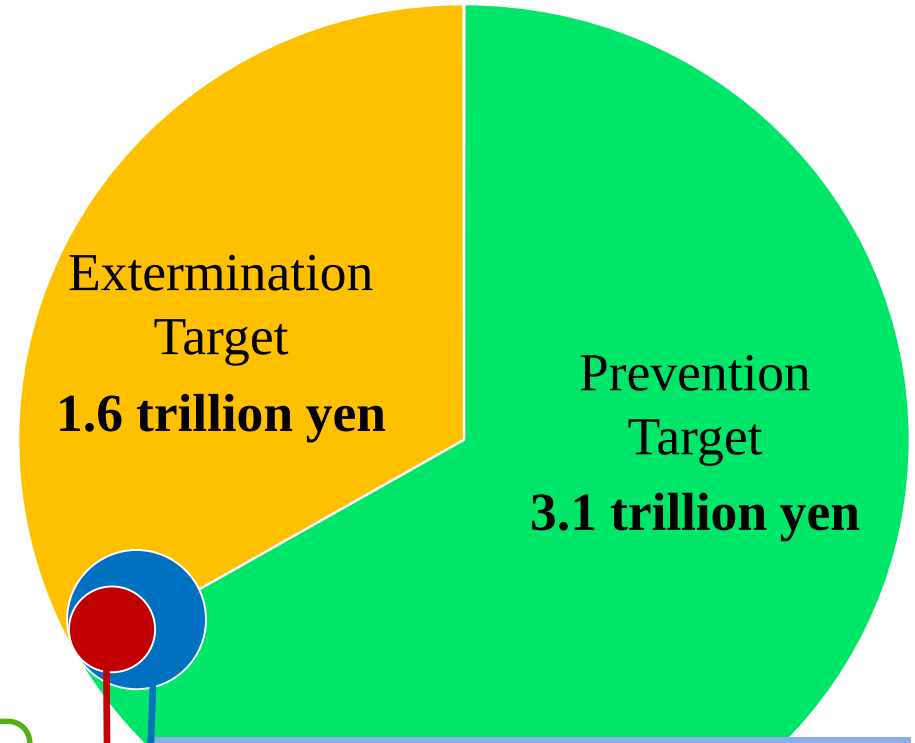
  (Statistics Bureau, MIC[*1], "2018 Statistical Survey on Housing and Land")

- **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
**23.9 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"

# Industry 3 ( US Market Scale )

## Top 100 PCO Sales Ranking
## (GIE Media's "PCT Magazine", May 2019 Issue )

- Total sales of the top 100 companies are approx. $7.7 billion
  (YOY increase of approx. $0.7 billion)

- Top 4 companies or their affiliated entities are listed on the Stock Exchange
  - 1st **Rollins** (NY Stock Exchange)
  - 2nd **Terminix** (The parent company Service Master is listed on NY Stock Exchange)
  - 3rd **Rentokil Steritech** (The parent company Rentokil Initial is listed on London Stock Exchange)
  - 4th **Ecolab** (NY Stock Exchange)
- Total TCO sales of the top 100 companies are approx. $1.6 billion
  (our company's estimate)

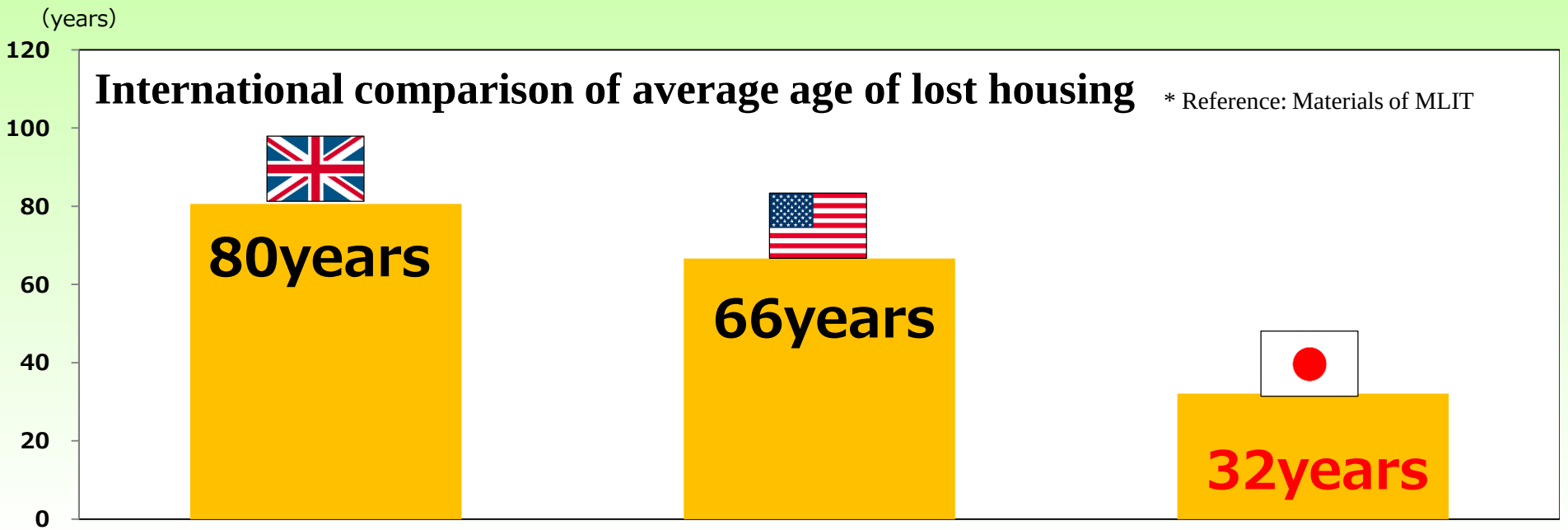
*The PCT Top 100 List is based on 2018 revenues

