1. Qualitative Information Concerning Consolidated Business Results

(1) Information on operating results

During the fiscal year ended March 31, 2019 (fiscal 2018), the Japanese economy recovered gradually owing to improvement of employment environments and strong corporate earnings. However, towards the end of the fiscal year, there were signs indicating an economic slowdown such as flagging export with deceleration of global economy.

The housing industry, our core operating domain, was expected to recover gradually towards the consumption tax hike on October 1, 2019. However, housing demand was below forecast, since Japanese government decided to enhance housing acquisition support system to level the housing demand.

In the retail and services industries, although employment and income conditions continued to improve, personal consumption remained modest, as real incomes were sluggish due to rising prices.

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

Consequently, consolidated performance for the fiscal year under review resulted in net sales of 89,111 million yen (down 0.8% year on year), operating income of 2,037 million yen (up 24.5% year on year), and ordinary income of 2,081 million yen (up 32.2% year on year). Net profit attributable to owners of the parent company was 798 million yen (compared with a loss of 994 million yen a year earlier).

As for non-consolidated operating results, Nac Co., Ltd. recorded net sales of 31,130 million yen (up 32.2% year on year), an operating income of 2,308 million yen, (up 8.5% year on year), an ordinary income of 3,272 million yen, (up 44.8% year on year), and a net income of 1,169 million yen, (down 12.2% year on year).

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 1,064 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

The overall market grew gradually, however, the business development was challenging because of excessive competition.

Under the circumstance, the CreCla business enhanced brand recognition 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 increase in the bottle consumption per customer).

In our directly managed stores, customer retention rate improved through the steady growth of participation rate in the new service called "CreCla Security Support" from September, 2017. What is more, record-setting heatwave last summer increased bottle consumption per customer. In order to cope with increasing distribution costs, we decided to withdraw from one-way bottle delivery service. However, by means of extensive sales campaigns conducted during the period, sales slightly rose year on year. In our affiliated stores, sales were about the same level with the previous fiscal period.
Operating income increased significantly year on year thanks to increased sales of "CreCla Security Support" and fee income by introducing new type of water coolers.
As a result, during the fiscal year ended March 31, 2019, the CreCla Business segment posted sales of 13,179 million yen (up 0.2% year on year), and operating income of 788 million yen (up 32.3% year on year).

[Rental Business]
In view of the super-aging society, the Rental business worked on expansion of the sales network and reinforced customer services to address various customer requirements.
The mainstay dust control product business opened a new outlet and focused on existing loyal customers, so the number of customers and sales per customer rose gradually. In relation to this, we provided total care services (i.e. the housekeeping service, exterminator and gardener) with elderly people and expand business areas to increase customer base. Taken together, the mainstay dust control product business increased sales year on year. In addition, we concluded an operational and capital alliance with Duskin Co., Ltd. in August, 2018.
With-branded pest-control device business strengthened sales promotions midst of 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 services with business clients improved profit margin. Sales were about the same level year on year.
Operating income decreased slightly year on year by the cost increase with new store opening.
Consequently, during the fiscal year ended March 31, 2019, the Rental Business segment posted sales of 14,394 million yen, (up 4.9% year on year), and operating income of 1,998 million yen (down 1.1% year on year).

[Construction Consulting Business]
The market environment remained weak due to limited availability of craftspeople and decrease in the number of household.
Under these conditions, the team of construction know-how systems focused on sales of new

products, and actively reinforced support programs for small and midsize building contractors. Sales increased year on year, but operating income decreased due to the increased expenditure to develop new products.

The construction materials business, with its leading merchandise of solar power generation systems, shifted sales targets to the housing market. Although sales decreased year on year, operation income increased from the previous 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.

As a result, during the fiscal year ended March 31, 2019, the Consulting Business segment posted sales of 5,459 million yen, (up 1.4% year on year), and operating income of 754 million yen, (down 2.7% year on year).

[Housing Sales Business]

During the fiscal year ended March 31, 2019, housing demand was expected to increase towards consumption tax hikes, but as a result of government decision to extend mortgage tax cuts aimed at leveling the housing demand, it fell short of expectations.

Against this backdrop, Leohouse Co., Ltd. rebuilt a solid sales system and enhanced employee training programs through the management reorganization. And we reduced fixed costs through the closure of unprofitable branches and appropriate allocation of business resources. Additionally, we started to sell built-for-sale houses and lands in order to satisfy diverse customer needs.

As a result, during the fiscal year ended March 31, 2019, the number of orders received and orders in hand became 1,870 homes (compared with 1889 a year earlier) and 976 (compared with 944 a year earlier), respectively. Although sales declined compared with the same period of the previous fiscal year due to decrease in backlog of orders, operating loss was reduced as a result of efforts to minimize 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 reinforcement of information collection methods regarding purchase behavior of the customers 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 reinforced marketing and advertisement utilizing the social network service.

Suzukuri Co., Ltd. broadened its customer base through business alliance with partners in

different industries.
To sum up, during the fiscal year ended March 31, 2019, the Housing Sales Business posted sales of 46,318 million yen (down 2.5% year on year), and operating loss of 694 million yen (compared with a loss of 736 million yen a year earlier, including goodwill amortization costs of 60 million yen related to J-wood Co., Ltd., KDI Co., Ltd. and KUNIMOKU HOUSE Co., Ltd.).

[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 purchase rate.
The Coyori brand of skin and hair care products which are made from natural ingredients increased new customers through the new cosmetic series called “SAISEI LINE”. However, sales didn’t grow year on year as the repeat rate was below expectation.
Operating income improved year on year since we managed investments in advertising and promotion efficiently to maintain stable profits.
In addition, JIMOS Co., Ltd. acquired InfiniTy BeauTy Co., Ltd. in December 2018, to share sales channels and product development know-how (the acquisition took effects financially as of December 31, 2018).
At BELAIR Co., Ltd., in addition to developing new services in view of super aging society, we are working to expand our sales network of nutritional supplement products, and sales and operating income stayed at the same level year on year.
As a result, during the fiscal year ended March 31, 2019, the Beauty and Health Business posted sales of 9,801 million yen (down 3.1% year on year), and operating income of 255 million yen (up 73.2% year on year, including goodwill amortization costs of 585 million yen related to JIMOS Co., Ltd., BELAIR Co., Ltd., and InfiniTy BeauTy Co., Ltd.).