

# Pest Control Services

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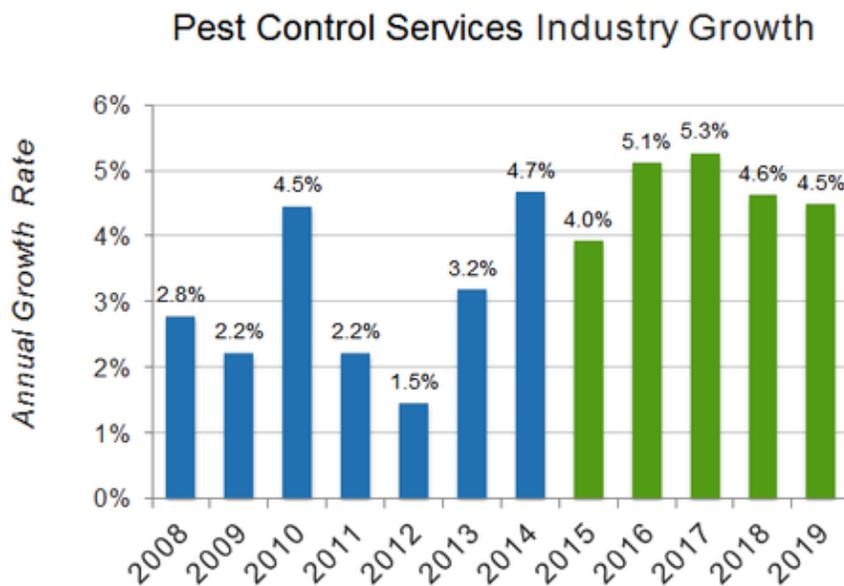
# Industry Forecast and Structure

## Industry Forecast

Sales for U.S. pest control services are forecast to grow at a 4.48% compounded annual rate from 2012 to 2019, comparable to the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the U.S. economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: January 2015

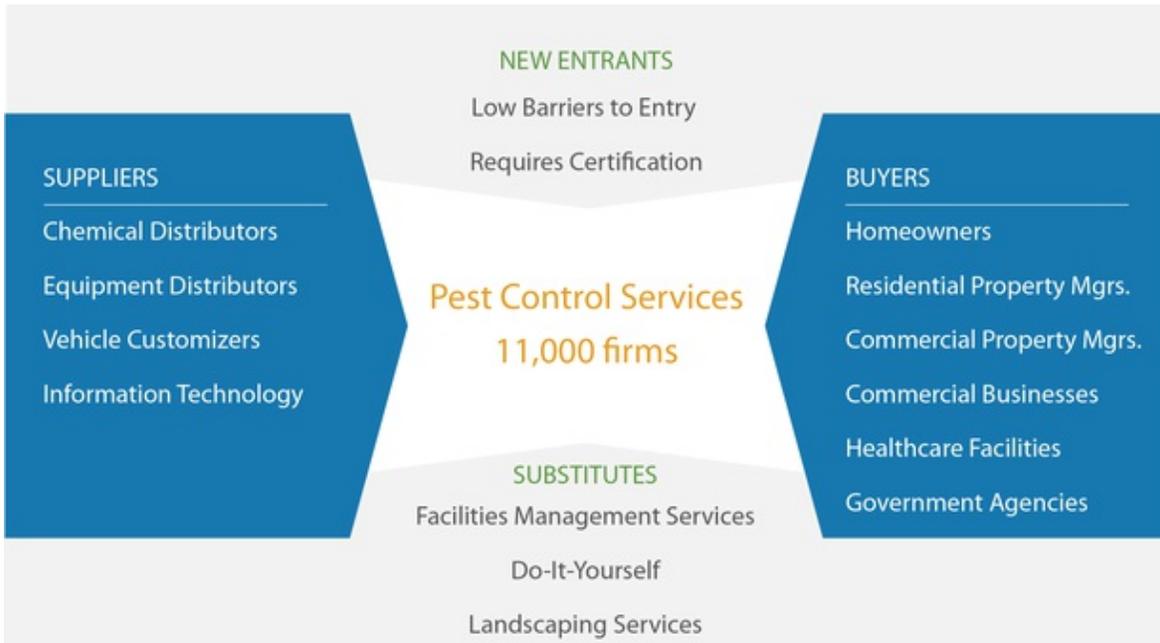


## Industry Size and Structure

The average pest control services provider operates out of a single location, employs 9-10 workers, and generates about \$930,000 annually.

- The pest control services industry consists of about 11,000 companies that employ about 106,000 workers and generate about \$10 billion annually.
- The industry is concentrated at the top and fragmented at the bottom; the top four firms account for about a quarter of industry sales. The majority of pest control service providers are small, independent companies or franchises.

- Large companies include Rollins (Orkin) and divisions of ServiceMaster (Terminix).