# External Environment 1 ( Trend of the National Policy )

## The direction of government's efforts to housing (Housing Life Master Plan)

- Shift to a new housing circulation system
  - Improvement of environment **for distribution of existing houses and expansion of renovation market**
- Reduce burden of housing costs of young and families with children (increase in good quality existing houses)

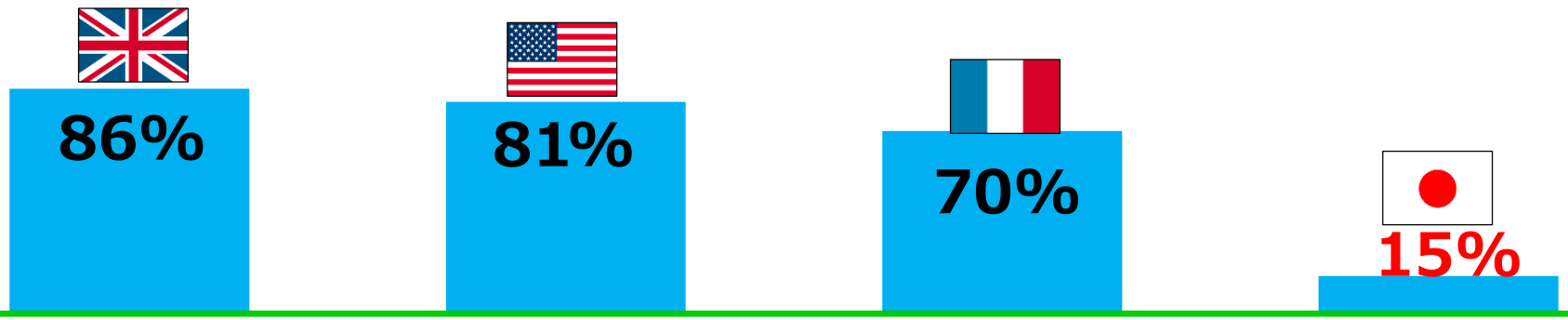
- **Extension of lifetime of existing housing stock**



# External Environment 2 ( Trend of the National Policy )

## Pct. of existing houses of all residences for sale in Japan

* Reference: Materials of MLIT




## Housing Life Master Plan(Cabinet Decision, Revised in 2016)

| (Unit : Trillion yen) | As of 2013 | Goal by 2025 |
|---|---|---|
| Expansion of the renovation market scale | 7 | 12 |
| Expansion of the existing housing market scale | 4 | 8 |
| Total | 11 | 20 |

