



Financial Results for Q2 of the Fiscal Year Ending in September 2020

CANDEAL CO., Ltd.

TSE1 :1446

May 15, 2020

We would like to express our sincere condolences and sympathy to those who passed away due to the new coronavirus (COVID-19) infection and their families and related parties, and to all those who have been affected by this disease.

We would also like to express my sincere thanks to all of the health care professionals who are working hard to treat and prevent the spread of infection.

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1

Performance Highlights

FY9/20 Q2 **Lower sales and profits**

Net sales	6,617 million yen	96.9% YoY
Operating income	324 million yen	91.6% YoY

<Factors>

**FY20 Q2
Plan**

Planned to catch up on decline in operations and delayed projects that are expected during FY19 Q4 through FY20 Q1 due to a flood disaster and other factors.



Result

We were able to catch up the delay in the projects during FY19 Q4 through FY20 Q1. However, the impact of COVID-19 became apparent in late February, and there were delays in the construction period and cancellations of project particularly in the Construction services for the commercial environment.



FY9/20 Q2 Business Results

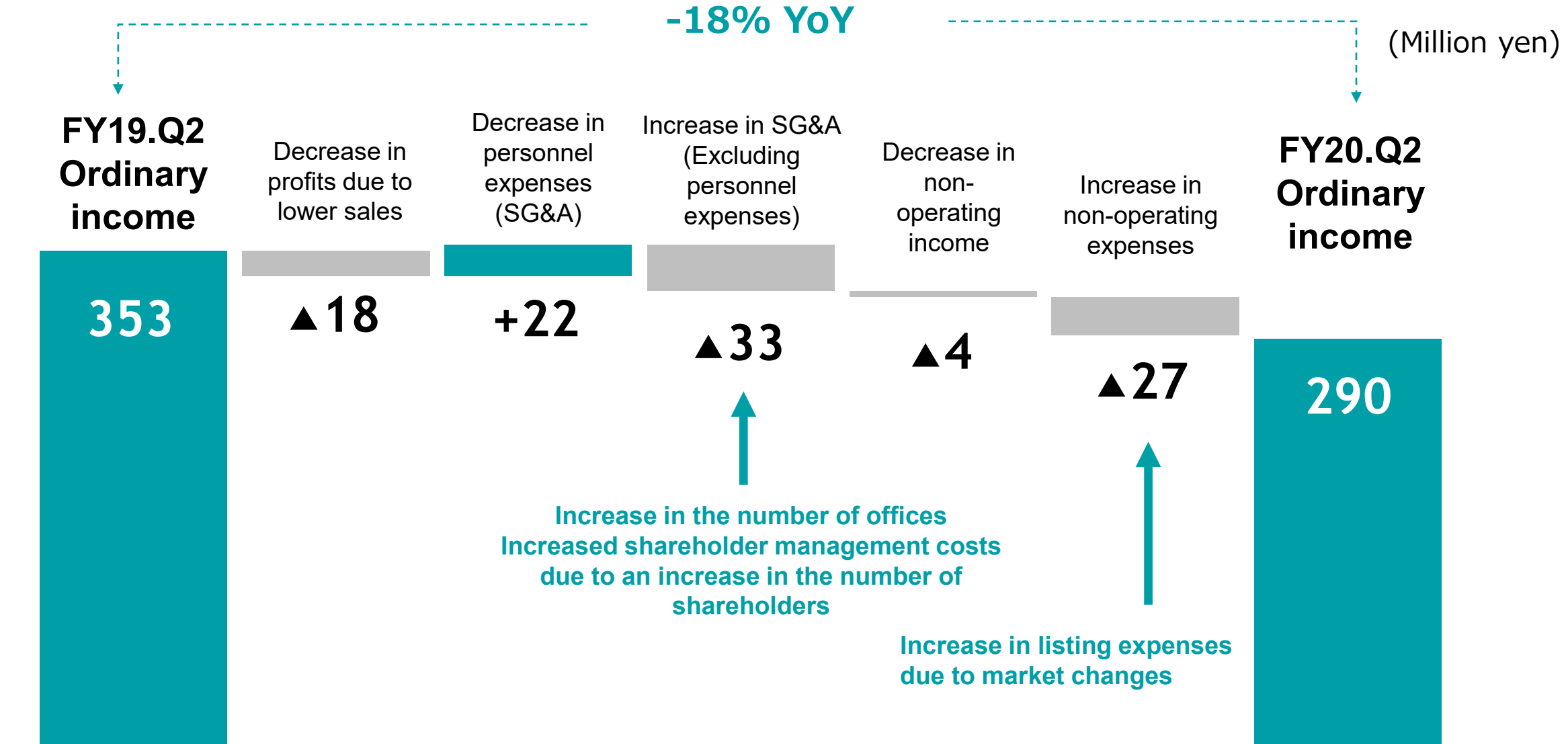
FY9/19 Business Results (Consolidated)



(Million yen)

	FY19.Q2		FY20.Q2		YoY	
	Results	Profit ratio	Results	Profit ratio		
Net sales	6,827		6,617		▲209	96.9%
Gross profit	2,446	35.8%	2,428	36.7%	▲18	99.3%
Operating income	353	5.2%	324	4.9%	▲29	91.6%
Ordinary income	353	5.2%	290	4.4%	▲62	82.3%
Net income	197	2.9%	148	2.2%	▲48	75.2%
Net income before amortization of goodwill	293	4.3%	244	3.7%	▲48	83.4%

Analysis of Changes in Consolidated Ordinary Income



Sales by Service

(Million yen)

	FY19.Q2 Results	Composition ratio	FY20.Q2 Results	Composition ratio	YoY	
Repair service	2,588	37.9%	2,616	39.5%	+27	101.1%
Construction services for living environments	1,728	25.3%	1,624	24.5%	▲103	94.0%
Construction services for commercial environments	2,129	31.2%	1,955	29.6%	▲173	91.8%
Merchandise sales	380	5.6%	420	6.4%	+40	110.7%
Total	6,827		6,617		▲209	96.9%

Status of Repair Service

Although the number of new housing starts declined due to a reactionary fall in demand following the consumption tax hike, demand for our services remained firm, reaching 101.1% YoY.

(Million yen)

	FY19.Q2 Results	Composition ratio	FY20.Q2 Results	Composition ratio	YoY	
Repair service	2,588	37.9%	2,616	39.5%	+27	101.1%
Repair for detached houses	1,931	28.3%	1,985	30.0%	+54	102.8%
Repair for condominiums	657	9.6%	631	9.5%	▲26	96.0%

* Source: Ministry of Land, Infrastructure, Transport and Tourism (October 2019-March 2020) No. of new housing starts: 97.8% YoY; No. of condominium starts: 87.0% YoY.

