1. Qualitative Information Concerning Consolidated Business Results

(1) Information about operating results

During the six months ended September 30, 2014 (April 1 to September 30, 2014), the Japanese economy remained on a mild recovery track thanks to government-driven monetary easing and economic stimulus. Personal consumption in Japan, however, was weak due to lower real disposable income caused by the consumption tax hike and rising prices.

In the housing market, mortgage loan rates remained low and some impact of the expansion of mortgage loan tax break and the establishment of housing subsidy were seen, however, the home orders environment remained severe amid prolongation of the pullback in demand after the consumption tax hike.

In the retail and services industries, the outlook remained clouded due to the pullback in demand after the consumption tax hike, higher consumption tax rate, rising prices and unseasonable summer weather in July and August.

Under these conditions, the Nac Group, the Housing Sales Business in particular, was largely affected by the reflexive downturn in demand following the surge in demand prior to the consumption tax hike. As a result, consolidated sales for the six months ended September 30, 2014 reached 40,978 million yen (up 3.4% year on year). However, the Nac Group posted an operating loss of 183 million yen (compared with operating income of 1,408 million yen in the six months ended September 30, 2013), an ordinary loss of 182 million yen (compared with ordinary income of 1,423 million yen a year earlier), and a net loss of 334 million yen (compared with net income of 773 million yen a year earlier).

Operating results by business segment were as follows.

In addition to the operating income or loss of each segment, the Nac Group posted 613 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

During the six months ended September 30, 2014, the bottled water market was severe due to increased competition with several new companies, including some major makers of carbonated water, entered the market, in addition to adverse weather conditions nationwide, which contributed to a decline in average daily hours of sunshine and thereby reduced the number of water bottles consumed.

Under such conditions, our directly managed stores strengthened staff training targeted at improving customer service levels, redoubled their efforts to be more competitive and retain existing customers, and strengthened sales promotion activities aimed at acquiring new customers. As a result, sales increased year on year.
In sales to affiliated stores, sales of bottles slightly increased, however, sales of water coolers to affiliates declined due to difficulty in expanding customer numbers.
Operating income declined year on year due to lower sales in the affiliated stores division in addition to personnel expenses in the directly managed stores division.
As a result, during the six months ended September 30, 2014, CreCla Business segment posted sales of 6,686 million yen, down 4.4% year on year, and operating loss of 65 million yen, compared with an operating income of 146 million yen in the six months ended September 30, 2013.
During the second quarter, we opened two directly managed stores, one in Shiga Prefecture and the other in Takasaki City.

[Rental Business]
The dust control products business continued to face a challenging environment with ongoing competitions with other companies, as diversifying customer needs contribute to an increase in customers choosing alternative products available in stores while more widespread use of autolock entrances to condominium and apartment buildings reduces opportunities to communicate with customers.
In this environment, we stepped up efforts to prevent contract terminations of existing customers. Furthermore, in line with our strategy of expanding business scale through M&A, we worked with Duskin's head office to acquire customers from other Duskin franchises. These efforts led to steady expansion of sales in our core dust-control products business.
However, the business posted a year-on-year decline in profits owing to increased spending on sales promotions and higher personnel expenses.
Our With-branded pest-control devices and regular cleaning plan for business both enjoyed solid sales as we succeeded in expanding orders received via the internet.
As a result, during the six months ended September 30, 2014, Retail Business segment posted sales of 6,149 million yen, up 0.8% year on year, and operating income of 745 million yen down 14.8% year on year.
During the second quarter, we established directly managed sales offices in Ibaraki Prefecture's Moriya City (handling Duskin dust-control products) and Miyagi Prefecture's Sendai City (pest-control devices).

[Construction Consulting Business]

In our construction know-how systems, our main customers, small and midsize building contractors, were not eager to invest in our know-how systems because they saw little prospect for improvement in orders in hand amid the reflexive decline in demand that followed the demand surge prior to the consumption tax hike. In addition, we found ourselves with a shortage of sales staff as improving economic conditions tightened the labor market and made it difficult to secure new hires. As a result, our efforts to acquire new clients fell short of targets. Due to this, sales and operating income both declined year on year.

In the construction materials business, which is focused on solar energy systems, our strategy of proposing our products for newly built homes, on which we are placing a greater emphasis than before, met with success amid an increase in demand for construction materials used in new homes, and we steadily expanded our customer base. In addition, we were able to provide a stable supply of materials in line with orders received even for low-pressure projects for industry, enabling the construction materials business to achieve a year-on-year increase in sales.

The segment as a whole, however, saw its operating income fall year on year, as the decline in know-how system sales and profits offset higher profitability on sales of construction materials business achieved by improving the efficiency of the business operations.

As a result, during the six months ended September 30, 2014, the Construction Consulting Business segment posted sales of 2,908 million yen, up 20.5% year on year, and operating income of 397 million yen, down 10.6% year on year.

[Housing Sales Business]

Conditions in Japan's housing industry remained challenging during the six months ended September 30, 2014. Low mortgage interest rates and expansion of housing loan tax deductions were demand supportive, but consumers' appetite for acquiring new homes remained stunted by optimistic expectations that mortgage interest rates would remain low and by uncertainty regarding the planned second stage of the consumption tax hike. Industry conditions were also negatively affected by prolongation of the reflexive decline in demand following the rush to buy homes prior to the first stage of the tax hike.