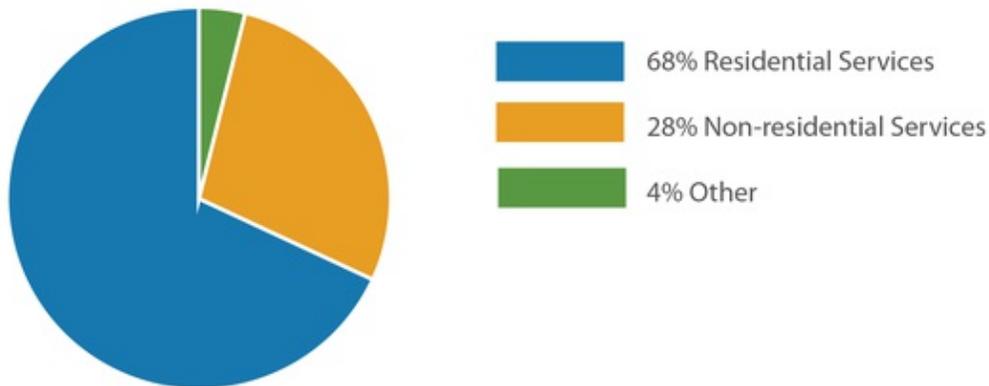
# How Firms Operate

## Products and Operations

Pest control service providers exterminate and control the presence of unwanted creatures, such as insects, rodents, or other small animals.

- Companies may specialize in residential or non-residential services. Providers may also specialize in a particular industry, such as food manufacturing or health care.
- Common pests include roaches, mice, rats, termites, ants, fleas, ticks, spiders, and silverfish.

### Pest Control Services Revenue



Companies identify pest problems, inspect properties for infestation, and develop and execute plans to eliminate or control pests. Technicians apply chemicals, set and bait traps, or create barriers to separate pests from buildings. Providers that specialize in termite control may offer structural repair services. Companies may use fumigants (poisonous gases) to treat serious infestations. Fumigation involves sealing a building and filling the building with fumigants to kill pests. Providing service may involve single or periodic applications, depending on the type of problem. Severe infestations often require multiple treatments. Termite control can involve the installation of monitoring stations and monitoring services over a period of time.

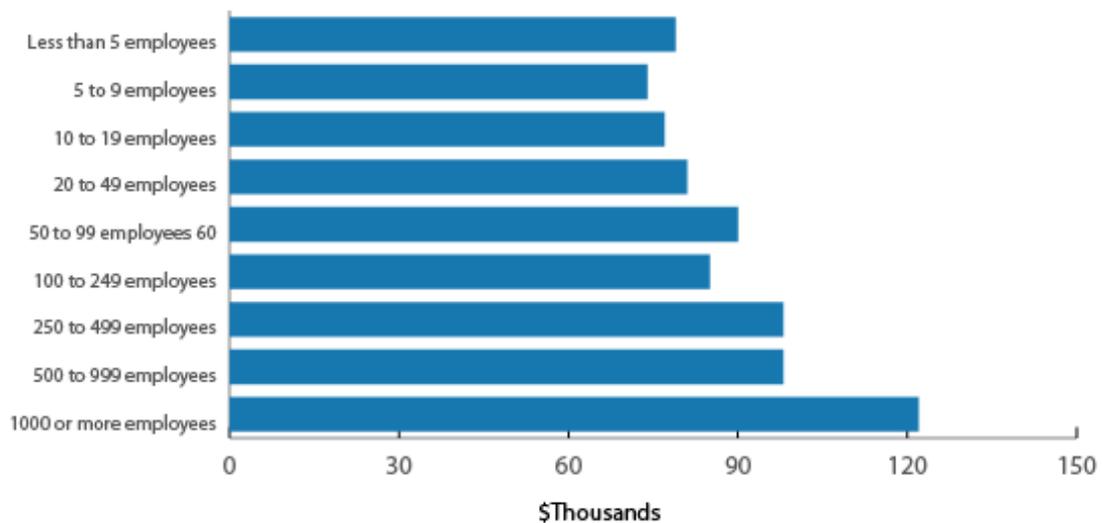
Pesticides are formulated to target a particular type of pest and eliminate infestation through a variety of methods. For example, rodenticides are poisons formulated to kill mice and rats. Insect growth regulators (IGR) control insect populations by interrupting or inhibiting the life cycle. Other insecticides affect the nervous systems of pests. Pesticides come in various forms, including gases, liquids, aerosols, dusts, powders, pastes, pellets, gels, and granules. Application can involve sprayers, foggers, or misters. Companies may also use traps, such as glue/sticky traps, light traps, or other devices.

Integrated Pest Management (IPM) is a pest control system that involves inspection, identification, and treatment methods specific to each situation. Treatment includes chemical and non-chemical solutions. For example, companies may recommend better sanitation procedures to eliminate food supplies for offending pests. Sealing gaps around plumbing, wall outlets, and switch plates can prevent pest migration.

Marketing and promotional vehicles include local television, print, and radio advertising; direct mail; and online/Internet programs. Some companies are experimenting with social media. Few companies are large enough to justify national marketing campaigns. Referrals are an important source of leads and new business. Companies often depend on relationships with builders and contractors for termite pre-treatment work on new construction.

Technicians are typically trained and licensed to use pesticides. Because pesticides are toxic, workers wear protective gear, such as respirators, gloves, and goggles. Inspecting sites may require workers to crawl in tight spaces.

### Revenue Per Employee by Firm Size



### Profit Drivers

Pest control services increase profitability when they grow their customer base, efficiently schedule technicians, and manage staffing levels to match demand.