# External Environment 3 ( Trends of Wooden Houses )

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

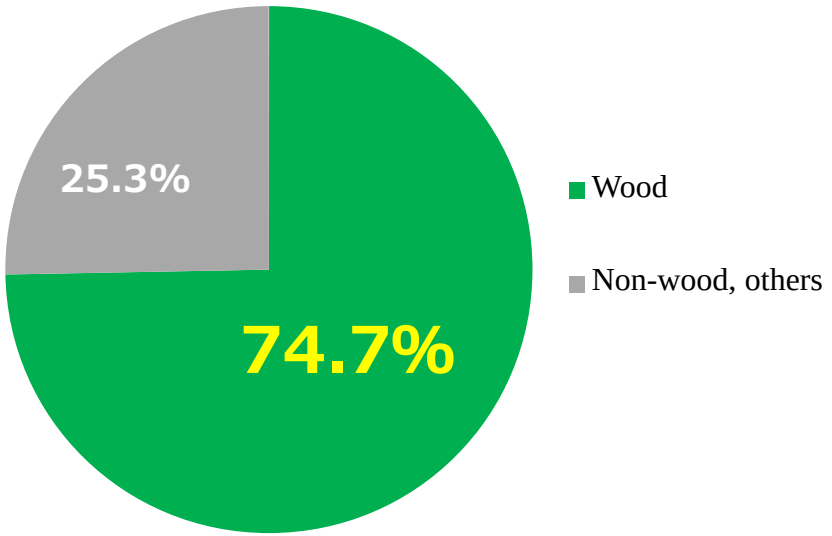
＊ Reference: Materials of MLIT




## 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?

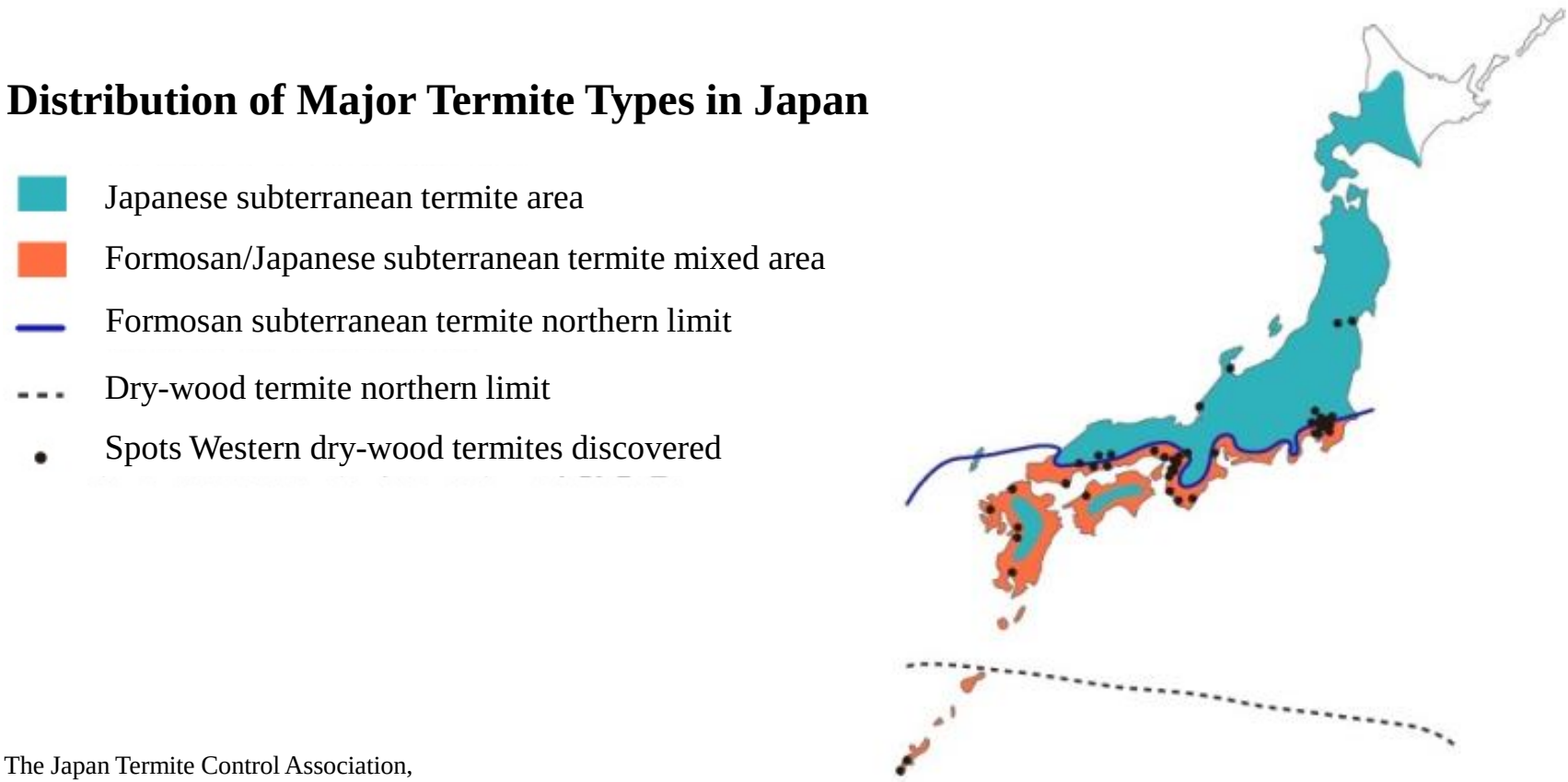



**Maintain an enormous stock of wooden houses**

# Termites 1 ( Distribution )

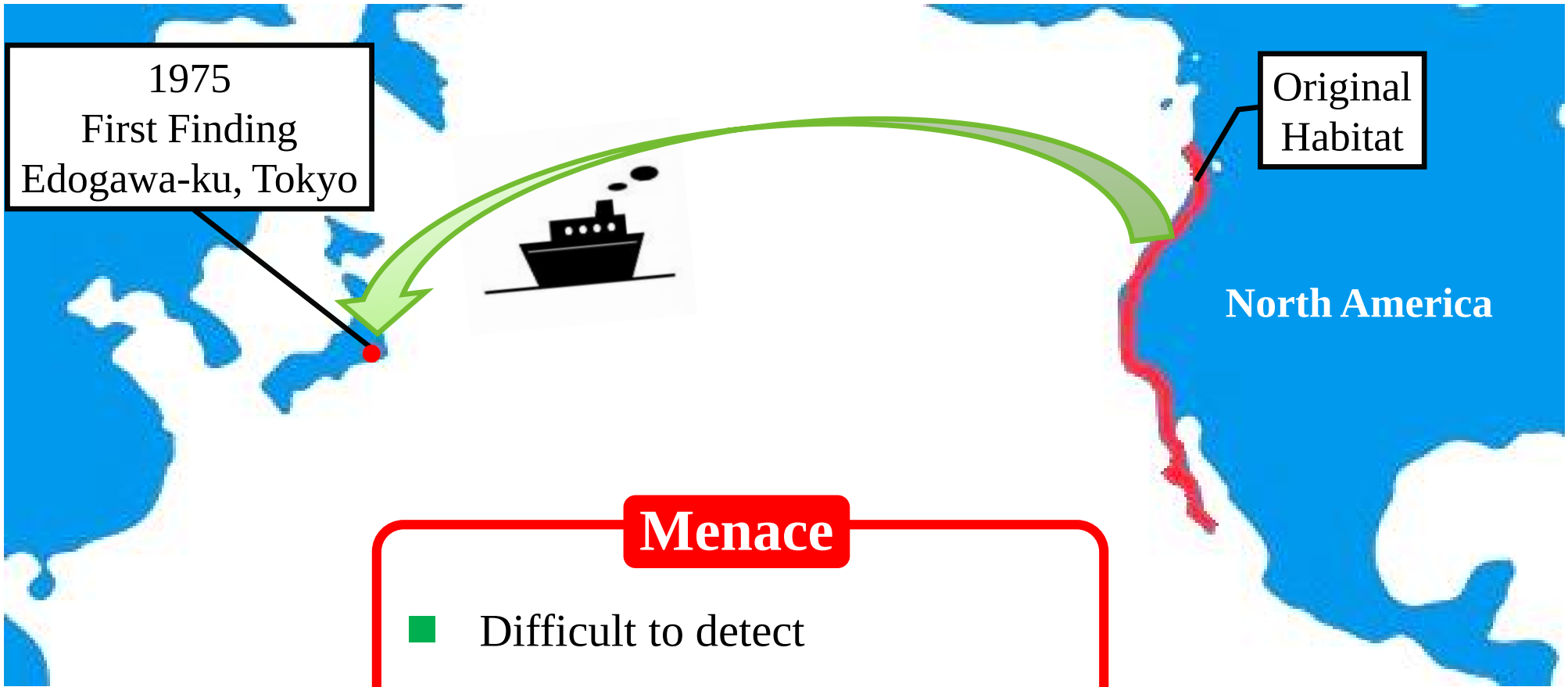
- Japan has 24 species, but pests are primarily 4.
- Excluding some part of Hokkaido, they are distributed throughout Japan.

