1. Qualitative Information Concerning Consolidated Business Results
(1) Information about operating results
During the three months ended June 30, 2019(April 1 to June 30, 2019), the Japanese economy, despite flagging export with deceleration of global economy, recovered gradually. This recover was supported by domestic demand and improvement in the employment and income environment.
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, the market recovered step by step, though there was influence of unseasonable weather.
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.
As a result, consolidated results for the first quarter ended June 30, 2019 included sales of 17,800 million yen (up 14.2% year on year), operating loss of 1,243 million yen (compared with a loss of 1,497 million yen a year earlier) and ordinary loss of 1,265 million yen (compared with a loss of 1,508 million yen a year earlier). Loss attributable to owners of parent company was 1,355 million yen (compared with a loss of 1,106 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 posted 277 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]
During the three months ended June 30, 2018, the condition of market remained harsh since unusual weather conditions affected negatively.
Under the circumstances, the CreCla business carried out sales promotions nationwide to increase the number of customers before the summer peak demand season. In addition, we promoted sales of the new product ZiACO utilizing “hypochlorous acid water”, which was launched last October, and strengthened production capacity.
In our direct managed stores, the number of customers decreased due to withdrawal from the one-way bottle delivery service because of rising logistics costs in the previous fiscal year, but efforts were made to improve service quality, bottle consumption per

household increased, and the unit price of customers improved. So, sales declined slightly year on year.
In our affiliated stores, sales remained at the same level as the same period of the previous year as a result of efforts to lower the churn rate.
Operating income decreased year on year due to a decrease in sales in the directly managed stores and the completion of temporary profit factors.
As a result, during the three months ended June 30, 2019, the CreCla Business segment posted sales of 3,103 million yen (down 5.2% year on year), and operating income of 17 million yen (down 80.1% year on year).
During the three months ended June 30, 2019, we opened the Tachikawa Maintenance Center as a base for server disassembly and cleaning and production of ZiACO.

[Rental Business]
Based on the society of the aged, the Rental business worked on expansion of the sales network and reinforcement of customer services to respond a variety of customer demand.
In the mainstay Duskin business, we expanded the provision of total care services (i.e. the housekeeping service, exterminator and gardener) based on an operational and capital alliance agreement signed with Duskin Co., Ltd. in August 2018. As a result, we maintained the same level of sales year on year.
With-branded pest-control devices business strengthened sales promotions before the summer peak demand season, and Earnest Co., Ltd., which provides regular cleaning plan for business developed sales activities aimed at acquiring new customers. Sales were at the same level as in the same period.
Operating income increased year on year owing to steady sales in all divisions.
Consequently, during the three months ended June 30, 2019, the Rental Business segment posted sales of 3,509 million yen (down 0.9% year on year), and operating income of 443 million yen (up 2.7% year on year).

[Construction Consulting Business]
The local construction market continued to face a tough market environment due to chronic shortages of craftspeople and a decrease in the number of households.
However, sales of the construction know-how systems increased due to strong sales of original new products launched in February 2019. Operating income also increased year on year.
The construction materials business, which focused on solar power generation systems

and Eco & Eco Co., Ltd., continued to shift the sales target to the residential solar and storage battery market. As a result, sales and operating income increased year on year.
As a result, during the three months ended June 30, 2019, the Consulting Business segment posted sales of 1,216 million yen (up 12.5% year on year) and operating income of 60 million yen (up 22.7% year on year).

[Housing Sales Business]
In addition to custom-built homes, Leo House Co., Ltd. started sales of built-for-sale houses and lands and 48 plan-type homes that are in line with life plans, in order to increase the number of orders and sales. On the other hand, we have reinforced our efficient operation of SG & A expenses and the appropriate allocation of management resources.
As a result, during the three months ended June 30, 2019, the number of orders received and orders in hand are 336 homes (compared with 469 a year earlier) and 1.022 (compared with 1,233 a year earlier), respectively. In addition, sales increased year on year because of an increase in the number of completed delivery buildings. Operating loss was reduced year on year as a result of closure of unprofitable branches and 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 owing to continued sales strategies specializing in the Tokyo metropolitan area and human resource development. Operating income decreased year on year due to increased personnel costs.
KUNIMOKU HOUSE Co., Ltd. increased sales year on year owing to the sale of model houses and property for sale.
To sum up, during the three months ended June 30, 2019, the Housing Sales Business posted sales of 7,408 million yen (up 36.7% year on year), and operating loss of 1,350 million yen (compared with a loss of 1,765 million yen a year earlier, including goodwill amortization costs at 11 million yen related to KDI Co., Ltd. and KUNIMOKU HOUSE Co., Ltd.).

[Beauty and Health Business]
At JIMOS Co., Ltd., we increased advertising expenses and sales promotion expenses aiming to expand customer base. In addition, we worked to increase sales by expanding sales channels such as domestic EC malls and overseas mail order.

In the mainstay MACCHIA LABEL brand, sales from existing customers declined, but sales increased year on year as a result of strong new customer acquisition measures centered on web advertising.
In the basic cosmetics Coyori brand, which mainly contains natural ingredients, sales declined year on year because of the decrease in the number of new customers.
In terms of profit and loss, operating income decreased year on year due to aggressive promotions and advance investment and sales promotion expenses.
In addition, JIMOS Co., Ltd., merged with InfiniTy BeauTy Co., Ltd. in April 2019.
At BELAIR Co., Ltd., in addition to developing new services in view of super aging society, we worked to expand our sales network of nutritional supplement products, but sales and operating income declined year on year
As a result, during the three months ended June 30, 2019, the Beauty and Health Business posted sales of 2,593 million yen (up 13.9% year on year), and operating loss of 136 million yen (compared with a loss of 136 million yen a year earlier, including goodwill amortization costs at 141 million yen related to JIMOS Co., Ltd. and BELAIR Co., Ltd.).