#### Growing Customer Base

Pest control companies provide one-time and recurring treatments to residential and non-residential customers. Increasing the number of customers with annual pest control contracts provides a stable

revenue stream and helps firms efficiently schedule customer services. Companies rely on referrals for new business leads and also invest in local advertising and direct mail programs to reach new customers. They also develop relationships with builders and property management companies to secure termite control and other business.

### Efficiently Scheduling Technicians

Labor is the most significant cost for pest control companies, so they try to maximize the productivity of their technicians. Efficient scheduling and routing of jobs can allow technicians to complete more customer treatments per day. Companies may invest in route scheduling software and GPS systems to boost technician productivity. Having multiple residential contract customers in the same neighborhood can minimize travel time, so companies may offer discounts through homeowner associations or use direct canvassing and referrals to build a critical mass of nearby customers.

### Managing Staffing Levels

Due to seasonal swings in demand for pest control services, companies face challenges in matching staffing levels to customer demand. Pest control companies typically hire part-time workers to handle peaks in demand during the spring and summer months and let them go during the slow winter months. However, firms need to maintain experienced technicians who are licensed in the proper application of pesticides, so they are reluctant to let go of good performers. Having annual pest control contracts with customers can help smooth cash flow and allow firms to maintain a permanent staff year round.

# Working Capital

## Sell and Invoice

Companies generate revenue by providing pest control services to residential and commercial customers. Services include one-time treatments and multiple treatments. Some companies offer annual contracts and provide discounts for pre-payments. The use of medium to long-term contracts helps ensure recurring revenue. Pricing may be based on square footage or an hourly rate. Many companies offer customer credit.

## Collect

Collection periods average 18 to 21 days and receivables average 18-19% of assets. Companies may maintain an allowance for doubtful accounts.

## Manage Cash

Gross margins average 60-63% of sales. Labor is the most significant cost for pest control service providers. Estimating the number of hours required to complete a job is especially important for companies that charge a flat fee. Excessive callbacks to finish incomplete or unsatisfactory work create additional costs and hurt profitability. Efficient scheduling and routing can help generate incremental revenue and minimize fleet management costs. Contract renewals are important to maintaining steady long-term cash flow.

Pest control service providers that provide termite bonds or guarantees typically maintain an accrual to cover future claims. Termite coverage provides for the cost of repairs, reapplications, and settlements. Because the number and size of future claims are based on estimates, expenses could exceed funds set aside to cover costs.

Cash flow is seasonal and affected by weather conditions. The presence and activity level of pests increases in the spring and summer. Extended droughts can reduce the pest population and decrease demand for pest control services. Companies may rely on lines of credit to fund operating expenses through slow winter months.

## Pay

Labor averages 24-25% of sales. Compensation may include commissions. Rent averages 2-3% of sales and advertising averages 1-2% of sales. Other costs include chemicals, fuel, fleet maintenance, and insurance. Franchised pest control service providers may pay an initial fee, royalties, and other fees.

## Report

Operating margins average 6-9% of sales. To evaluate marketing and sales effectiveness, companies may track sales leads and conversion rates. Monitoring the source of leads (referrals, sales staff, direct mail) helps companies determine which marketing vehicles are working. Callback reports

indicate which accounts may be receiving unsatisfactory service. Chemical usage reports detail the time, location, and quantity of pesticides applied, and may be required by state regulators annually. Companies may measure technician productivity by tracking the number of stops completed per day over time.

## Cash Management Challenges

### Cash Shortfalls Driven by Weather Conditions

Demand for pest control services varies depending on weather conditions. Pest activity declines during the winter in cold climates. Periods of extended drought also decrease pest populations and demand for services. Lower revenue during the winter may cause cash shortfalls for firms in covering fixed expenses for facilities, vehicles, insurance, and permanent staff.

### Retaining Qualified Staff

Pest control services require workers who are licensed in the proper application of pesticides. They seek to retain experienced workers, but this can be a challenge given seasonal swings in demand. Firms typically rely on part-time workers to handle peaks in demand during the spring and summer. They may need to convert part-time employees to full-time in order to retain high performers, but this can strain cash flow when demand slows during the winter.

### Funding Investments to Attract New Customers

Pest control services invest in local marketing programs to generate awareness among home owners and businesses and to build relationships with builders and contractors. They may also invest in new services to take advantage of sales opportunities, such as treatments for bed bug infestations. Funding new marketing programs or new services from existing cash flow can be a challenge, particularly during non-peak seasons.

# Capital Financing

Projects that typically require capital financing include the purchase of property, buildings, equipment, vehicles, and information systems. Many pest control service providers rent space to reduce upfront investments. Equipment includes sprayers, foggers, misters, and heaters (for bed bug treatments). Specialized cameras, microwaves, or X-ray technology can help detect the presence of termites. Equipment costs vary – a plastic sprayer can cost less than \$50, while a professional backpack sprayer can cost \$300. Companies may also have significant investments in vehicle fleets to transport equipment and technicians to customer locations. Companies may have vehicles outfitted and dedicated to certain applications – termite trucks are generally larger than standard pest control trucks.