**Distribution of Major Termite Types in Japan**




Reference: The Japan Termite Control Association,
"Fundamental Knowledge on Termite Control and Rot Prevention" (Jan. 2017)

# Termites 2 ( Alien Species Western Dry-wood Termite )




**Menace**

- Difficult to detect
- Cause tremendous damage
- Difficult to prevent invasion

**Non-destructive inspection by detection dogs is effective**

# Termites 3 ( Inhabiting Form )

## Nest of termites

- **Japanese Subterranean Termite**
  Several tens of thousand
  to several hundreds of thousand
- **Formosan Subterranean Termite**
  Sometimes reach over 1 million



Reference: The Japan Termite Control Association
"Fundamental Knowledge on Termite Control and Rot Prevention" (Jan. 2017)

## Swarming Periods

- **Japanese Subterranean Termite**
  Late April – June
- **Formosan Subterranean Termite**
  June– early July
- **Occurs from the south and goes north**



Reference: The Japan Termite Control Association
"Fundamental Knowledge on Termite Control and Rot Prevention" (Jan. 2017)

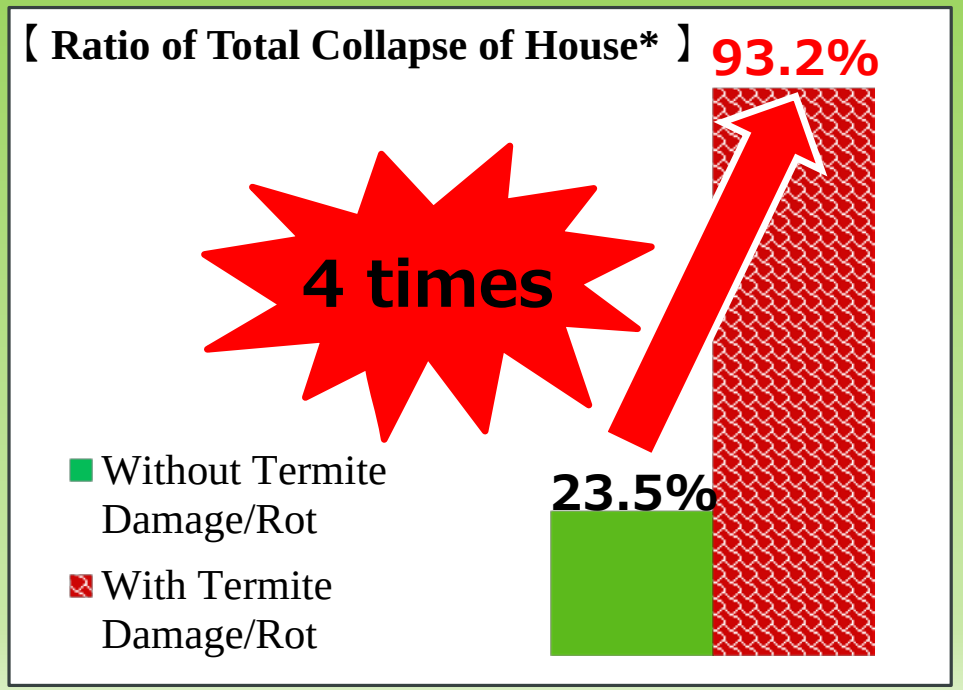
# Termites 4 ( Risk to Human Life )

**Earthquake ➡ Building Collapse ➡ Risk to Human Life**





■ Damage from the Great Hanshin-Awaji Earthquake




*Reference: Investigative Committee on Earthquake Damage to Wooden Houses (October 1995) “Report on Study of Disaster Damage of Wooden Houses, etc., in the 1995 Great Hanshin-Awaji Earthquake”

# Termites 5 ( Damage to Cultural Heritages )

**We want to accomplish responsibility to pass onto next generation**

- **Katsura Imperial Villa** Unprecedented major repair (1976)

  Termite damage with sinking its floors, and it was required major repairs in the Showa era.

- **Statues of Ni-ō guardian dieties at Todai-ji Great South Gate** Major repair (1988)

  Termite damage in bases of two wooden statues of Ni-ō guardian dieties, the largest in the world.

- **Kiyomizu Temple** Termites damage the "**stage**" (2011)

  Termite damage and rot in pillars supporting "Kiyomizu stage" led to support joints becoming necessary.

- **East tower of Yakushiji Temple** Termite damage led to reinforcement with Japanese cypress components (2014)

  Termite damage reached 2.7 m of the lowest part of central pillar in spire and formed a hollow.

- **Itsukushima Shrine** Termite damage on main pillars, etc. (2020)

  Inside the pillars, the termite damage was more advanced than expected. Some parts have a quarter of the diameter removed.

# Public Relations 1 ( Detection Dog Team “Kunkuns” 1 )

## First-Time Initiative in Japan
## ・・・They “smell” to find termites or bedbugs

Asante’s Detection Dog Team “Kunkuns”



# Public Relations 2 ( Detection Dog Team “Kunkuns” 2 )

## Activity Results of “Kunkuns”



Training with the handler



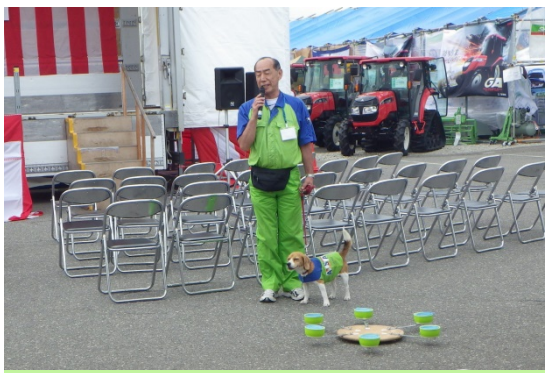
Inspection at hotel or house



Inspection in remote island




Media exposure



Participation in events



Asante Inc.