In this environment, Nac Group home builder Leohouse, Ltd., achieved a higher average sale on new contracts but saw its consolidated sales for the six months ended September 30, 2014 fall sharply nonetheless owing to the large impact of the reflexive decline in demand after the consumption tax hike.

Operating income declined year on year, reflecting the lower sales and higher costs caused by increases in material prices and labor costs.

The reflexive decline in demand following the consumption tax hike and consumer caution on new home purchases contributed to declines both in new orders received and orders in hand during the six months ended September 30, 2014. Orders received was 1,055 homes (compared with 1,779 a year earlier), and orders in hand was 1,220 as of September 30, 2014 (compared with 1,860 a year earlier).

Meanwhile, J-wood Co., Ltd. increased sales year on ear. The company's operating income fell owing to increased expenses related to the opening of a new sales outlet in Akita in November and offered discounts equivalent to the consumption tax increase from April through June.

Orders received remains firm, and orders in hand totaled 91.

As a result of the above, the Housing Sales Business recorded sales of 20,571 million yen, down 6.7% year on year during the six months ended September 30, 2014. The segment posted an operating loss of 383 million yen, compared with operating income of 540 million yen a year earlier.

During the second quarter, Leohouse opened a new sales branch in Fukuoka-minami and model display sites in Kisarazu and Hitachinaka, expanding its nationwide network to 48 branch stores and 51 model display sites.

[Mail-order Business]

Mail-order business operator JIMOS Co., Ltd., became a consolidated subsidiary in the second quarter of fiscal 2013. Consequently, first-half results for fiscal 2014 are based on sales posted over the full six-month period, as opposed to just three months for the first half of fiscal 2013. JIMOS spent aggressively on advertising and increased sales despite the drop-off in demand after customers stocked up before the consumption tax hike. Sales in the mail-order consulting business, however, decreased amid an increasingly competitive environment.

The increase in advertising spending and lower earnings in the mail-order consulting business led to a decline in operating income year on year.

As a result, during the six months ended September 30, 2014, the Mail-order Business posted sales of 4,696 million yen, up 125.8% year on year. The segment recorded an operating loss of 264 million yen (compared with operating income of 316 million yen a year ago) due to posting goodwill amortization costs and others in the segment.

(2) Information about financial position

(i) Assets, liabilities and net assets

As of the end of the second quarter (September 30, 2014), total assets were 41,954 million yen, an increase of 1,499 million yen from the end of the previous fiscal year. The increase is primarily attributable to an increase in cash and cash equivalents owing to new bank loans and an increase in costs on uncompleted construction contracts of the Housing Sales Business. These increases more than offset cash outflows related to the payment of taxes, dividends, and accounts payable. Total liabilities amounted to 26,507 million yen, an increase of 2,057 million yen from the end of the previous fiscal year. The increase in liabilities primarily reflects increases in short-term loans and advances received on uncompleted construction contracts, which more than offset declines in accounts payable owing to payment of outstanding construction bills and in income taxes payable and others following tax payments.

Total net assets as of the end of the second quarter were 15,447 million yen, a decrease of 558 million yen from the end of the previous fiscal year. The decline primarily reflects the fall in retained earnings caused by the payment of dividends of 316 million yen and the posting of a net loss of 334 million yen for the period under review.

(ii) Cash flows

Cash and cash equivalents at the end of the six months ended September 30, 2014 amounted to 7,832 million yen, an increase of 1,461 million yen from the end of the previous fiscal year. The statuses of cash flows from operating, investing and financing activities and their respective factors are presented below.

(Cash flows from operating activities)

Operating activities produced a net cash outflow of 2,017 million yen, compared to a net inflow of 3,174 million yen in the same period of the previous fiscal year. The main inflows were from an increase in advances received on uncompleted construction contracts (491 million yen), a decrease in notes and accounts receivable (494 million yen) and depreciation and amortization (875 million yen). The main outflows were from a decrease in notes and accounts payable (1,752 million yen) and income taxes paid (1,603 million yen).

(Cash flows from investing activities)

Investing activities produced a net cash outflow of 1,333 million yen, compared to a net outflow of 8,903 million yen in the same period of the previous fiscal year. The main outflows were from purchase of property, plant and equipment (918 million yen), purchase of intangible assets (151 million yen) and payments of loans receivable (139 million yen).

(Cash flows from financing activities)

Financing activities produced a net cash inflow of 4,812 million yen, compared to a net inflow of 3,859 million yen in the same period of the previous fiscal year. The main inflow was from short-term and long-term loans payable (5,600 million yen), and the main outflows were from repayments of long-term loans payable (588 million yen) and cash dividends paid to shareholders (316 million yen).

(3) Information about consolidated outlook and other forward-looking statements

Considering the Nac Group's recent earnings trend and other relevant factors, we have revised the consolidated outlook for the full fiscal year ending March 31, 2015, issued on May 9, 2014. For details, please see the news release issued today (November 7, 2014) entitled "Notification of Differences in Actual and Outlook for the First Six Months of Fiscal 2014 (April 1, 2014, to March 31, 2015) and Revisions to Consolidated Earnings Forecasts for the Full Fiscal Year" (only in Japanese).