

State of the TERMITE MARKET

EXCLUSIVE MARKET RESEARCH:

- » MARKET FACTORS DRIVING TERMITE SALES
- » TYPES OF TERMITE CONTROL SERVICES OFFERED
- » TERMITE TECHS VS. UNIVERSAL TECHS: WHAT DO YOUR INDUSTRY PEERS PREFER?
- » REVENUE EXPECTATIONS & INVESTMENT LEVELS
- » DO CUSTOMERS UNDERSTAND THE THREAT POSED BY TERMITES TO THEIR HOMES?
- » MARKET OPPORTUNITIES & CHALLENGES

Sponsored by

 **BASF**

We create chemistry

In 2017, a strong economy and healthy housing market had a positive impact on termite control even if swarms weren't as impressive as in the past. This year, PMPs expect another good run, citing creative marketing strategies and new technology that should deliver a competitive edge.



BASF PROFESSIONAL & SPECIALTY SOLUTIONS: Manufacturers of Innovative Termite Solutions and More

BASF Professional & Specialty Solutions is once again pleased to sponsor PCT's "State of the Termite Market" report. It's no secret termites are among the most destructive pests encountered by consumers and PMPs alike. Fortunately, BASF offers the industry's most comprehensive portfolio of products to address virtually any termite control need, including our flagship product **Termidor**®.

Since the introduction of this groundbreaking termiticide in 2000, BASF has continued to invest in the brand, developing advanced formulations and cutting-edge equipment designed to enhance the value of the **Termidor**® product line.

As a result, the **Termidor**® family of products now includes **Termidor**® High-Efficiency Termiticide, **Termidor**® Foam Termiticide/Insecticide, **Termidor**® Dry Termiticide, and **Termidor**® 80 WG, as well as **Termidor**® HP High-Precision Termiticide and the **Termidor**® HP High-Precision Injection System.

The **Termidor**® HP High-Precision Injection System provides control of termites with a completely different application method that places **Termidor**® HP High-Precision Termiticide in precise, measured doses around a structure. Why is that significant? The injection system uses less water, minimizes landscape disruption, and reduces labor-intensive trenching and rodding, making it a cost-effective and environmentally sensitive addition to any PMP's control arsenal.

If termite baiting is your preference, BASF has you covered there as well. The **Trelona**® Advance Termite Bait System (ATBS) features the new active ingredient, novaluron, which provides faster termite discovery, leading to faster bait consumption and faster colony elimination. In addition, a new annual inspection label means year-round protection, freeing your business to operate even more efficiently and cost-effectively.

Best of all is the independence and control **Trelona**® ATBS gives back to you, the professional. When you own the equipment and customer accounts, you aren't a middleman any longer – you're in full control of your business.

And every BASF termite control solution comes with superior customer support, including web-based training, consumer advertising, label updates, marketing materials and more. It all adds up to a business partner that is singularly focused on your company's success in 2018!

Sincerely,

Jonathan K. Sweat

Jonathan K. Sweat
Director, BASF Professional & Specialty Solutions



Jonathan K. Sweat



2018 State of the TERMITE CONTROL MARKET

The pest management industry has great expectations for the 2018 termite season. Why so positive? The housing market is strong and the industry has access to a variety of products that work well. The downside? Pricing seems weak and customers don't seem to understand the threat of these wood-destroying pests.

In 2017, a strong economy and healthy housing market had a positive impact on termite control — even if swarms weren't as impressive as in the past. This year, pest management professionals expect another good run, citing creative marketing strategies and new technology that should deliver a competitive edge.

STRONG HOUSING MARKET A BOON TO TERMITE CONTROL

“It's been a while” since real estate has played such a role in the termite business, said Emilio Polce, president of EcoChoice Termite and Pest Control in Coventry, Conn.

But play it did: More than a third (31 percent) of pest management professionals cited an improving housing market and 19 percent cited an improving economy (up from 12.5 percent in 2016) as the primary factors driving termite service sales last year, according to the PCT 2018 State of the Termite Control Market survey.

PMPs said they performed more wood-destroying insect/organism reports

(and corrective termite treatments as a result) to close real estate transactions last year than many had done since the housing crash of 2008. Confidence in the economy also led more customers to remodel homes (during which they found termites) and to invest in termite protection.

As such, 51 percent of PMPs reported that revenue generated from termite control services increased somewhat or significantly over the past three years, found the survey. More than a third (36 percent) said termite control was somewhat or

much more significant to the company's bottom line than five years ago.

On average, termite control services made up more than a quarter (25.4 percent) of overall revenue at companies performing termite work in 2017; 63 percent of PMPs reported this revenue as less than \$100,000.