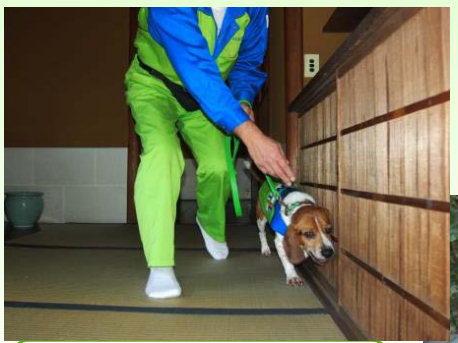
# Public Relations 3

## Project on Shinto Shrines and Buddhist Temples

- Pass our cultural heritage to the next generation
- Draw attention to the importance of termite control



Tsuruga Kehi Shrine



Konomiya Owariokunitamata Shrine

Shizuoka Sengen Shrine



## Development of Termite Control Robots

- Support project of METI*
- Application to business of the robot technology (RT)



The Latest Model "Mirubo IV"



Demonstration in Shitennoji (2008)

*METI…Ministry of Economy, Trade and Industry

# Public Relations 4

## Public Seminar

Initiatives since 2012

- Aim to raise the public's awareness of our industry by using mass media
- Initiatives as the industry leader

April 18, 2019

6th Termite public seminar



Lecturer: Wakako Ohmura
Forestry and Forest Products Research Institute,
Department of Wood Improvement,
Director of Department of Wood Improvement

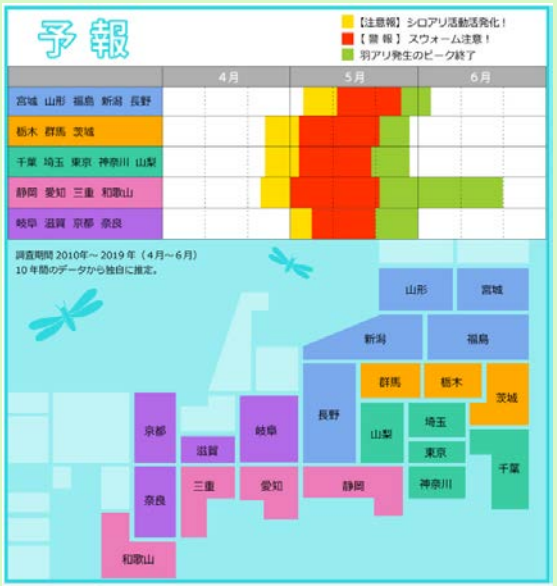


Demonstration of new termite detection dog

## Termite Warning

Initiatives since 2007

- Announce termite forecasts, alerts and warnings based on its own database
- For this fiscal year, it disclosed on April 23, 2020

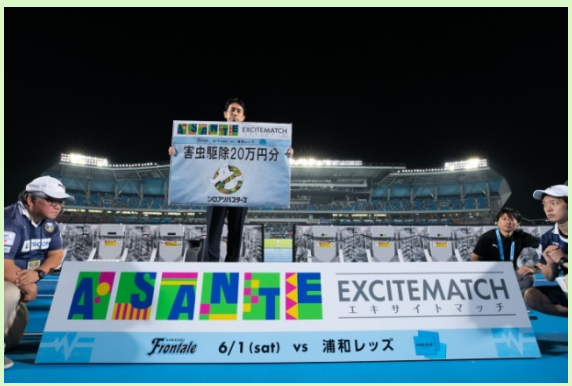



Termite Warning

# Advertising and Sales Promotion

## Sponsorship

- Signed a sponsorship deal with Kawasaki Frontale
  (2020 Meiji Yasuda Life Insurance J1 League)









© KAWASAKI FRONTALE CO.,LTD

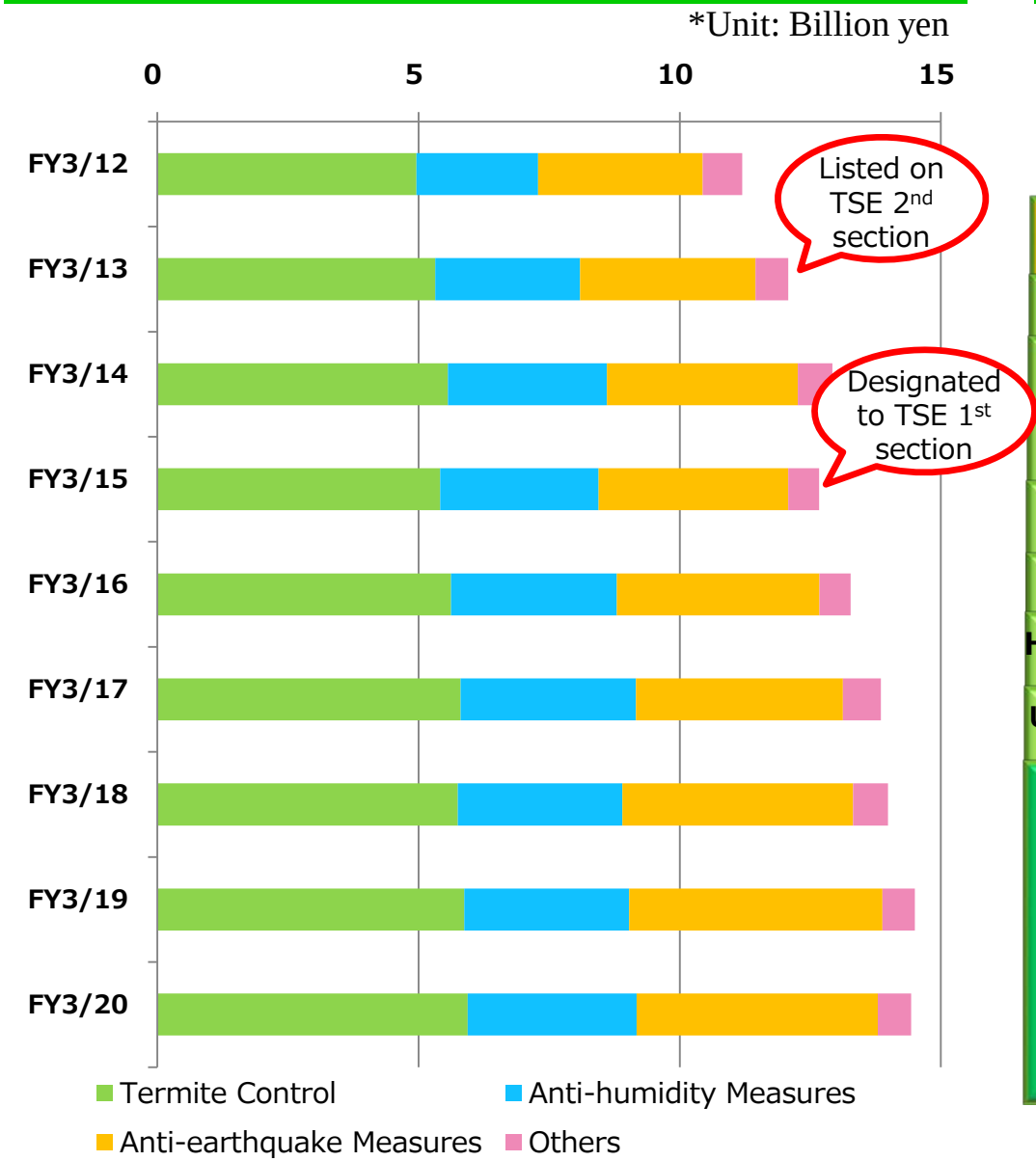
## TV commercial
## Leaflets & web advertisements