* Source: Real Estate Economic Research Institute (October 2019-March 2020) Number of condominium sales (Tokyo and Kinki areas): 79.9% YoY

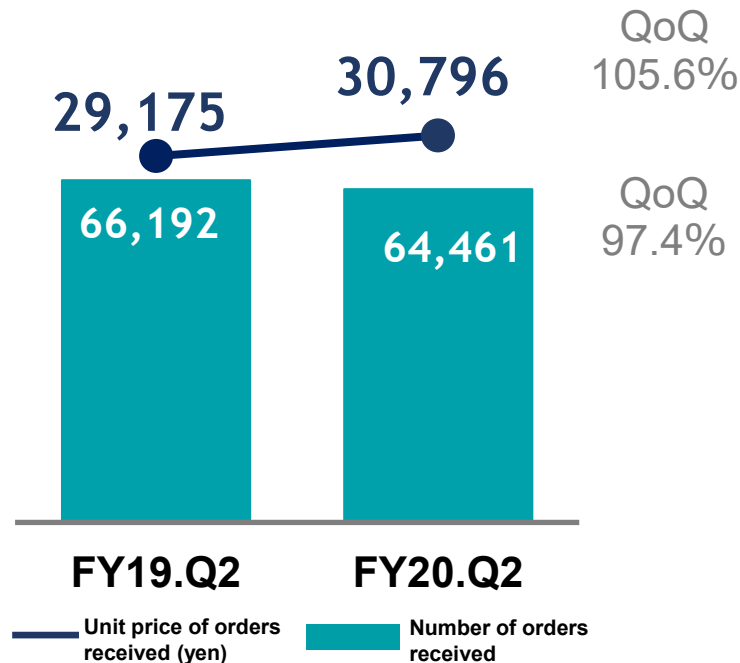
Status of Repair Service

Repair for detached houses

In 2Q, the volume of orders was expected to be sufficient to catch up with the impact of the flood disaster and other events during FY19 Q4 through FY20 Q1, but in the second half of Q2, the impact of COVID-19 became apparent and the number of orders decreased. Sales growth was limited to 102.8% YoY.

Unit price of orders received: **+5.6%**

Orders received: **-2.6%**

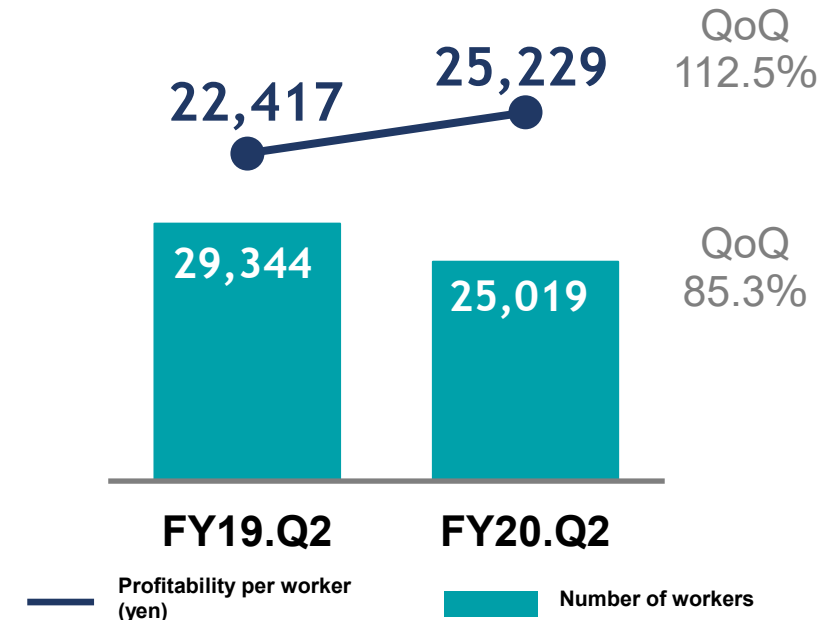


Repair for condominiums

Sales of new condominiums were sluggish in reaction to the consumption tax hike, but productivity per worker increased by 12.5% YoY due to higher unit prices and other sales measures.

Productivity per worker: **+12.5% YoY**

Total number of workers: **-14.7%**



Status of Construction Services for Living Environments

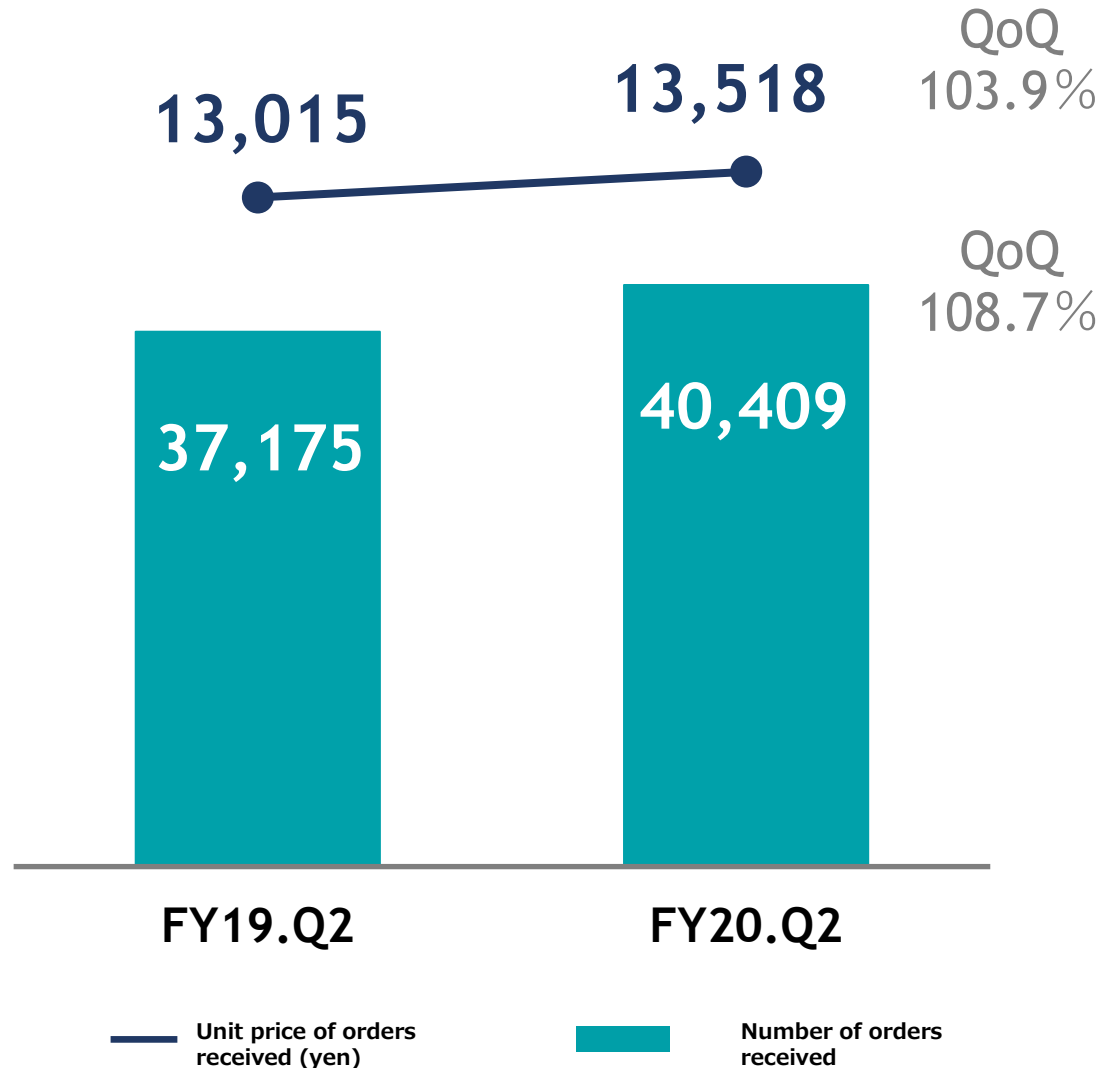
- Sales were 94.0% YoY, due to a decrease in interior installation demand and a decline in refit services, despite robust after-sales periodic inspection services.
- As for the service to visit residences, some projects were postponed or cancelled as some customers began to avoid face-to-face contact due to concerns about the spread of COVID-19.