For Doug Foster, president of Burt's Pest Control in Columbus, Ind., 2017 was a record-setting year with termite revenue up almost 16 percent. He said colleagues around the Midwest reported having a “fantastic year” for termite control, as well, helped in part by conducive weather conditions that led to more swarms. For 17 percent of PMPs, increased termite swarm activity was a key business driver last year (up from 11 percent in 2016).

ABOUT THE SURVEY

The PCT 2018 State of the Termite Control Market survey was sponsored by BASF and compiled by Readex Research, a privately held research firm based in Stillwater, Minn.

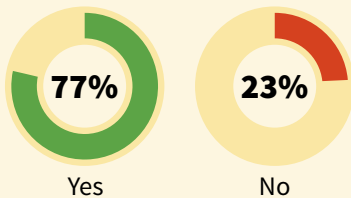
A sample of 2,870 owners, operators and executives of pest control businesses was systematically selected from the PCT database. Data was collected from 255 respondents — an 8.9 percent response rate — via an online survey from Dec. 7 to 18, 2017. Fifty-eight respondents who indicated their companies do not offer termite control services were then eliminated from the survey. The margin of error for percentages based on the remaining 197 respondents is plus or minus 6.9 percentage points at the 95 percent confidence level.

Results may not add up to 100 percent due to rounding.



More than three-quarters of companies offer termite control services

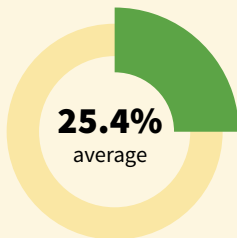
Does your company location offer termite control services?



Number of respondents: 255

Revenue generated from termite services

What percentage of your location's overall 2017 revenue was derived from termite control services?



Number of respondents offering termite control services: 197

NOT WITHOUT CHALLENGES

Overall, though, fewer PMPs said favorable weather conditions aided their termite business (20 percent vs. 26.5 percent in 2016). Nearly half (46 percent) said swarm activity in 2017 was average; 39 percent said it was below average.

"I really had anticipated bigger swarm calls what with the mild winter that we had," recalled Darren Gooch, owner of Zoellner Exterminating in Catoosa, Okla.

"Not having the people to do the work" frustrated Jim Dye, owner of Pest Pros in Deming, New Mexico. Termite revenue was less than 10 percent last year but could have been better if not for high employee turnover these past five years, much of it due to new hires' unrealistic wage expectations, he said.

Likewise, it was difficult to find experienced repair technicians for Take Care Termite & Pest Control in Tracy, Calif. Thirty-nine percent of the company's 2017 revenue came from repairing damage caused by termites, dry rot, fungus and moisture, but workers skilled in the building trades were lured away by big developers to San Francisco with higher wages, said Owner Ray Carrier.

Slightly fewer PMPs said termite control was a significant part of business in 2017: 59 percent compared to 64 percent in 2016, found the survey. This may be due to more companies diversifying their service offerings. At Breda Pest Management in Loganville, Ga., termite control "runs king around here," accounting for 45 percent of company revenue, but wild-life control "is getting close" to becoming the top revenue generator, said Vice President Matt Breda.

Pricing woes also may have had an impact. "You may be doing more termite work but you're not getting as much money" for it, explained Polce. He said the average termite job in Connecticut in 2002 was \$1,900; in 2017, the same job was \$1,100 or \$1,200 "if you were lucky" and some companies were pricing it at \$999 or \$700. "We've gone in the wrong direction," he said.

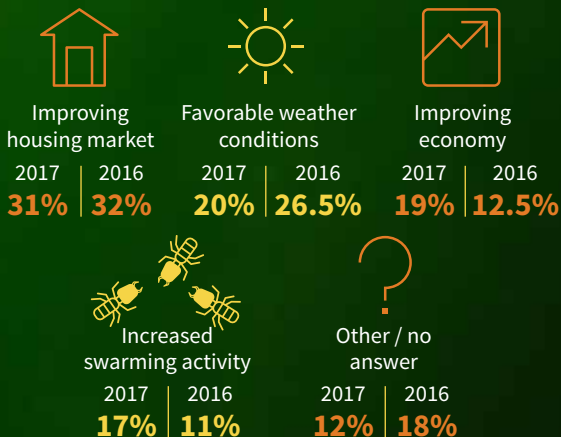
Gooch agreed: "Over the course of my 30-year career in pest control, termite prices have continued to go down," when you'd expect inflation to make them go up. "I don't understand our industry in this aspect at all," he said.