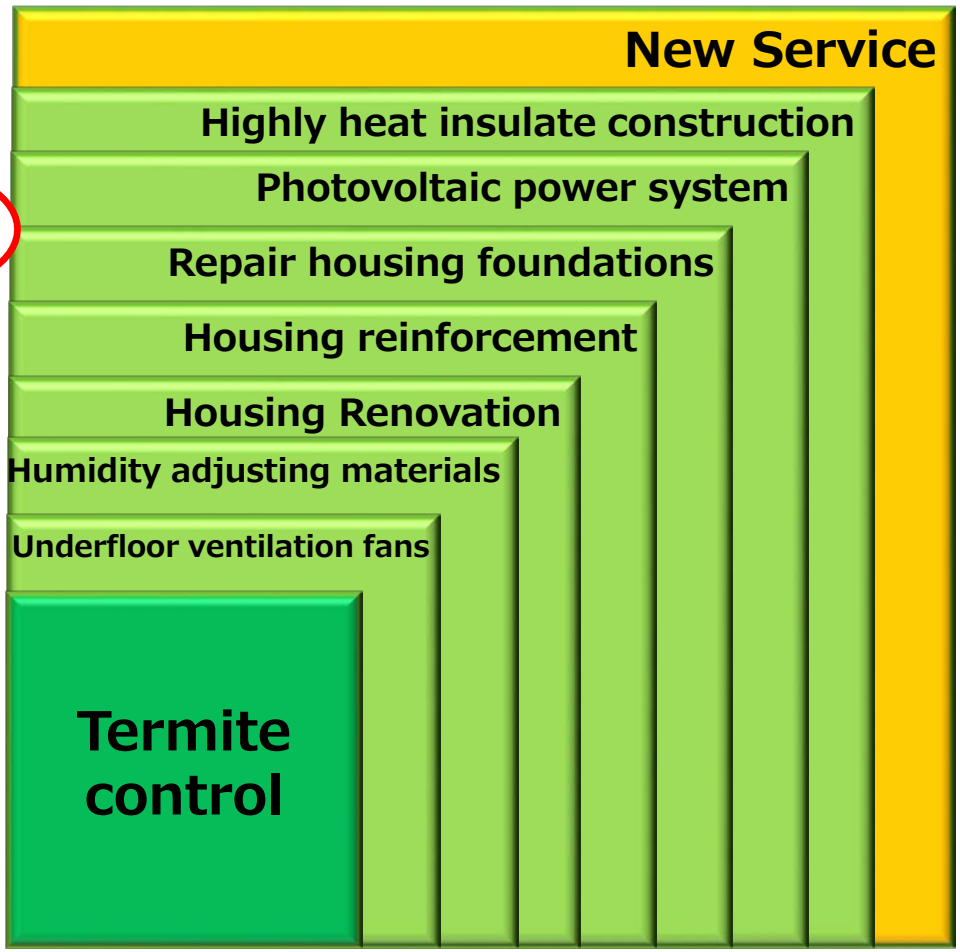

# Growth Strategy 1 ( Direction of the Service Field Expansion )

## Change of Net Sales by Service




## Expansion of the Field of Service

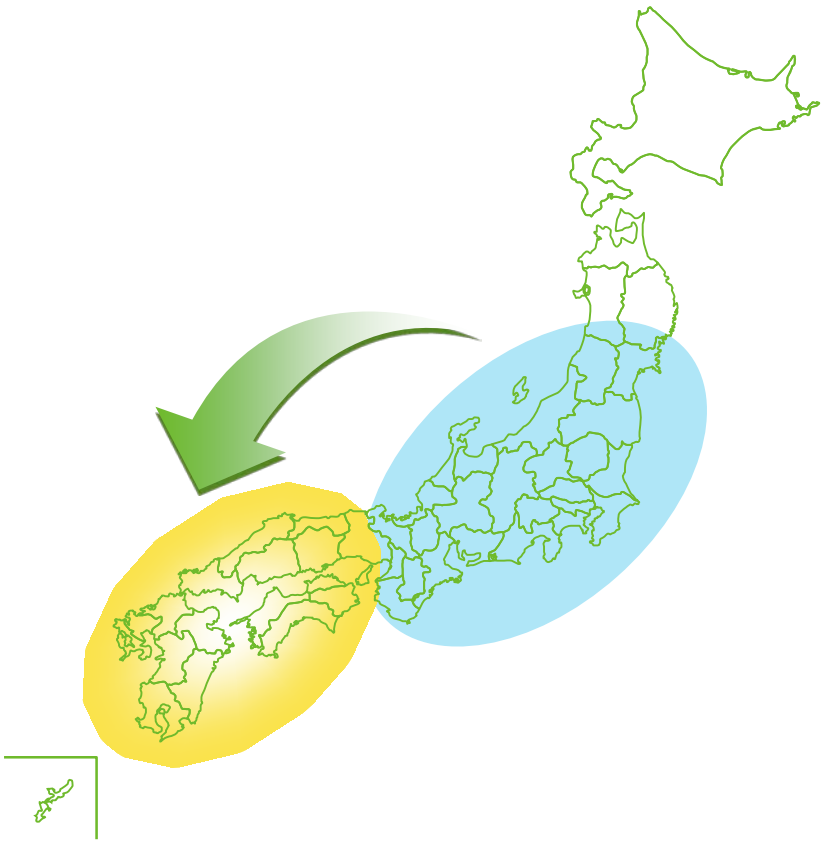
- Lineup of house maintenance services



# Growth Strategy 2 ( Direction of the Area Expansion )

## Expansion of marketing areas

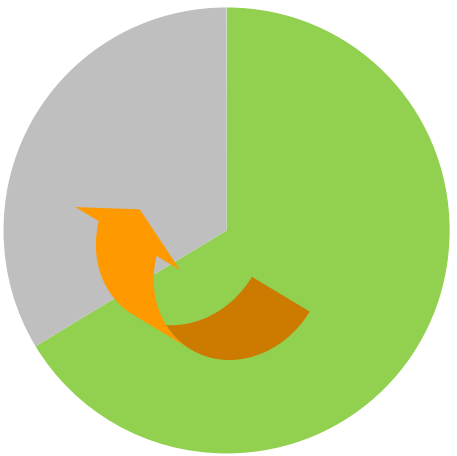
- Expand in to the west of Kansai
- Develop areas in tie-ups with JA