(Million yen)

	FY19.Q2 Results	Composition ratio	FY20.Q2 Results	Composition ratio	YoY	
Construction services for living environments	1,728	25.3%	1,624	24.5%	▲103	94.0%
Periodic after-sales inspections	483	7.1%	546	8.3%	+62	112.9%
Small-scale repair and construction works, etc.*1	992	14.5%	907	13.7%	▲85	91.4%
Refit	252	3.7%	171	2.6%	▲81	67.8%

1. Minor repairs and various construction/inspection/viewing services

Status of Construction Services for Living Environments: Periodic After-Sales Inspection



Despite delays in projects during FY19 Q4 through FY20 Q1 due to flood disaster and the impact of COVID-19, the order remains favorable.

Unit price of orders received: +3.9%

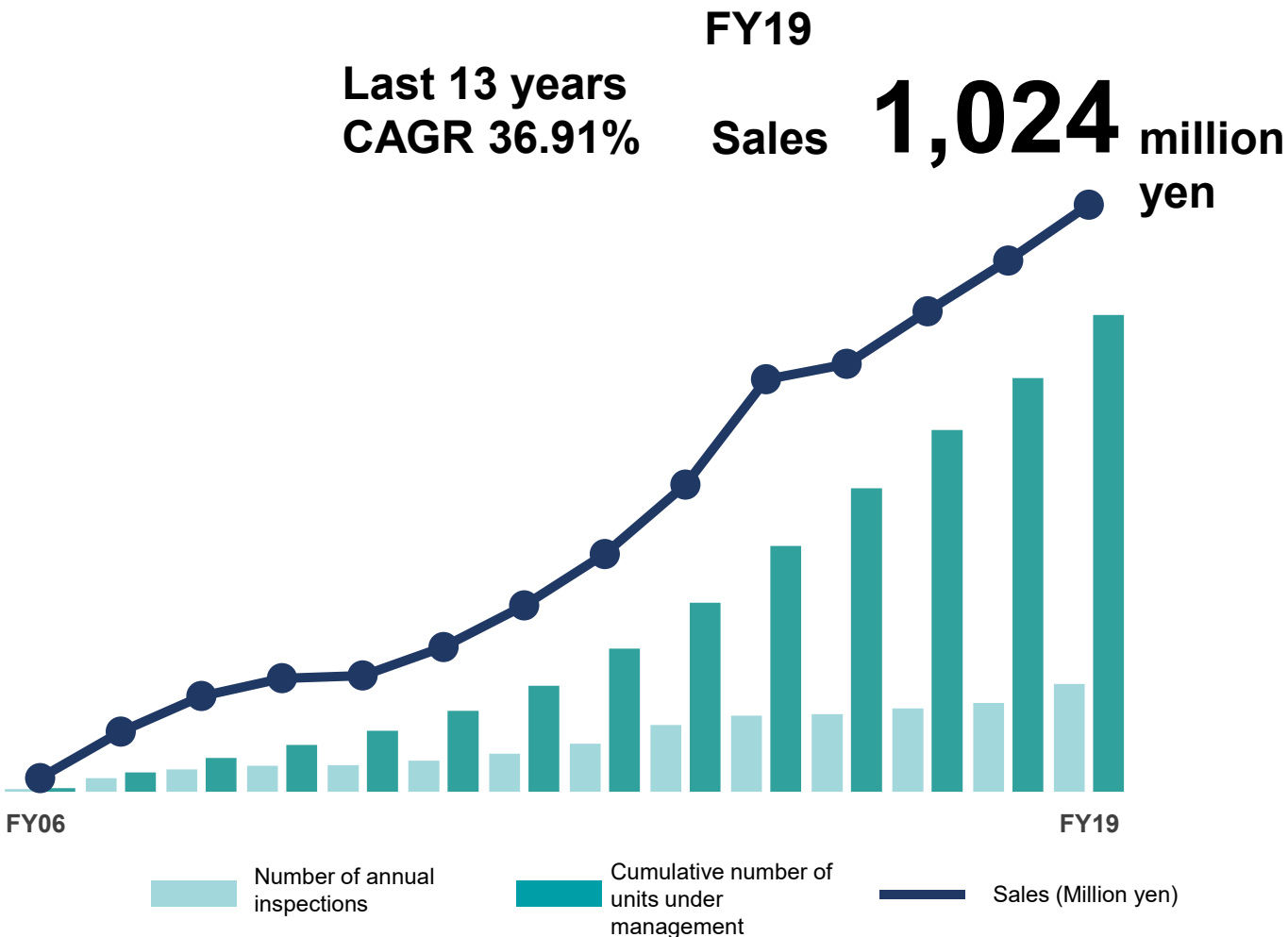
Due to an increase in the number of contracted companies