The average charge for a typical pre-con-



Key factors driving termite service sales

In your opinion, what is the primary factor driving termite service sales in your market area?



Number of respondents offering termite control services: 197



struction termite job was \$636 and a typical post-construction termite treatment was \$971, found the survey. More than half (55 percent) of PMPs expected prices to remain the same in 2018; 39 percent thought they would increase slightly.

Polce doesn't want to get into a price war with competitors as he feels his service is worth it. "We're not going to give it away" for a lower price and so they will walk away from some jobs, he explained.

**POWERFUL PRODUCTS;
A SUBTLE SHIFT IN PRE-TREATS**

According to the PCT survey, 92 percent of pest management professionals agree that termite products currently on the market are highly effective. "I think we've got some pretty good options out there," said Charles Osborne, owner of Osborne Pest Management in Colorado Springs, Colo.

Because customers have different termite control needs and price points, 48 percent of PMPs surveyed offer both liquid and bait treatment options. Less than half (45 percent) of PMPs offer liquid treatment only; 6 percent offer bait treatment only.

To accommodate "green folks" in Colorado, Osborne made "a conscious choice" to use either baits, a high-efficiency liquid termiticide that requires less water or a low-rate liquid that doesn't carry a signal word on its label.

Liquid termiticide was the primary method of termite control used by 57 percent of PMPs, found the survey. Twelve percent used baits only and about a quarter (27 percent) used a combination of bait and liquid treatments. Osborne uses both at homes where termite pressure is high and conducive conditions increase the likelihood of an infestation.

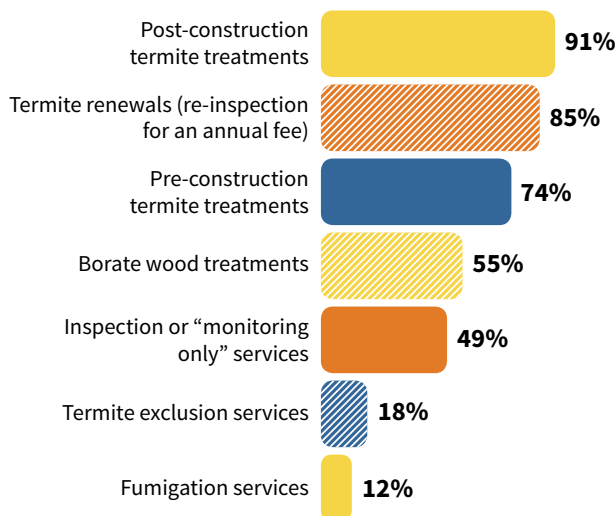
PMPs aren't overly concerned about

callbacks, in part, because they're so low: 89 percent said their callback rates were zero or 1 to 2 percent. More than one-third (34 percent) of PMPs offer termite damage warranties.

The types of termite services offered didn't much change from 2016, but follow-up interviews did identify a subtle shift: PMPs reported performing more liquid soil pretreatments for commercial buildings like restaurants, apartment complexes and senior living facilities.

Residential pretreats, on the other hand, have "never really come back" since the housing crash of 2008, said Phil Clegg, president of Durham, N.C.-based Clegg's

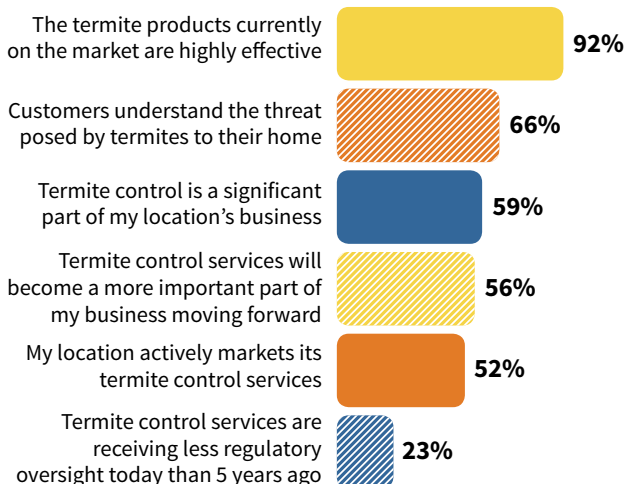
Types of termite control services offered



Number of respondents offering termite control services: 197

Products, customers, marketing

Percentage of PMPs who 'Strongly Agree' or 'Agree' with each of the following statements:

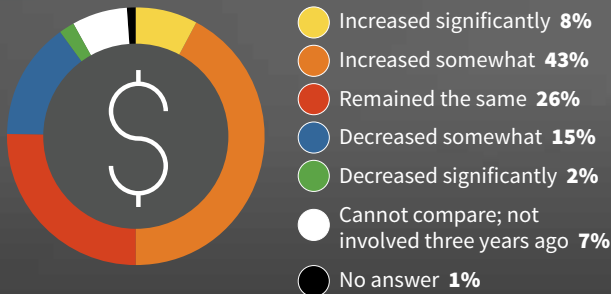


Number of respondents offering termite control services: 197

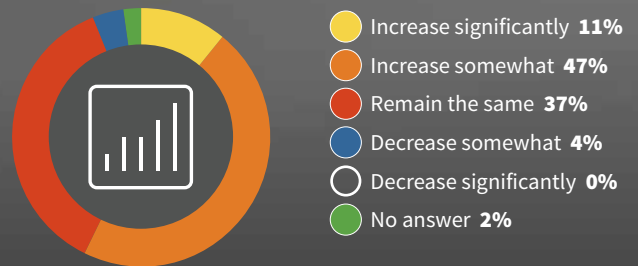


PMPs say termite revenue grew last year... and expect more in 2018

In the past three years, has the percentage of your location's revenue generated from its termite control services increased, remained the same or decreased?



Do you anticipate the percentage of your location's revenue generated from termite control services to increase, remain the same or decrease in 2018?



Number of respondents offering termite control services: 197

Termite & Pest, where termite work accounts for 40 percent of total revenue.

Instead, companies like Pest Pros and Burt's Pest Control are doing more residential borate treatments, where wood joists, studs and sill plates are treated with a borate wood preservative to prevent wood-destroying insect damage. It's made offering pretreat service "a lot more attractive to us" as "you don't need near the equipment," nor the man-hours to perform the work, said Foster. Builders consider it a "value-added" service, especially where soil pretreatments are not required, added Dye.

Carrier worries about the future of fumigation for drywood termites, which is under pressure following several high-profile

misapplications that generated extensive media coverage. The accompanying regulatory review of fumigation practices could result in increased buffer zones that impact neighbors or require longer aeration times, which would increase costs, he said.

Spot or direct injection treatment for drywood termites isn't always effective due to the targeted nature of the treatment and the requirement to detect active termite galleries in wood, yet customers often demand this over fumigation, added Chris Cavanagh, vice president, Petri Pest Control Services. Drywood termites account for 85 percent of termite jobs at the Pompano Beach, Fla., company, which is trying "to find the correct balance" between these two treatment methods, said Cavanagh.

Twelve percent of pest management professionals reported they subcontract termite control services to other companies.

MAKING THE MARKET

Customers understand the threat posed by termites to their homes, claimed 66 percent of PMPs in the PCT survey; 52 percent said they actively market their termite control services. Still, selling termite prevention, converting one-time work to recurring revenue and retaining a high renewal rate for liquid treatments remain a challenge, said PMPs in follow-up interviews.

"We've tried all number of ways to show the value of an annual inspection" and of

bait systems and conventional liquid treatment, but customers — especially younger ones — don't see the value of an annual renewal; they know the chemical stays active in the ground for 10 to 15 years, said Foster.

People get a termite letter because they're required to but "what you hear a lot of" is that they don't need termite protection because they don't have any termites, added Breda.

Building referral networks helped pest management professionals grow the busi-

GREAT EXPECTATIONS

"I'm really excited about the 2018 termite season; I can't wait to see how it plays out," said Gooch. Foster feels "really positive," as well. They're not alone. According to the PCT survey, 58 percent of PMPs anticipate termite revenue to increase somewhat or significantly this year.

Working toward "another great year," Polce will continue to "push our bundles," the company's "biggest growth" potential. Osborne anticipated that his year would kick off with "Christmas calls," caused

Compared to last year, 47 percent of PMPs expect to invest somewhat or significantly more in their termite business.

ness. Gooch gets a lot of crawlspace work from competitors who no longer perform this type of service. Foster networks heavily with builders, real estate agents and tradespeople. Relationships with home inspectors have been "a fantastic opportunity for us; we've gotten termite work from every single one in our area," he said.

Similarly, "social media is huge" as online referrals spurred new clients to call, said Gooch, who has a strong showing of five-star reviews on Google. He hopes these reviews "will continue to increase my market share of termite work" in 2018.

To boost liquid termiticide renewals, Breda locked in customers' annual renewal rates for 10 years. His radio ads in Metro Atlanta ask: Does your termite renewal increase every year? Is it over \$300? The campaign has been "a home run the past two years," he said. Breda also plans to do more off-season termite promotions in 2018.