Companies also invest in technology and information systems to help manage day-to-day operations. Programs that automate invoicing, billing, receivables, payables, and other activities allow companies to operate more effectively. Software programs and hand held devices that manage scheduling and routing help optimize technician time and vehicle utilization. GPS-based fleet management systems can improve driver productivity. Wireless technology allows service providers to monitor traps remotely.

Acquisitions are a popular growth strategy for pest care service providers. Many large companies have expanded geographically by purchasing regional providers. In some cases, the acquired company is allowed to keep its original name and staff to maintain continuity with customers.

Large companies rely on debt, stock, cash, or a combination to fund capital projects. Pest control service providers have also become popular acquisition targets for private equity firms in the recent past. Small companies rely on commercial loans, home equity loans, or private investors, for capital funding.

## Examples of Equipment Purchases



### Backpack Sprayer

*\$250 - 300*

Professional quality hand pump backpack sprayer with 2.5 to 5 gallon capacity for applying pesticides.



### Bug Fogger

*\$300 - 350*

1.5 gallon capacity fogger for flying insect control.



### Termite Flow Meter

*\$350 - 400*

Digital flow meter for measuring chemical flow through pipes for termite applications.



### Flashlight Video Recorder

*\$300 - 400*

Long range beam flashlight with built-in digital video recorder for termite and bed bug inspections.



### Pest Control Truck

*\$30,000 - 40,000*

300 gallon fiberglass tank mounted on pickup truck bed with four storage boxes and two reels of 300 feet of 1/2 inch orange spray hose on each reel.

# Risks to Watch Out For

## Business Failure and Merger Rate

### Pest control Services Fail or Merge Less Frequently

The business failure and merger rate for pest control services from the beginning of 2012 to the end of 2013 was 21.54%, lower than the average for all U.S. businesses, according to data from Bizminer. "Business failures and mergers" include those firms that ceased operations during the time period, as well as firms that ceased being independent entities due to merger or acquisition.

## Industry Risks

### Seasonality

Demand for pest control is seasonal, and driven by increases in pest activity. Pest problems tend to occur more frequently during the spring and summer, as bugs seek moisture and warmth. Termites can swarm in the spring, summer, or fall, depending on location and the timing of the change of seasons. Extreme weather, such as droughts, can reduce the pest population in a particular area for an extended period.

### Hazardous Substances

Pest control often involves the application of toxic chemicals that have the potential to harm humans, pets, plants, or the environment. The risk of harm varies depending on the level of toxicity and exposure. Application can create both acute toxicity (short exposure) and chronic toxicity (long term exposure). Because technicians are exposed to pesticides on a regular basis, most receive special training and equipment to minimize risk. Misapplication can result in personal injury or property damage.

### Government Regulation

Because pest control involves toxic substances, the EPA and state governments regulate various elements of operations, including licensing, record keeping, standards of application, training, and product registration. Failure to comply often involves penalties, including fines, corrective action, and license revocation. The EPA can restrict or ban the use of effective pesticides that cause harm to other organisms.

### Competition

Competitors for pest control service providers involve companies in a range of industries, including cleaning and sanitizing services, facilities services, and lawn care. By offering pest control as part of a portfolio of services, large multi-disciplinary competitors attract commercial customers who prefer to

deal with a single source. In addition, some customers (particularly residential customers) will attempt do-it-yourself (DIY) pest control to save on costs. DIY customers typically lack technical expertise and access to commercial strength pesticides.

## Sensitivity to Economy

Although less vulnerable than other types of building and dwelling services, demand for pest control is sensitive to economic conditions. During the last recession, sales growth for pest control services slowed. Companies that specialized in termite treatments for new construction suffered as the real estate market collapsed. A significant increase in the number of empty building and homes reduced the need for pest control. The industry fared better than most other types of building-related services, which experienced sales declines. Because pest elimination involves hazardous substances and requires expertise, customers may be reluctant to attempt control themselves.

## Termite Liability

Companies that sell termite bonds or guarantees can be liable for excessive repair charges related to damage. Many pest control service providers offer special termite protection, which includes covering the cost of repairs. Termite-related damage can be significant, and involve replacing walls, siding, and other structural elements. While companies maintain an accrual to cover termite damage, excessive costs may result in significant losses. Because termite contracts can be complex and include multiple exclusions, customers often misunderstand terms and assume coverage where none exists. The resulting confusion can involve litigation, particularly when damage is extensive.

## Company Risks

### Competing with Large Companies

Small, independent companies may struggle to compete with large franchises, which have considerable resources and access to capital. Franchises benefit from national or regional advertising and promotional campaigns supported by parent companies. Economies of scale allow larger companies to operate more efficiently and offer lower prices. When selecting a pest control service provider, some consumers prefer the safety of a well-known brand name.

### Maintaining an Adequate Workforce

Because of the seasonal nature of pests, labor management can be a challenge for pest control services providers. During the spring and summer, when pest activity is the highest, demand often exceeds supply. Scheduling becomes difficult and smaller companies may not have enough technicians to service accounts in a timely manner. Maintaining an adequate workforce during the off-season can consume cash and force companies to rely on lines of credit to survive through the winter.