Number of new contracts: +13.1%

Number of inspection: +8.7%

Periodic After-Sales Inspection Results

Industry leader



Number of inspections*1

FY19.Q2	37,690	QoQ
FY20.Q2	40,871	108.4%

Number of new contracts

FY19.Q2	21,943	QoQ
FY20.Q2	24,828	113.1%

Cumulative number of units under management

FY19 346,809

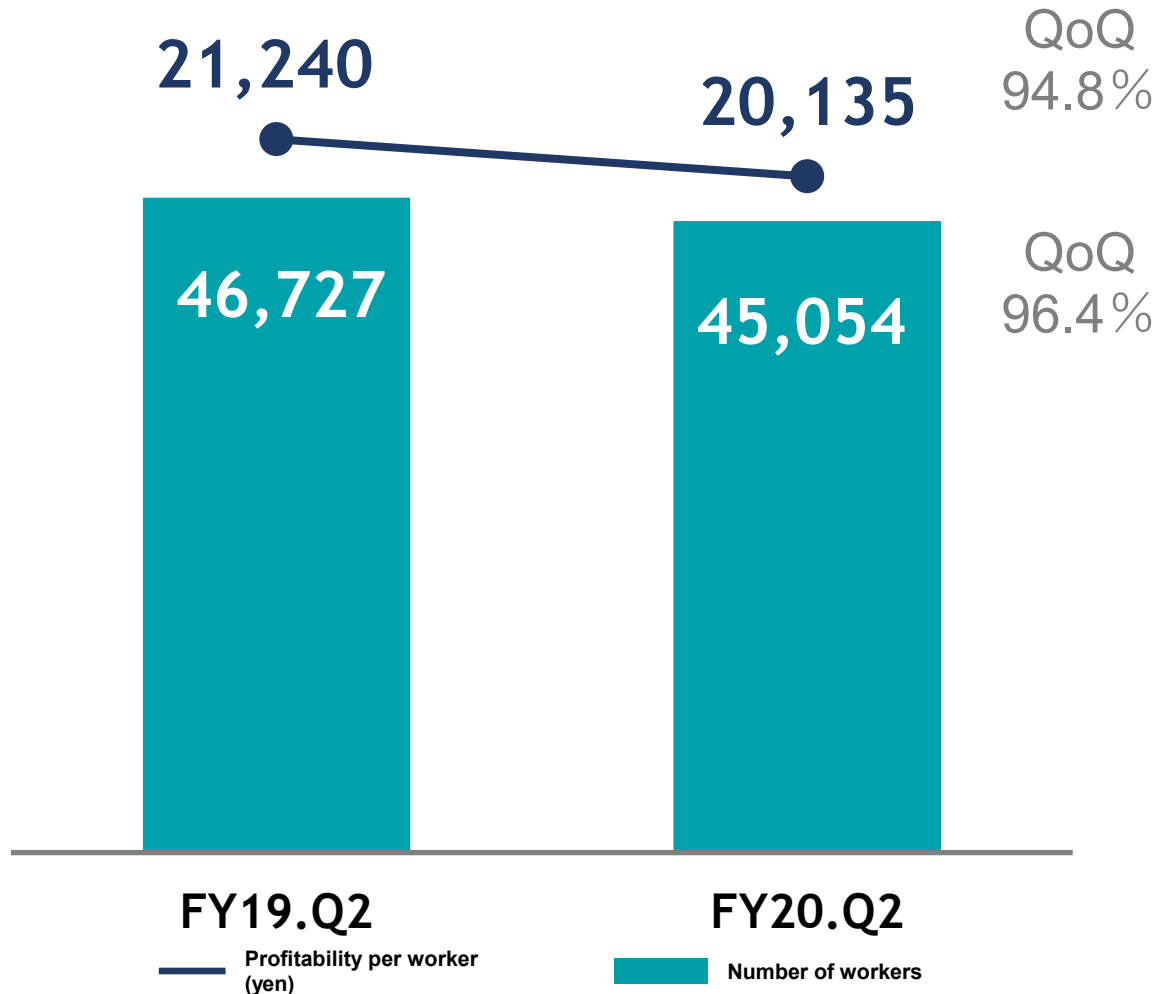
FY20.Q2 371,637

Qtd 107.2%

Around the door Counting

*1: In case of multiple visits per house, the actual number of visits is counted.

Status of Construction Services for Housing Environments: Small-scale repair and construction works, etc.



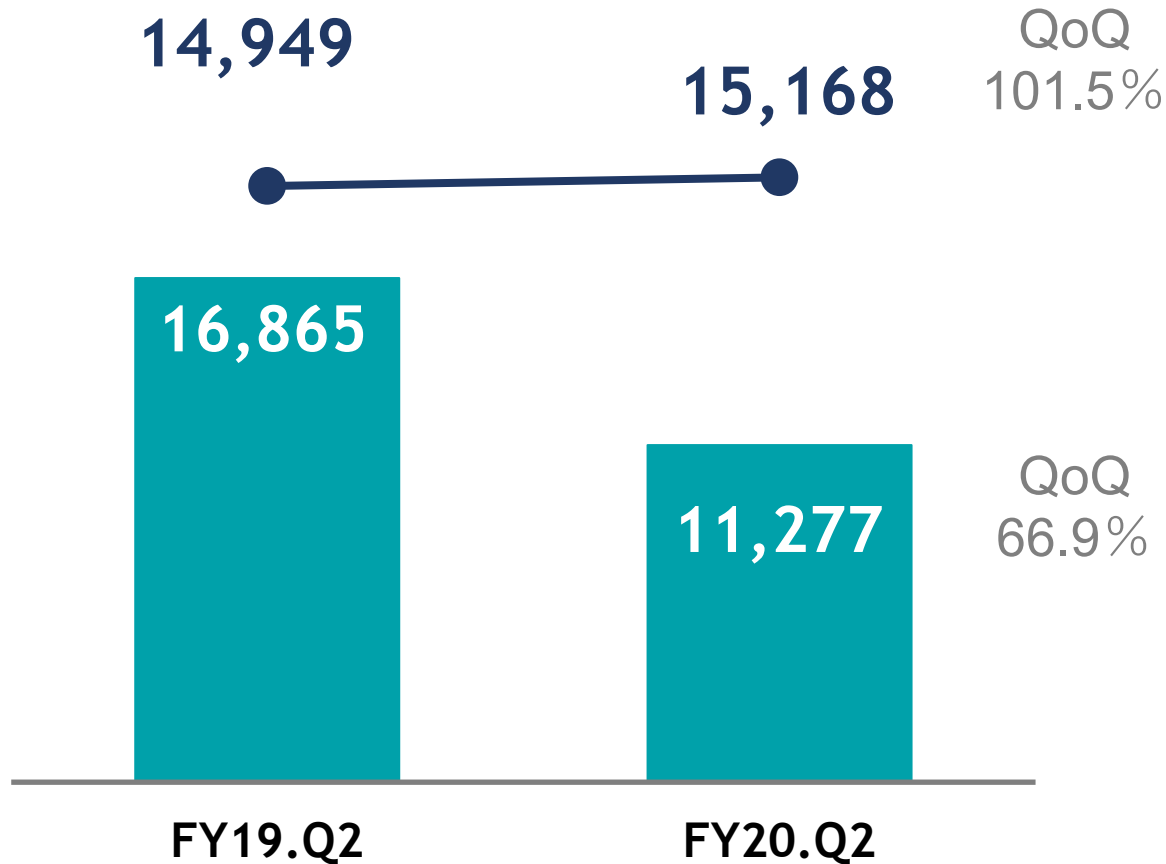
Decline in demand for interior installation due to the condominium market downturn

**Total number of workers:
+3.6%**

**Productivity per worker:
-5.2%**

* Small-scale repair and construction works, etc.: Small-scale repairs and construction work, inspection and preview services

Status of Construction Services for Housing Environments: Refit



Due to a decrease in the number of project

Number of orders: -33.1%

— Unit price of orders received (yen)

■ Number of orders received

* Demand for refit services is difficult to predict as it is a recall support service.

