1. Qualitative Information Concerning Consolidated Business Results

(1) Information about operating results

During the fiscal year ended March 31, 2017 (fiscal 2016), the Japanese economy has been recovered gradually based on the improvement of employment environments (e.g. income statistics, ratio of job offers to seekers and unemployment rate). In addition, personal consumption showed signs of recovery even though there were some risks such as influences of Kumamoto earthquake, financial markets and overseas economics.

The housing industry, our core operating domain, has experienced a gradual recovery because of economic stimulus measures like the expansion of mortgage loan tax break and low interest home loans. In fact, in May, 2016, the number of housing starts reached a million house (seasonally adjusted annual rate) per year. On the other hand, in summer of 2016 and later, the market showed the slowdown of recovery.

The retail and service industries includes unstable factors such as the fall in share price and adverse weather, but it also recovered steadily throughout the fiscal year.

Under these conditions, the Nac Group aggressively performed sales promotion in each of the operating segments. What is more, the Nac Group streamlined operations through rational investment strategies and improvements in management costs.

As a result, consolidated results for the fiscal year under review included net sales of 85,901 million yen, up 7.0% year on year, an operating income of 1,130 million yen, up 61.2% year on year, an ordinary income of 1,167 million yen, up 46.7% year on year, and an income attributable to owners of parent was 467 million yen, up 85.1% year on year.

As for non-consolidated operating results, the NAC recorded net sales of 30,249 million yen, down 1.7% year on year, an operating income of 1,587 million yen, up 59.5% year on year, an ordinary income of 1,636 million yen, up 8.7% year on year, and a net income of 1,042 million yen, up 6.6% year on year.

Operating results by business segment were as follows.

In addition to the operating income or loss of each segment, the Nac Group posted 1,247 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

In the fiscal year under review, the rush to enter the market by companies such as major soft drink manufacturers and providers of one-way bottles have slowed down. On the other hand, industry reorganization is advanced more and more. Hence, we expect that less companies will go out of business in the future.

Against this backdrop, the CreCla Business segment took a variety of measures (e.g.

sales promotion activities, production of additional goods and cost saving). Meanwhile, we devoted energies to rebuild the disaster area like Kumamoto and reach agreements on relief projects.

Our direct managed stores continuously strengthened sales promotions to increase new customers. Moreover, we tried to increase the bottle consumption per customer and improve sales per customer by the use of additional products like Hydrogen Generator "Magic Pot Ⅱ" and "Green Smoothie". On the other hand, the number of customers increased steadily in the one-way service segment named "CreCla mio". As a consequence, sales increased slightly year on year.

In our affiliated stores, we continuously worked on customer services and support programs. Furthermore, we sold plant components to affiliated stores. As a result, sales rose slightly year on year.

Operating income increased year on year due to an increase in sales and revisions to management costs.

Consequently, during the fiscal year ended March 31, 2017, the CreCla Business segment posted sales of 13,293 million yen (up 1.5% year on year), and operating income of 274 million yen (compared with an loss of 201 million yen in the fiscal year ended March 31, 2016).

In addition, CreCla business concluded memorandum of understanding with Aqua Clara Ltd. in August, 2016 in order to provide high-quality products and services.

[Rental Business]

The mainstay dust control products business focused on M&A and existing customers. Consequently, the number of customers and sales per customer held steady.

Moreover, we worked on the expansion of total care services (i.e. the housekeeping service, exterminator and gardener) to extend customer base, so sales increased year on year.

In the With-branded pest-control devices business and regular cleaning plan for business, sales grew year on year thanks to persistent sales efforts and an increase in referrals of new customers by existing customers. As a result, sales rose year on year.

Although personnel expenses and sales and general administrative expenses increased, operating income rose year on year owing to sales increases.

As a result, during the fiscal year ended March 31, 2017, the Rental Business segment posted sales of 13,135 million yen, up 2.9% year on year, and operating income of 1,853 million yen, up 0.7% year on year.

In addition, the With-branded pest-control devices business opened Nagoyaminami branch store and Hachioji branch store during the fiscal year ended March 31, 2017.