# Industry Trends

## Signs of Recovery

As economic conditions improve, sales growth for pest control service providers is increasing. Revenue for the exterminating and pest control services industry has grown 2-7% annually in recent years. The use of contracts in the pest control industry provides a source of recurring revenue, somewhat insulating companies from periodic downturns. In addition, the increasing presence of bed bugs has helped drive demand for pest control services.

## Bed Bugs Bite

Bed bug infestations, which were relatively rare more than a decade ago, have increased across the country, creating massive sale opportunities for pest control service providers. Significant increases in presence are occurring in public places, such as hotels, college dorms, nursing homes, office buildings, schools, and daycare centers. Revenue derived from controlling bed bugs increased 18% in 2014 for pest control firm, Rollins. Treatment of this pest contributed nearly \$450 million to industry revenue, with almost 90% of companies providing bed bug extermination services. Insecticide and heat treatments are the primary techniques for extermination.

## Ant Infestations on the Rise

Ants maintain their status as the most common pest problem for consumers, and incidence of infestation is on the rise, according to a survey by the Professional Pest Management Alliance (PPMA). More than half of companies surveyed cited increases in ant treatments. Pest control service providers presume that an increase in moisture, changing pest control practices, and new species were the most likely causes of rising occurrences. The most prevalent species are carpenter ants, odorous house ants, and pavement ants. Infestations were most common in office buildings, restaurants, apartments and condos, and single family homes.

## Partnerships with Insurance Carriers

Because of the significant cost associated with bed bug treatments, Aon (an insurance broker) has partnered with Terminix to provide bed bug coverage to commercial clients, such as hotels, landlords, student housing developments, and businesses. Standard commercial property insurance does not cover extermination costs, which can be unpredictable. A serious bed bug infestation can mean substantial loss of revenue and clean-up costs. Major hotel franchises have spent hundreds of thousands of dollars in extermination costs. Specialized policies allow customers to maintain a stable budget for pest control and have fast access to a reliable service provider.

## Bee Colony Collapse

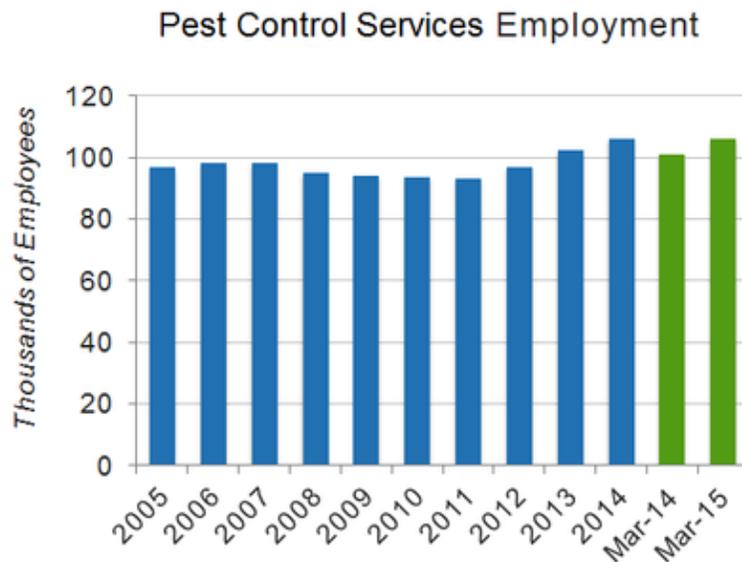
Bee colonies continue to experience significant losses, as government and private organizations search for specific causes. Colony losses, which started in 2006, are about 20-30% annually, according to surveys of beekeepers by the Apiary Inspectors of America and the USDA's Agricultural Research Service (ARS). Experts suggest numerous causes, including pesticide exposure, although

studies linking pesticide use to colony collapse have had mixed results. Recent studies contend that low levels of pesticide use can fog honeybee brains and affect the insect's ability to find its way home and supply food to produce new queens.

## Employment and Wage Trends

### Employment at Pest Control Services Rises

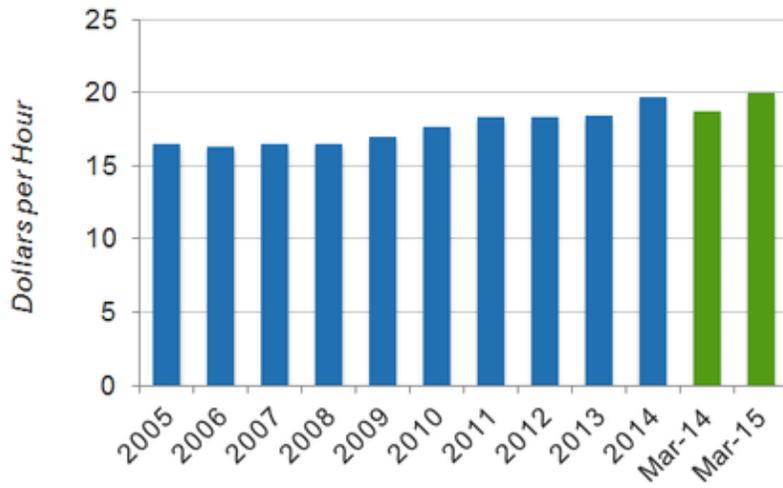
Overall employment at pest control services rose 5.1% in March compared to a year ago, according to the Bureau of Labor Statistics. Employment rose 3.9% in 2014 and 5.6% in 2013.