Status of Construction Services for Commercial Environments and Merchandise Sales

COVID-19 had a significant impact on the performance.

Sales of this business were 91.8% YoY due to construction delays and cancellations, particularly at hotels.

(Million yen)

	FY19.Q2 Results	Composition ratio	FY20.Q2 Results	Composition ratio	YoY	
Construction services for the commercial environment	2,129	31.2%	1,955	29.6%	▲173	91.8%
Interior installation	1,522	22.3%	1,329	20.1%	▲193	87.3%
Furniture assembly	294	4.3%	316	4.8%	+21	107.5%
Lifting, etc.	312	4.6%	309	4.7%	▲2	99.2%
Merchandise sales	380	5.6%	420	6.4%	+ 40	110.7%

Status of Construction Services for Commercial Environment: Interior Installation

Interior installation FY20.Q2 Sales: 87.3% YoY

External factor

We were not able to catch up with the delayed project during FY19 Q4 through FY20 Q1, and was also impacted by COVID-19, causing delays in construction and cancellation of projects at hotels and commercial facilities.

Internal factor

The environment for recruitment and securing partner companies was severe, and it struggled to secure engineers until early March.

(Million yen)

■ YoY change in project scale	FY19.Q2 Result	FY20.Q2 Result	YoY	
Large	386	282	▲104	73.1%
Medium	593	510	▲83	86.0%
Small	543	537	▲6	98.9%
Total	1,522	1,329	▲193	87.3%

FY9/20 Q2 Top 20 Clients

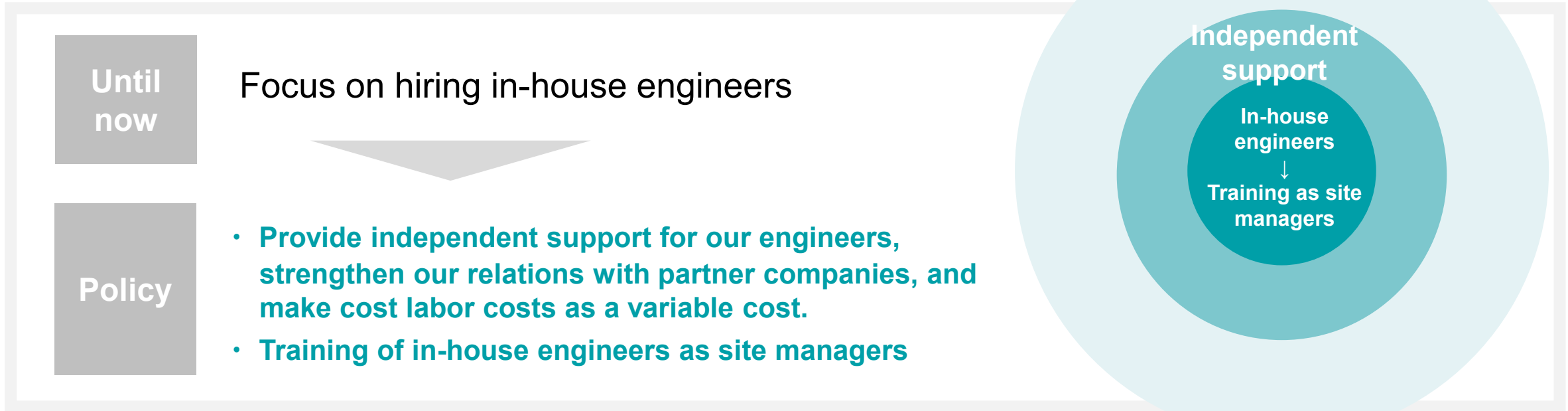
	Repair service	Construction services for living environments	Construction services for commercial environments	Merchandise sales
Hajime Construction Co., Ltd	●	●		●
IKEA JAPAN CO., LTD.			●	
Aim Create Co., Ltd.			●	
Asahi Kasei Homes Corporation	●	●		●
HASEKO NAVIE CORPORATION	●			
Handy Crown Co., Ltd.				●
★ HEIWA MANNEQUIN CO. LTD.			●	
Sumitomo Realty & Development Co., Ltd.	●	●		
★ Haseko Corporation	●	●		
Daiwa House Industry Co., Ltd.	●	●	●	

Top 11th-20th

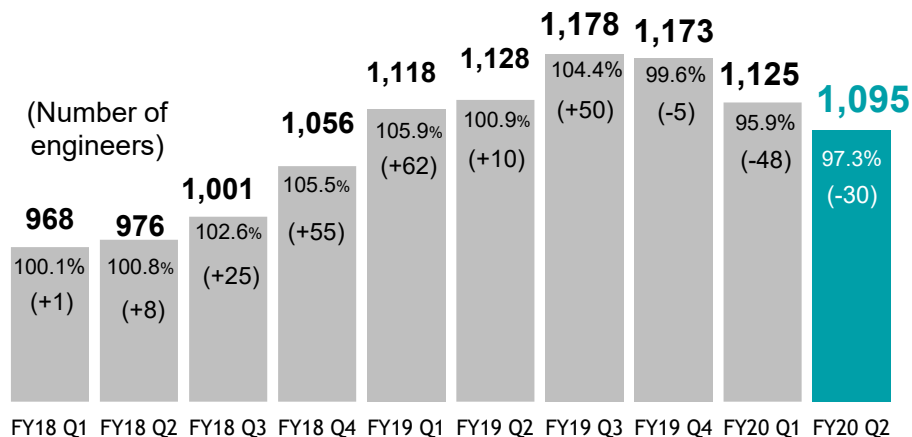
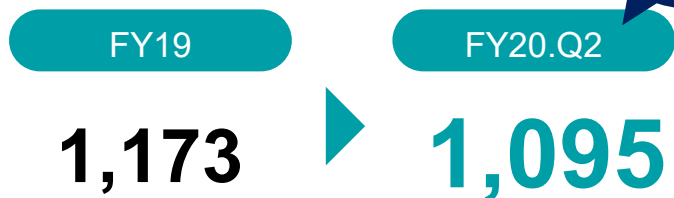
A Factory Co., Ltd. / Panasonic Interior Building Products Co., Ltd. / TACT HOME CO.,LTD. / YOSHICHI MANNEQUIN CO.,LTD. / NISHIMATSU CONSTRUCTION CO.,LTD. / Daito Trust Construction Co., Ltd. / Obayashi Corporation / DesignArc Co.,Ltd. / KOTOBUKI SEATING CO., LTD. / YKK AP Inc.

