1. Qualitative Information Concerning Consolidated Business Results

(1) Information on operating results

During the nine months ended December 31, 2018(April 1 to December 31, 2018), the Japanese economy recovered gradually based on the improvement of employment environments and corporative earnings. In addition to this, the length of the economic recovery starting from December 2012 is expected to exceed Izanami economic boom which is the longest post-war economic recovery period. Nevertheless, there were some concerns such as unstable financial market, US-China trade war, and geopolitical risks in East Asia.

The housing industry, our core operating domain, is expected to recover gradually toward the consumption tax hike on October 1, 2019. On the other hand, consumers are taking wait-and-see attitude because Japanese government decided to enhance housing acquisition support system.

In the retail and services industries, personal consumption recovery remained weak owing to rising prices.

Under the circumstance, the Nac Group of companies aggressively worked on developments of new products, promotion of new services, improvement of customer satisfaction and expansion of business areas.

As a result, consolidated results for the nine months ended December 31, 2018 included sales of 59,420 million yen (down 1.5% year on year), operating loss of 376 million yen (compared with a loss of 896 million yen a year earlier), and ordinary loss of 396 million yen (compared with a loss of 858 million yen a year earlier). Net loss attributable to owners of the parent company was 426 million yen (compared with a loss of 1,042 million yen a year earlier).

Operating results by business segments were as follows.

In addition to the operating income or loss of each segment, the Nac Group of companies posted 770 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

During the nine months ended December 31, 2018, the market grew slowly. However, the conditions of the market was severe owing to competition for customers becoming more intense.

Under the circumstances, the CreCla business enhanced brand power through improvement of customer services. In addition, we carried out various measures (e.g. launch of new products named ZiACO utilizing “hypochlorous acid water”, improvements of customer retention rate and increases in the bottle consumption per customer).

In our direct managed stores, customer retention rate improved through the steadily growth of participation rate in the new service called “CreCla Security Support” from September, 2017. What is more, record-setting heatwave this summer increased bottle consumption per customer. Thus, sales rose year on year. In our affiliated stores, sales were about the same level year on year.

Operating income increased significantly year on year thanks to increased sales in direct managed store.

As a result, during the nine months ended December 31, 2018, the CreCla Business segment posted sales of 10,215 million yen (up 1.5% year on year), and operating income of 648 million yen (up 60.3% year on year).

[Rental Business]

In view of the super-aged society, the Rental business worked on expansion of the sales network and reinforced customer services to address variety customer demand.

The mainstay dust control products business opened a new store and focused on existing customers, so the number of customers and sales per customer rose gradually. In relation to this, we supply total care services (i.e. the housekeeping service, exterminator and gardener) that are intended for elderly people and expand business areas to increase customer base. Taken together, the mainstay dust control products business increased sales year on year.

With-branded pest-control devices business strengthened sales promotions before the summer peak demand season, so the number of customers and sales per customer rose gradually. As a result, sales increased year on year.

Earnest Co., Ltd. that provides regular cleaning plan for business improved profit margin. Sales were about the same level year on year.

Operating income increased year on year thanks to a solid increase in sales overall.

Consequently, during the nine months ended December 31, 2018, the Rental Business segment posted sales of 10,960 million yen, (up 5.1% year on year), and operating income of 1,582 million yen (up 1.6% year on year).

During the nine months ended December 31, 2018, we opened two branch stores in the mainstay dust control products business and With-branded pest control devices business, respectively.

[Construction Consulting Business]

Although consumption tax hike was expected to revitalize the local construction market, the market remained stagnant because of several reasons such as the lack of craftspeople

and decreases in the number of household.
Under these conditions, the construction know-how systems focused on sales of new products, and actively reinforced support programs for small and midsize building contractors.
The construction materials business, whose leading merchandise are solar power generation systems, shifted sales targets to the housing market. Although sales decreased year on year, operation income increased year on year.
Eco & Eco Co., Ltd. have conducted an overhaul of income structure, sales promotions and process management in fiscal 2017, so sales and operation income improved year on year.
Operating income increased year on year due to higher sales in the construction know-how systems and the improved income structure in Eco & Eco.
As a result, during the nine months ended December 31, 2018, the Consulting Business segment posted sales of 3,832 million yen, (up 1.6% year on year), and operating income of 365 million yen, (up 9.5% year on year).

[Housing Sales Business]
During the nine months ended December 31, 2018, demand was expected to increase towards consumption tax hikes, but as a result of deciding to extend mortgage tax cuts aimed at leveling demand, consumers took a wait-and-see attitude, and the difficult market environment continued.
Against this backdrop, Leohouse Co., Ltd. rebuilt a solid sales system and enhanced employee training programs through the replacement of top management. And we reduced fixed costs through the closure of unprofitable branches and managed business resources appropriately. Additionally, we started to sell ready-built houses that are expected to be over 10% of the number of houses delivered in the current fiscal year.
As a result, during the nine months ended December 31, 2018, the number of orders received and orders in hand are 1,402 homes (compared with 1419 a year earlier) and 1,271 (compared with 1,309 a year earlier), respectively. Although sales declined compared to the same period of the previous fiscal year due to a decrease in backlog of orders, operating income increased slightly as a result of efforts to reduce SG & A expenses.
J-wood Co., Ltd. made use of the popular customer attraction model with “Housing cafes” to get new customers. However, the sales and operation income decreased year on year due to reduced backlog in the beginning of the fiscal year.
KDI Co., Ltd. increased sales year on year thanks to reinforcements of information

collection methods regarding purchase and human resource development. On the other hand, operation income decreased year on year due to the increase in personnel expenses.
KUNIMOKU HOUSE Co., Ltd. worked on purchase of housing sites and reinforcements of sending out information through the social network service.
Suzukuri Co., Ltd. broaden its customer base through business alliance with partners in different industries.
To sum up, during the nine months ended December 31, 2018, the Housing Sales Business posted sales of 27,409 million yen (down 3.3% year on year), and operating loss of 2,325 million yen (compared with a loss of 2,267 million yen a year earlier, including goodwill amortization costs at 48 million yen related to J-wood Co., Ltd., KDI Co., Ltd. and KUNIMOKU HOUSE Co., Ltd.).
Regarding store openings, Leohouse Co., Ltd. and Suzukuri Co., Ltd. opened new sales bases, respectively for the third quarter consolidated period.

[Beauty and Health Business]
At JIMOS Co., Ltd., the mainstay MACCHIA LABEL brand increased new customers through the new cosmetic series called “CLEAR ESTHE LINE”, but sales decreased year on year resulting from reduction in the repeat rate.
The Coyori brand of skin and hair care products that is made from natural ingredients increased new customers through the new cosmetic series called “SAISEI LINE”. However, it decreased sales year on year because of the decline in the repeat rate.
Operating income improved year on year since we managed investments in advertising and promotion efficiently to maintain stable profits.
At BELAIR Co., Ltd., in addition to developing new services with a view to super aging society, we are working to expand our sales network of nutritional supplement products, and sales and operating income are at the same level as the same period of the previous year.
As a result, during the nine months ended December 31, 2018, the Beauty and Health Business posted sales of 7,029 million yen (down 8.9% year on year), and operating income of 122 million yen (compared with a loss of 58 million yen a year earlier, including goodwill amortization costs at 425 million yen related to JIMOS Co., Ltd. and BELAIR Co., Ltd.).
In December 2018, JIMOS Co., Ltd acquired InfiniTy BeauTy Co., Ltd. to share sales channels and product development know-how (in the financial report, a day as regarded as the acquisition date is December 31, 2018).