## 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】

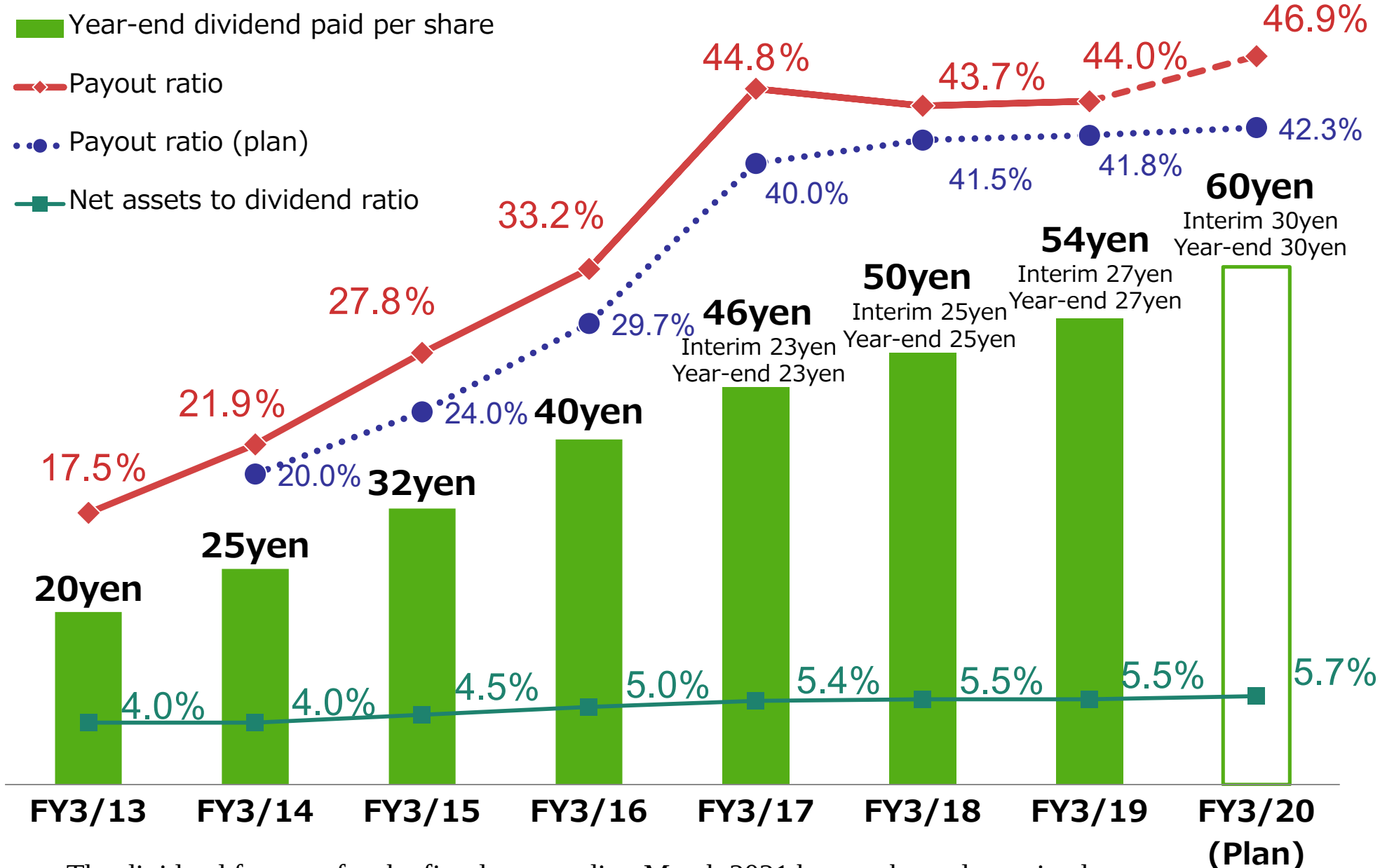
- **Expand areas** across the country
- Securing and fostering of **excellent human resources**
- Maintenance and improvement of **competitive advantage**
- Enhancement of **productivity**

【Target vision】

Realize a sustainable and stable growth

**To a house maintenance industry-leading company**

# Dividend




- The dividend forecast for the fiscal year ending March 2021 has not been determined yet.