★ Newly top 10 clients for FY20 Q2

Construction system policies and trends in the number of in-house engineers



Number of in-house engineers
(Direct employment)



Partner companies





Impact of COVID-19, Our Response, and Business Forecasts for FY9/20

Impact of COVID-19 and Our Response

1. Prospects for current impact

① Impact on net sales: Down by 239 million yen

Impact of flood disaster and COVID-19 as of March 2020

(delay in project: 201 million yen/ cancellation of project: 38 million yen)

② Utilization rate of direct hiring engineers (April 2020): Approx. 83% YoY

③ Total number of holidays (April 2020): 471 man-days

Impact of COVID-19 and Our Response

2. Changes in business environment

① The impact of the turbulence in supply chain is gradually recovering

There were delays in imports of equipment and materials due to the shutdown of the Chinese plant. Currently on a recovery track.

② Postponement and cancellation of services reflecting the self-restraint due to the State of Emergency

Living environment: To avoid face-to-face contact, the timing of periodic after-sales inspections can be changed at the customer's request.

Commercial environment: postponement or cancellation of projects due to postponement of store interior installation, cancellation of events, etc.

③ Web interviews are conducted according to the customer's request

④ Securing liquidity on hand

Impact of COVID-19 and Our Response

3. Status of Internal System Development

- ① **The call center operates remotely, taking advantage of the cloud-based PBX and dedicated VPN**
Decentralization through the use of home or each office (shift from 4 offices to 10 offices + teleworking) to thoroughly avoid "Three Cs"*.
*The Three Cs: Crowded places, Close-contact settings, Confined and enclosed spaces.
- ② **All on-site engineers must wear masks and carry soap and disinfectant to ensure the safety of themselves, customers, and society.**
- ③ **On-site technicians are also restricted to work on the minimum number of locations by utilizing smartphones, tablets, and cloud-based base systems.**
(Candeal Tec plans to switch to a cloud-based base system in October 2020.)
- ④ **About 58% of clerical-work staffs are also able to work remotely**

Business Forecasts

Due to the spread of COVID-19, there have been many delays and cancellations of projects at construction sites where our company is involved, making it difficult to rationally calculate the business forecasts at this time.

As soon as it becomes possible to reasonably calculate the consolidated forecasts, we will promptly disclose it.

We remain the year-end dividend forecast unchanged.

Future Outlook and Policies

Outlook

Changes in
market
environment

- ① **Severe economic environment** (for commercial facilities, hotels, condominiums)
- ② **Change in design concept**
Changes to the concept of buildings, such as changing the type and layout of commercial facilities, changing office layouts, and the conversion of homes into offices due to the expansion of teleworking.
- ③ **The construction industry at the time of the Global financial crisis took about two years to recover.**

Policy

Basic policy: Maintain the construction system and continue business in preparation for resumption of projects postponed during the current fiscal year and economic recovery.

- ① Promote variable costs for engineers by providing independent support and retaining partner companies
- ② Securing profits and stabilizing cash flow by reducing costs and restricting investment through teleworking and other means (already started)
- ③ Negotiating with banks to increase the commitment line for working capital in preparation for further deterioration of the economic environment

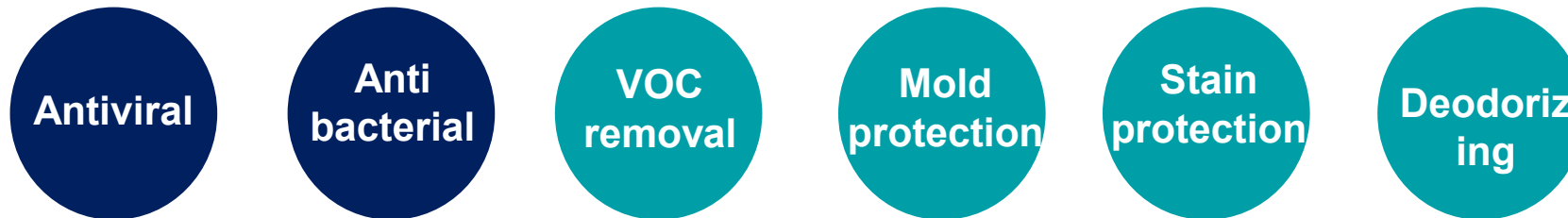
Initiatives for post-COVID-19 world

We will strengthen our photocatalytic coating service with antiviral and antibacterial effects for housing




Reconaguard “Air Refresh” (Photocatalytic coating)

Coating of ceilings, walls, curtains, etc. for a safe and secure space



Characteristics

- 1



**Effects last for 24 hours 365 days
× 3 years (patented)**
- 2

Surprising antibacterial efficacy and its abundant validation data

3

Effective in both sunlight and fluorescent and LED lighting
- 4

Abundant track record for housing and commercial facilities

5

Reliable as it uses a material that is friendly to the human body and the environment



* Inspection agency: Bo-Ken Quality Evaluation Organization Test number: 2712000083

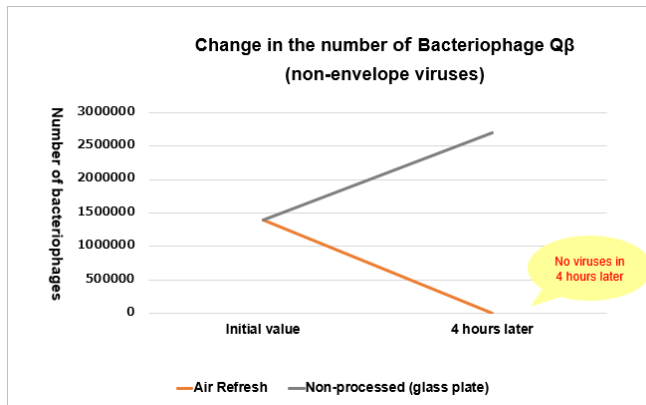
Reconaguard “Air Refresh” (Photocatalytic coating)



The patented technology called "Apatite Coated Titanium Dioxide" work 24 hours to provide antiviral and antibacterial effects