### Wages at Pest Control Services Rise Sharply

Average wages for nonsupervisory employees at pest control services were \$19.95 per hour in March, a 6.5% increase compared to a year ago. Average wages rose 7.0% in 2014 and 0.7% in 2013.

## Average Wages for Nonsupervisory Employees



# Quarterly Insight

## Second Quarter 2015

### Mosquito Market Growth Forecast

The pest management industry is expecting greater revenue from demand for mosquito control services. A recent industry survey by Pest Control Technology reveals that 65% of pest control firms expect mosquito control services and revenue to increase in 2015 and 32% anticipate similar results to 2014. Companies are seeing the greatest demand for spraying for special events (outdoor weddings, community events) as well as ongoing monitoring and spraying. A vast majority of firms use mosquito control as an add-on service and not as a part of their general offering. The primary and most effective method of marketing mosquito control services is word-of-mouth. Public safety is one of consumers' biggest concerns and one of the major messages used in marketing this service.

## First Quarter 2015

### Termite Awareness Week

The pest control industry has declared March 15-21 as Termite Awareness Week and is promoting its services and education to property owners on the threats of termites. According to the National Pest Management Association, termites cause about \$5 billion per year in property damage. Termites are drawn to properties with moisture issues, which may include structures in a larger swath of the U.S. due to severe winter storms that brought freezing temperatures and precipitation to the southern states. The industry recommends that property owners and managers have a termite inspection every 1-3 years to minimize the risk of damage.

## Fourth Quarter 2014

### Rats Carry More Pathogens

A new study from Columbia University reveals that rats in New York City are carrying new and higher levels of pathogens than previously known. This knowledge may boost demand for pest control companies, primarily in metropolitan areas. NYC is ranked the "4th rattiest" according to Orkin, preceded by Chicago, Los Angeles, and D.C. Large port cities are also at higher risk of foreign rats jumping cargo ships and bringing new diseases to the U.S., as in the case of Seoul hantavirus, which can cause life-threatening fever and kidney failure.

## Third Quarter 2014

### Clients Less Tolerant of Pests

Clients' expectations of pest control firms' results are increasing. Pests are a common issue in offices -

89% of office tenants have seen pests in their buildings in the past year, according to a survey by Orkin and the Building Owners and Managers Association (BOMA) International. Pest sightings can play a significant role in tenants' perception of an office property. Both pest control services and property managers benefit from ridding properties of insects, rodents and other pests. Pest control services may also be able to drive more business by opening up communications between property managers and tenants.

## Second Quarter 2014

### Termite Misconceptions Revealed

In a recent survey by Terminix and Harris Interactive, homeowners were asked about their knowledge and reaction to pests. While 94% understand that termites can cause extensive damage to a home, only 26% ever had their properties inspected for termites and only 16% had a current termite contract with a pest control company. In addition, 43% thought termites could be controlled with at-home or DIY treatments and 30% thought termite damage was covered under their homeowners' insurance policy, both of which are incorrect. According to Terminix, the average cost to repair damage and treat the termite infestation is over \$8,000 and 1 in 20 homes are infested annually.

## First Quarter 2014

### Winter Presents Rodent Control Opportunities

During the winter, property owners tend to see a rise in rodents entering, which creates opportunities for pest control services. The National Pest Management Association estimates that 21 million rodents invade U.S. houses each winter and 29% of Americans report having a rodent problem in their homes. Rodents are most often reported in kitchens, basements, living rooms, and attics. A rat can squeeze through an opening the size of a quarter and a mouse can get into a dime-sized opening, so sealing up entry points is one defense that pest control services use. An infestation can easily occur, since a female mouse can have as many as 12 young every 3 weeks. Rodents can be carriers of disease and insects such as ticks, fleas, and lice, and can chew through wood and electrical wire, which presents structural and fire hazards.

## Fourth Quarter 2013

### New Invasive Pest in the Southeast

Four southeast states have become the new home of a species of shield bug native to China and India. The Kudzu bug was first sited in 2009 in soybean crops but has since migrated into homes. The general public has confused the Kudzu bug with bedbugs. Kudzu bugs are larger than bedbugs and don't carry disease, but they do smell bad (hence the nickname "stinkbug") and multiply rapidly. Pest control services can treat for infestation, but they can easily return. The rapid reproduction cycle of this species means more treatment opportunities for pest control services.

## Third Quarter 2013

### Scientific Discovery Benefits Pest Control

Scientists have discovered a chain of amino acids in the brains of insects that controls their mating and reproduction. Scientists have interrupted the chain, named Natalisin, and found that insects have been uninterested in mating and unable to reproduce. Natalisin is only found in the brains of insects, arachnids (spiders), and crustaceans (crabs, scorpions, barnacles, etc.). The discovery is expected to lead to new extermination chemicals that target common household pests and are non-toxic to plants, human, and other mammals, such as family pets and wildlife.