# Stock Information (Special Benefit for Shareholders / Dividend yield)

## ◆ Special Benefit for Shareholders

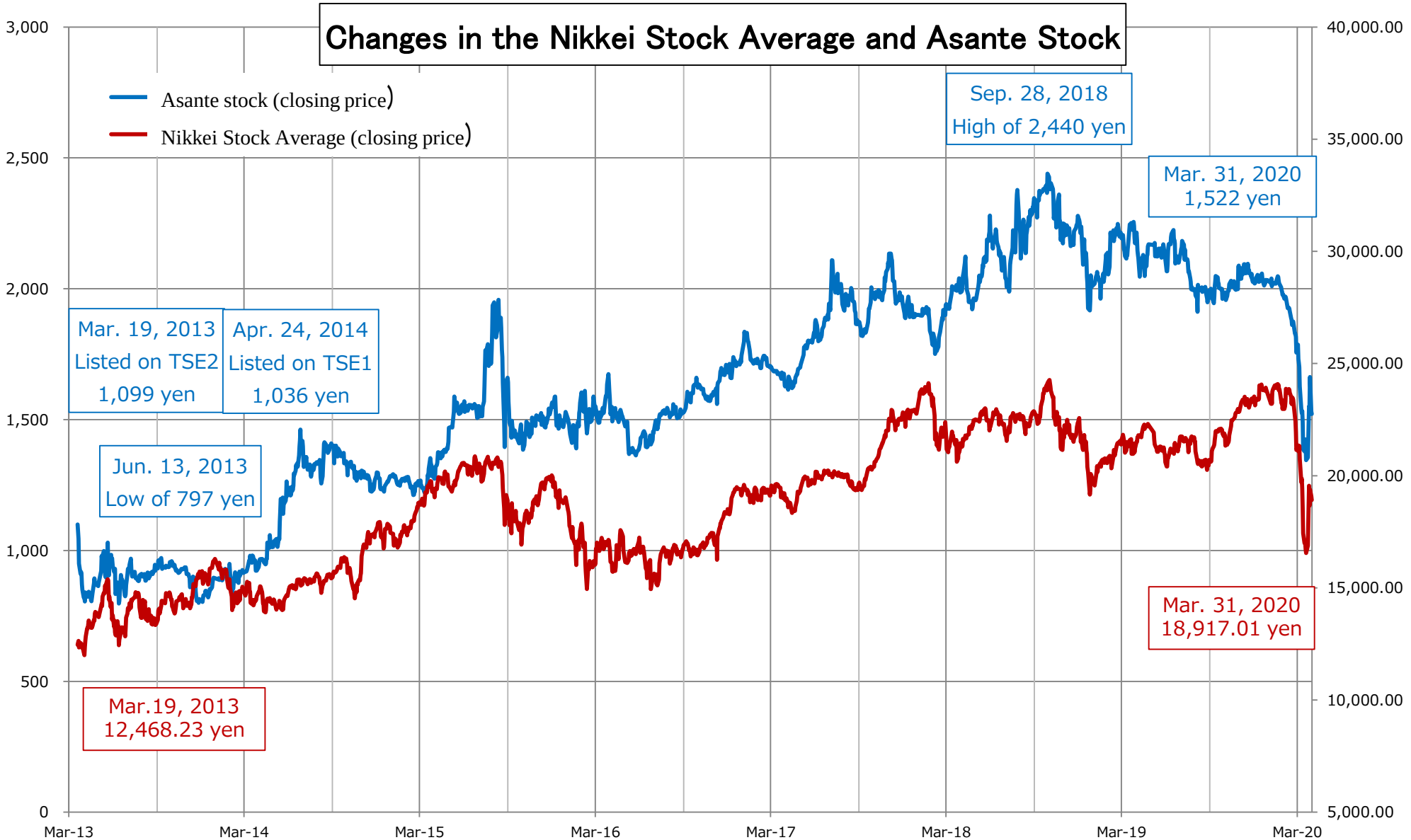
- Eligible shareholders : For shareholders with 1 or more share unit(s) at the end of March or September
- Special Benefit : Gift of a 1,000 yen Mitsubishi UFJ NICOS gift card
- Delivery Period : Planned to be sent in June and December of every year

## ◆ Dividend yield

| | |
|---|---|
| Stock price (closing price as of January 31, 2020) | 1,522 yen |
| Trading unit | 100 shares |
| Annual dividend (forecast)（Interim: 30 yen, year-end: 30 yen） | 60 yen |
| **Annual dividend yield (forecast)** | **3.9 %** |
| Special Benefit for Shareholders (1,000 yen gift card/ twice a year) | 2,000 yen |
| 【Ref.】**Annual dividend yield of 「Dividend＋Shareholder benefit」*** | **5.3 %** |

*when holding one trading unit for one year

# Changes in Stock Prices



Notes on Future Forecasts

This document is only to provide information to investors, and is not for the purpose of soliciting purchases or sales.

References to future forecasts in this document are based on goals and predictions, and are not certain or guaranteed.

When using this document, please be aware that the future results of the Company may differ from the current forecasts made by the Company.

Also, for references to the industry, etc., data thought to be trustworthy is used, but the Company provides no guarantees as to its accuracy or completeness.

No matter what purpose investors use this document for, it is provided with the understanding that they will use it based on their own judgment and responsibility, and the Company shall bear no responsibility for its use.

（Last updated May 14, 2020）

**Asante Inc.**