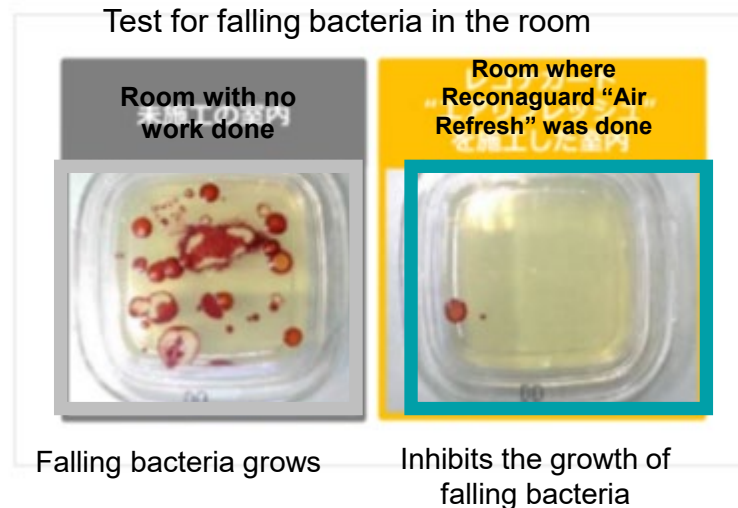
It was jointly developed in 2019 by the Japan Science and Technology Agency and the National Institute of Advanced Industrial Science and Technology (AIST), and was successfully put to practical use. (Patent No. 3975270)

Antiviral



Research by Japan Food Research Laboratories

Antibacterial



Research by Industrial Technology Research Laboratories

Activity of Titanium Dioxide and Apatite

	Reconaguard Air Refresh		Old-type photocatalyst	
	Titanium Dioxide Effect	Apatite (Absorption effect)	Titanium Dioxide Effect	Apatite (Absorption effect)
Sunlight	◎	◎	◎	×
Natural white florescent lamp	○	◎	△	×
Incandescent lamp	△	◎	×	×
LED (natural white)	◎	◎	△	×
LED (light bulb color)	○	◎	×	×
Florescent lamp (daylight)	○	◎	△	×
No light	×(*1)	◎	×	×

(Researched by our company)

Calculated based on peak wavelengths based on various spectral distributions.
 Performance evaluation: When the radical dissipative ability in the ultraviolet region is assumed to be 100%
 ◎: 70-100% ○: 40-70% △: 20-40% ×: 20% or lesser

*1: It shows effects after apatite absorbs and collects viruses and bacteria floating in the air for 24 hours.

Initiatives for post-COVID-19 world: Launched antibacterial agent

Titanium dioxide and sodium percarbonate combined

Antiviral and antibacterial agent CA series



Example: Antiviral and antibacterial agent CA1100 with titanium dioxide and sodium percarbonate

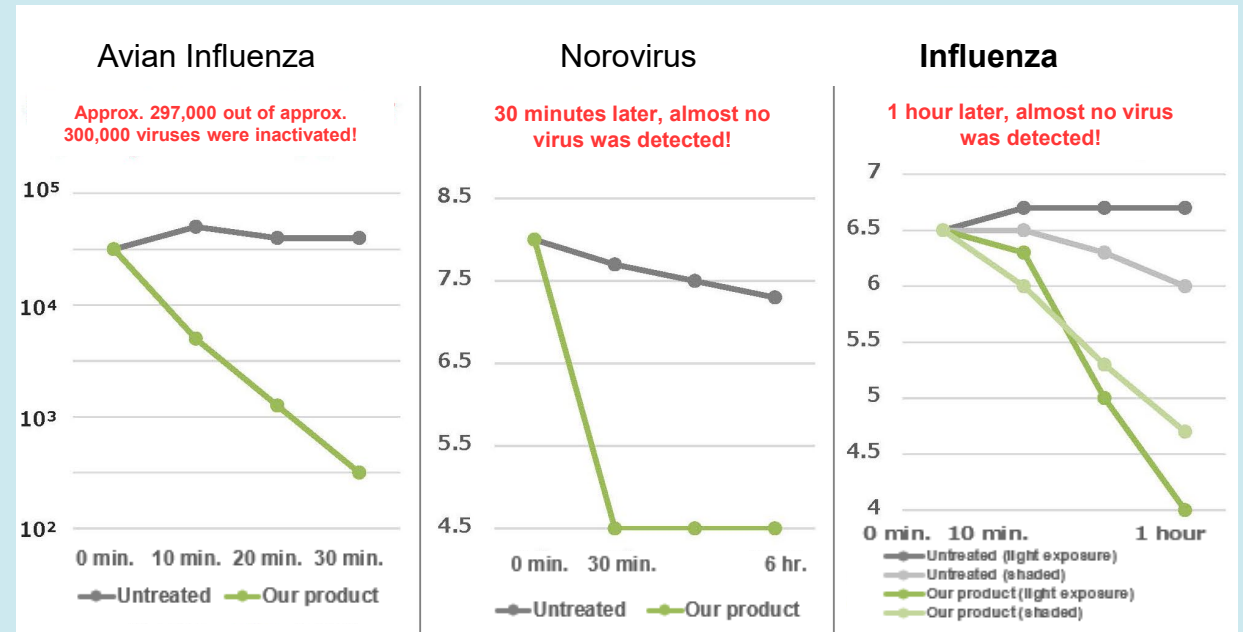


This is a patented product containing titanium dioxide, produced by a domestic manufacturer, and is more effective than ordinary antibacterial agents.

Sterilization System Using UV/Visible Light Activated Catalyst" (Patent No. 4385115) developed by the National Institute of Advanced Industrial Science and Technology in 2003.

Characteristics

1. Can be used for hand disinfection, interior construction materials of houses, masks after use, work clothes, and car, etc.
2. Extensive data on the effectiveness of the product against viruses and bacteria such as avian influenza, norovirus and influenza
 - * It has also been tested against envelope viruses covered with a lipid/protein membrane.
3. Safety classified as non-irritant neutral (pH7.5)
 - * Classified as "non-irritant" according to an eye irritation test conducted by a third-party organization.
4. The titanium dioxide used in this product is a highly safe substance that is also used as a food additive.