Polce of EcoChoice Termite and Pest Control bundled liquid and bait termite services with pest control. "As long as you maintain your quarterly service, you're covered for termites, so there's really no 'renewal'" as the cost is spread out over the year, he explained. As such, he eliminated the word renewal from his marketing materials and replaced it with termite "service."

when people pull holiday decorations out of crawlspaces and find boxes eaten up by termites.

Invasive termite species will create opportunities in South Florida, said Cavanaugh of Petri Pest Control Services. As Formosan and Asian species "continue to spread and multiply through our service area, we expect this to become a much larger part of our business," he said. Conehead termites also may play a role.

Compared to last year, 47 percent of PMPs expect to invest somewhat or significantly more in their termite business; about an equal amount (49 percent) expect investments to remain the same, found the survey.

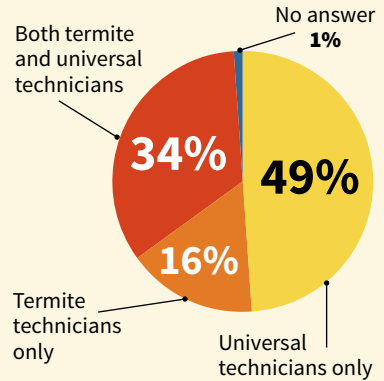
Despite last year's labor difficulties, Pest Pros is staffed today at "120 percent," which "more than doubles my flexibility" to take on more termite work and to actively market termite services, said Dye. His technicians perform both termite and general pest control, like the technicians of nearly half (49 percent) of PMPs surveyed.

Carrier said termite work will be "a bigger part of my business" in 2018; 56 percent of PMPs surveyed agreed that it will become a more important part of the business going forward.

Termite control has been the core business of Burt's Pest Control for 40 years "and from what I can see, it will continue to be," said Foster. ■

Most technicians do it all

Do you use fully dedicated termite technicians or universal technicians (those providing both general pest control and termite control services) to perform your location's termite work?

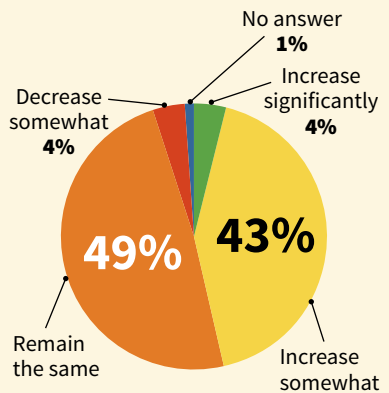


Number of respondents offering termite control services: 197



Investing in your termite business?

Compared with 2017, do you anticipate your location's investment in its termite business (e.g., products, equipment, marketing) will increase, remain the same, or decrease in 2018?



Number of respondents offering termite control services: 197

BASF
We create chemistry

**Get ready for
a changing
of the guard.**

Trelona ATBS
Annual Bait Stations



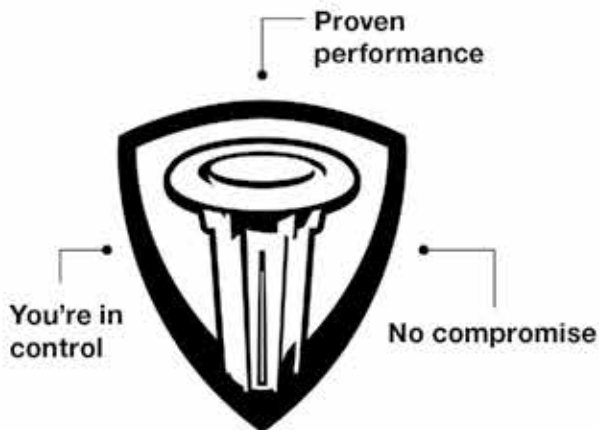
Find termites faster without compromise.

It's time to rethink which baiting system should be #1, because **Trelona® ATBS** Advance® Termite Baiting System is setting a high bar. Through superior design, termites find **Trelona ATBS** stations faster* than their Sentricon® counterparts.

Plus, a new annual inspection label means year-round protection, freeing businesses to operate even more efficiently.

Best of all is the independence and control **Trelona ATBS** gives back to you, the professional. When you own the equipment and customer accounts, you aren't a middleman any longer — you're in full control of your business.

To learn more, visit trelonaatbs.com.



*2012 University of Delaware study of active termites within one-half meter of both Sentricon® and Trelona ATBS stations. Always read and follow label directions.

Advance® and Trelona® are registered trademarks of BASF Corporation. Sentricon is a trademark of The Dow Chemical Company. © 2018 BASF Corporation