## Second Quarter 2013

### Bedbugs Prevail

Nearly every pest control professional encountered a bedbug infestation in the past year, according to an annual survey by the National Pest Management Association and the University of Kentucky. A majority of respondent indicate that the problem is getting worse and many believe there is a seasonal component with infestations rising in the summer. The seasonality may be driven by more people moving and traveling during the summer months and unknowingly transporting bedbugs between residences and lodging. Pest control professionals are finding bedbug infestations primarily at residences, lodging, dormitories, nursing homes, schools, and hospitals, but also on public transportation and in movie theaters, laundromats, restaurants, libraries, and retail stores.

## First Quarter 2013

### Modifying Perimeter Application

Changes to EPA regulations will impact how pest control companies provide services. Limitations have been placed on the use of pyrethroid-based products, which control a variety of pests via exterior application. A lack of products is available to fill the void, according to Pest Control Technology, which leaves the pest control profession to modify their techniques. Property inspections will become increasingly important to identify potential infestations before they occur as well as entry points for pests into structures. Broad application of the chemical to the exterior of a structure is no longer allowed, but spot application to entry points such as doors, windows, plumbing penetrations, and soffits is still allowed. Since the exterior barrier is limited, pest control professionals will likely ramp up interior applications to compensate. Non-chemical techniques, such as installing seals to windows and doors, clearing vegetation near structures, and sealing openings where pests can enter the structure, will become more important and may create additional revenue streams.

# Call Prep Questions

## Working Capital

What are your company's biggest sources of revenue?

Companies generate revenue by providing pest control services to residential and commercial customers. Services include one-time treatments and multiple treatments.

What percentage of your company's business comes from contracts?

Some companies offer annual contracts and provide discounts for pre-payments. The use of medium to long-term contracts helps ensure recurring revenue.

How does your company establish pricing?

Pricing may be based on square footage or an hourly rate.

How does your company control labor costs?

Labor is the most significant cost for pest control service providers. Estimating the number of hours required to complete job is especially important for companies that charge a flat fee.

What percentage of your company's customers renew their contracts?

Contract renewals are important to maintaining steady long-term cash flow.

How does your company compensate for seasonality?

Cash flow is seasonal and affected by weather conditions. Companies may rely on lines of credit to fund operating expenses through slow winter months.

## Capital Financing

What types of projects typically require capital financing?

Projects that typically require capital financing include the purchase of property, buildings, equipment, vehicles, and information systems.

How frequently does your company purchase new equipment?

Equipment includes sprayers, foggers, misters, and heaters (for bed bug treatments). Specialized cameras, microwaves, or X-ray technology can help detect the presence of termites.

What kind of investment has your company made in vehicles?

Companies may have significant investments in vehicle fleets to transport equipment and technicians to customer locations. Companies may have vehicles outfitted and dedicated to certain applications – termite trucks are generally larger than standard pest control trucks.

How is your company using technology to improve productivity?

Companies invest in technology and information systems to help manage day-to-day operations. Software programs and hand held devices that manage scheduling and routing help optimize technician time and vehicle utilization. GPS-based fleet management systems can improve driver productivity. Wireless technology allows service providers to monitor traps remotely.

What role do acquisitions play in your company's growth plans?

Acquisitions are a popular growth strategy for pest care service providers.

What are your company's most common sources of financing?

Large companies rely on debt, stock, cash, or a combination to fund capital projects. Pest control service providers have also become popular acquisition targets for private equity firms in the recent past. Small companies rely on commercial loans, home equity loans, or private investors, for capital funding.

## How Firms Operate

What is your company's specialty?

Companies may specialize in residential or non-residential services. Providers may also specialize in a particular industry, such as food manufacturing or health care.

What processes does your company use to provide pest control?

Technicians apply chemicals, set and bait traps, or create barriers to separate pests from buildings. Companies may use fumigants (poisonous gases) to treat serious infestations.

What percentage of your company's business comes from termite control?

Termite control can involve the installation of monitoring stations and monitoring services over a period of time.

How do your company's services incorporate Integrated Pest Management?

Integrated Pest Management (IPM) is a pest control system that involves inspection, identification, and treatment methods specific to each situation. Treatment includes chemical and non-chemical solutions.

What are your company's most effective marketing and promotional vehicles?

Marketing and promotional vehicles include local television, print, and radio advertising; direct mail;

and online/Internet programs. Referrals are an important source of leads and new business. Companies often depend on relationships with builders and contractors for termite pre-treatment work on new construction.

How does your company protect technicians from overexposure to pesticides?

Technicians are typically trained and licensed to use pesticides. Because pesticides are toxic, workers wear protective gear, such as respirators, gloves, and goggles.

## Risks to Watch Out For

How does seasonality affect your company's business?

Demand for pest control is seasonal, and driven by increases in pest activity.

How does your company minimize the risks of working with pesticides?

Pest control often involves the application of toxic chemicals that have the potential to harm humans, pets, plants, or the environment.

How does your company ensure compliance with government regulations?

Because pest control involves toxic substances, the EPA and state governments regulate various elements of operations, including licensing, record keeping, standards of application, training, and product registration.

What is your company's biggest source of competition?

Competitors for pest control service providers involve companies in a range of industries, including cleaning and sanitizing services, facilities services, and lawn care.

How sensitive is your company's business to economic conditions?

Although less vulnerable than other types of building and dwelling services, demand for pest control is sensitive to economic conditions.