Livestock Microbiology Class, Department of Veterinary Medicine, Faculty of Agriculture, Kagoshima University

Japan Food Research Laboratories

Japan Food Research Laboratories

4

TOPICS

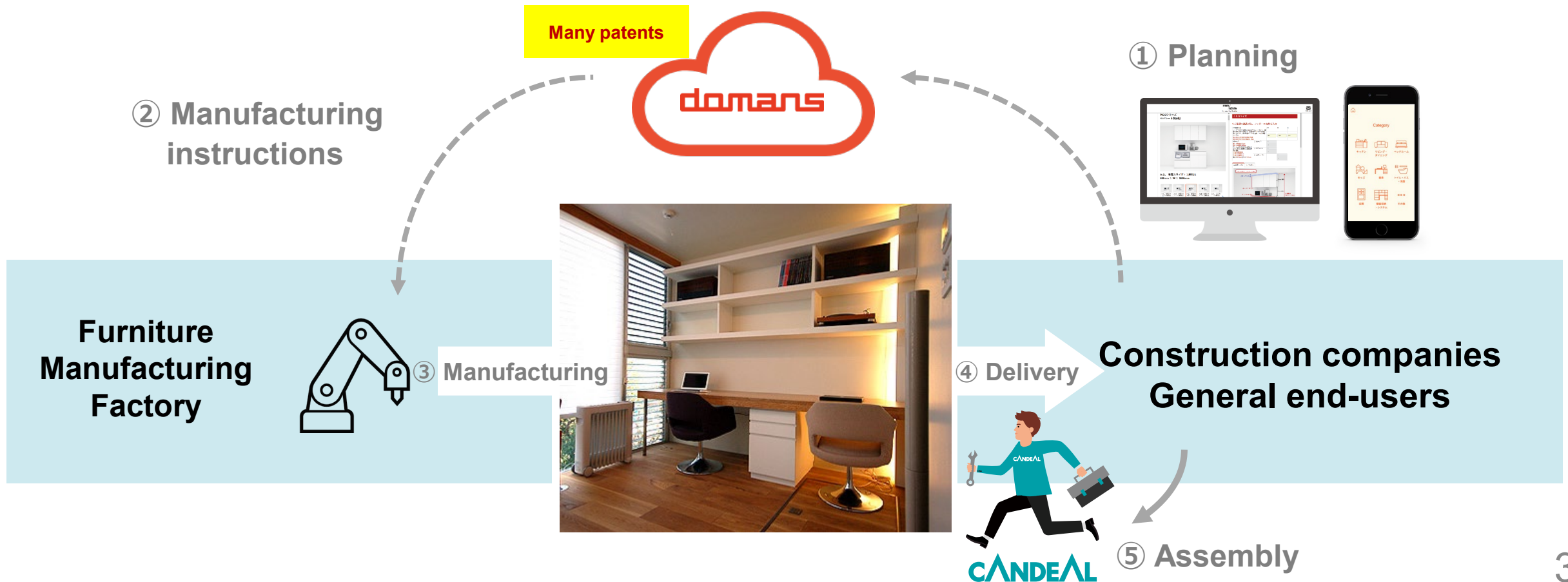
Dec. 2019 Transferred to the TSE 1st Section



Business alliance with Domans, Inc. in Feb. 2020

We aim to create a custom storage furniture service that cannot be imitated by any other by both niche top companies

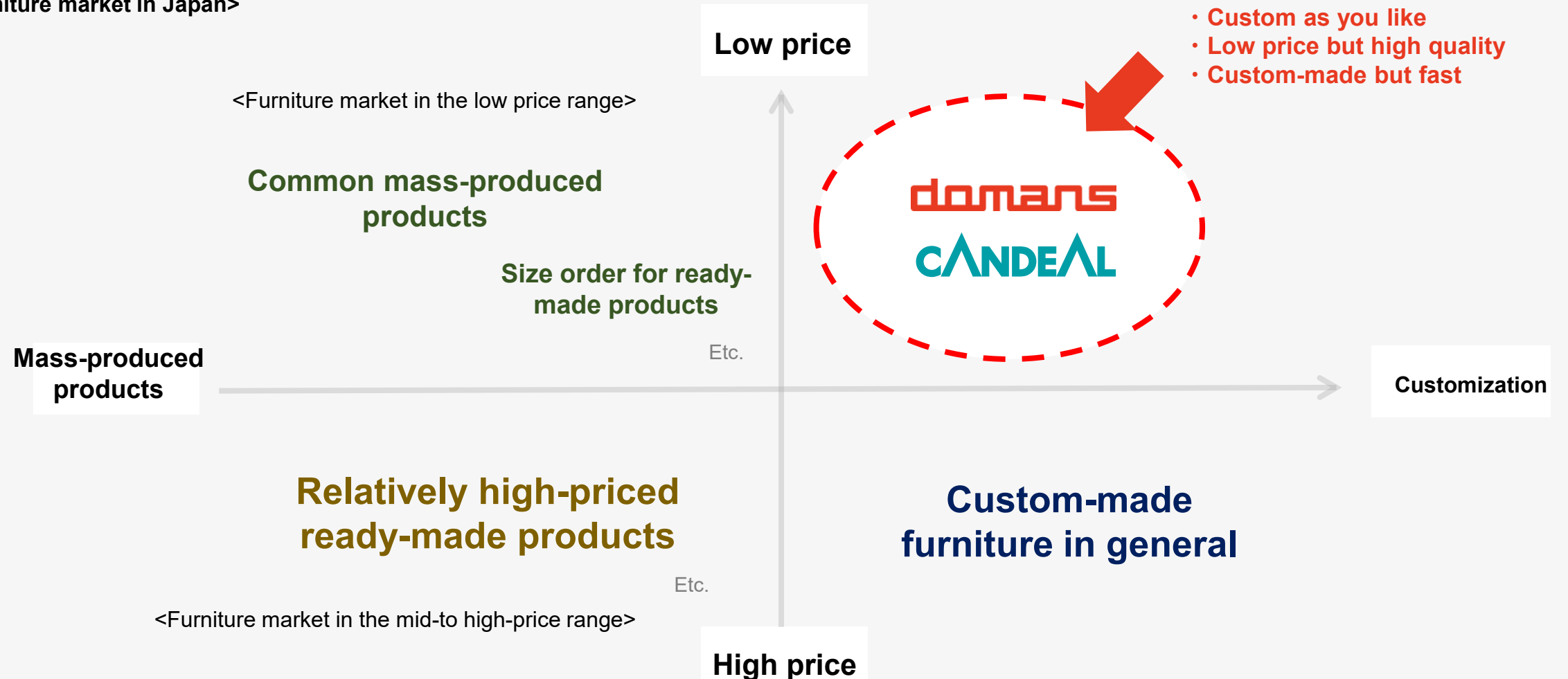
With our patented cloud service and construction system, we can solve everything from planning to manufacturing and assembly at once.



Target Position

The untapped market of “full custom-made furniture but at a low price”

<Furniture market in Japan>



Becoming a company that is indispensable in the building lifecycle support

"CANDEAL" in all buildings

The logo for CANDEAL is rendered in a bold, teal-colored, sans-serif typeface. The letters 'A' and 'E' are stylized with sharp, upward-pointing peaks, giving the logo a dynamic and modern appearance.

Manual & Technology

Disclaimer

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