[Construction Consulting Business]
Although the housing industry showed a gradual recovery, situations of the construction and delivery were still weak. Thus, the condition of local construction market remained harsh.
Under these conditions, we actively worked on upgrade of products, developments of new goods and reinforcements of sales activities. However, our main customers, small and midsize building contractors tented to reduce investments because of the market deterioration. As a result, sales declined year on year.
The construction materials business, which is focused on solar energy systems, concentrated the new housing market by the use of “Zero energy house”. Therefore, the number of orders regarding solar powered house increased. However, sales decreased year on year due to the deterioration of the industrial solar energy market.
What is more, Eco & Eco cooperate with relative segments and undertake construction.
Operating income decreased year on year owing to sales decreases in the construction know-how systems business and the construction materials business.
As a result, during the fiscal year ended March 31, 2017, the Construction Consulting Business segment posted sales of 6,089 million yen, down 8.8% year on year, and operating income of 956 million yen, down 16.6% year on year.
In addition, the construction materials business newly opened a store in Saitama during the fiscal year ended March 31, 2017.

[Housing Sales Business]
During the fiscal year ended March 31, 2017, the housing market experienced a gradual recovery. For instance, because of tax saving, the number of housing starts regarding rental housing rose at 11.4% year on year.
On the other hand, that of subdivided housing unit increased for the 11 consecutive months, but more recently, it is on a downward trend (up 2.6% throughout the fiscal year).
Against this backdrop, in order to increase orders received and orders in hand, Leohouse, Ltd. performed effective sales promotion aggressively by the use of trademarks that we won customer’s satisfaction No.1 in three categories. Meanwhile, we offered diverse value-added products such as “CoCo as a lineup of Dai-ninki no ie” so as to provide a wide range of customers with many selections.

As a result, the number of orders received and orders in hand rose year on year, 2,081 homes (compared with 1,785 a year earlier, and up 16.6% year on year which is greater than the industry average) and 1,016 (compared with 861 a year earlier), respectively. Although there was the delay of the construction and delivery caused by the lack of manufacturers and craftspeople, sales rose year on year thanks to an increase in the number of orders received and orders in hand. On the other hand, sales was below the original prediction because consumption tax hike was put off and the completion of the construction was delayed.

Regarding profit and loss, we posted operating loss owing to the effect of sales that was below the original prediction and increases in construction costs and promotion costs.

J-wood Co., Ltd., establishes the popular customer attraction model with "Housing cafes", and the number of orders received and orders in hand continuously rose year on year to 200 homes (compared with 162 a year earlier) and 158 homes (compared with 138 a year earlier), respectively. Thus, sales increased year on year. In relation to this, J-wood Co., Ltd., opened new branch stores ahead of the spending plan and carried out sales promotion campaigns aggressively; hence, operating profit declined year on year.

Additionally, we acquired KDI Co., Ltd. in May, 2016 to explore new customers in metropolitan area and entry into the real estate business (in the financial report, a day as regarded as the acquisition date is June 30, 2016).

Taken together, during the fiscal year ended March 31, 2017, the Housing Sales Business posted sales of 42,936 million yen (up 14.6% year on year), and operating loss of 622 million yen (compared with loss of 412 million yen a year earlier, including goodwill amortization costs related to J-wood and KDI).

Regarding store openings, during the fiscal year ended March 31, 2017, Leohouse, Ltd. opened 2 sales bases and J-wood opened 4 sales bases including a cafe.

[Mail-order Business]

At JIMOS Co., Ltd., the mainstay Macchia Label brand increased in the number of new customers resulting from the effective internet promotions, but sales decreased slightly due to a decrease in the repeat rate. What is more, sales decreased year on year in the mail-order consulting business.

On the other hand, sales of the Coyori brand of skin and hair care products made from natural ingredients grew year on year as a result of a steady increase in the number of new customers and the repeat rate.

Operating income improved year on year because of the proper operation of investments in

advertising and promotion.
As a result, during the fiscal year ended March 31, 2017, the Mail-order Business posted sales of 10,463 million yen (up 0.8% year on year), and operating loss of 83 million yen (compared with a loss of 105 million yen a year earlier, including goodwill amortization costs related to JIMOS).