How does your company minimize the financial risk associated with termite guarantees?

Companies that sell termite bonds or guarantees can be liable for excessive repair charges related to damage.

## Industry Trends

How has your company's business responded to recent changes in the economy?

As economic conditions improve, sales growth for pest control service providers is increasing.

How has demand for bed bug treatments changed over the last few years?

Bed bug infestations, which were relatively rare more than a decade ago, have increased across the country, creating massive sale opportunities for pest control service providers.

What changes are you seeing regarding demand for ant treatments?

Ants maintain their status as the most common pest problem for consumers, and incidence of infestation is on the rise, according to a survey by the Professional Pest Management Alliance (PPMA).

How could partnerships improve your company's business?

Because of the significant cost associated with bed bug treatments, Aon (an insurance broker) has partnered with Terminix to provide bed bug coverage to commercial clients, such as hotels, landlords, student housing developments, and businesses.

What is your company's position on the potential link between pesticide use and bee colony collapse?

Bee colonies continue to experience significant losses, as government and private organizations search for specific causes.

## Web Links

### [Pest Control Technology](#)

News, trends, and business advice

### [National Pest Management Association](#)

News, trends, legislative issues from trade association

### [Pest World](#)

Consumer information on pests and pest control

### [Pest Management Professional](#)

News, trends, and firm rankings

# Just the Numbers

## Industry Financial Benchmarks

Here are typical financial statements for pest control services.

This data is supplied by BizMiner, a leading supplier of industry analytical statistics to the financial sector, accounting and business valuation communities. BizMiner content includes financial and market reports on more than 9000 industry segments at national and local levels. [Learn more about BizMiner products](#) or [review BizMiner data sources](#).

**Need more detailed financial benchmark data for your client or prospect?** BizMiner can break down this industry data by specific industry segments, size of business, or geographic market. These more detailed reports are available for as little as \$79. To learn more or order a report, [click here](#).

### Pest Control Services Financial Ratios

MEASURE	2011	2012	2013
Current Ratio	1.81	2.12	1.94
Quick Ratio	1.54	1.73	1.61
Days Inventory	6.8	8.21	7.36
Days Receivables	18.71	19.99	21
Days Payables	17.46	18.57	20.22
Pre-tax Return on Revenue	8.90%	8.72%	6.37%
Pre-tax Return on Assets	32.51%	30.39%	20.77%
Pre-tax Return on Net Worth	79.21%	69.01%	47.00%
Interest Coverage	28.73	16.66	14.92
Current Liabilities to Net Worth	0.66	0.55	0.59
Long Term Liabilities to Net Worth	0.78	0.72	0.67
Total Liabilities to Net Worth	1.44	1.27	1.26
Number of Firms Analyzed	14,554	15,582	16,001

## Pest Control Services Income Statement

ITEM	2011	2012	2013
Revenue	100%	100%	100%
Cost of Sales	37.29%	38.44%	39.05%
Gross Margin	62.71%	61.56%	60.95%
Officers Compensation	6.73%	6.23%	6.30%
Salaries-Wages	18.14%	18.49%	18.32%
Rent	2.65%	2.69%	2.86%
Taxes Paid	3.29%	3.31%	3.46%
Advertising	1.22%	1.11%	1.33%
Benefits-Pensions	1.34%	1.35%	1.48%
Repairs	0.80%	0.93%	1.12%
Bad Debt	0.11%	0.18%	0.14%
Other SG&A Expenses	18.65%	17.65%	18.24%
EBITDA	9.78%	9.62%	7.70%
Amortization-Depreciation	1.28%	1.44%	1.73%
Operating Expenses	54.21%	53.38%	54.98%
Operating Income	8.50%	8.18%	5.97%
Interest Income	0.02%	0.02%	0.02%
Interest Expense	0.34%	0.58%	0.52%
Other Income	0.72%	1.10%	0.90%
Pre-tax Net Profit	8.90%	8.72%	6.37%
Income Tax	1.47%	1.43%	0.96%
After Tax Net Profit	7.43%	7.29%	5.41%
Number of Firms Analyzed	14,554	15,582	16,001

## Pest Control Services Balance Sheet

<b>ASSETS</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Cash	22.88%	23.11%	23.51%
Receivables	18.73%	19.07%	18.70%
Inventory	2.54%	3.01%	2.56%
Other Current Assets	4.91%	6.38%	5.95%
Total Current Assets	49.06%	51.57%	50.72%
Net Fixed Assets	22.48%	24.21%	24.22%
Other Non-Current Assets	28.46%	24.23%	25.06%
Total Assets	100%	100%	100%
<b>Liabilities</b>			
Accounts Payable	6.52%	6.81%	7.03%
Loans/Notes Payable	8.95%	7.83%	8.25%
Other Current Liabilities	11.57%	9.67%	10.89%
Total Current Liabilities	27.04%	24.31%	26.18%
Total Long Term Liabilities	31.91%	31.65%	29.64%
Total Liabilities	58.96%	55.96%	55.81%
Net Worth	41.04%	44.04%	44.19%
Total Liabilities & Net Worth	100%	100%	100%
<b>Number of Firms Analyzed</b>			
Number of Firms Analyzed	14,554	15,582	16,001

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