

1. Qualitative Information Concerning Consolidated Business Results

(1) Information about operating results

During the nine months ended December 31, 2015 (April 1 to December 31, 2015), corporate earnings and the employment environment have been improved in the Japanese economy; however, the strength of recovery in personal consumption still waned.

In the housing market, which is one of our business areas, improvements in employment and income statistics and economic stimulus measures such as the expansion of mortgage loan tax break and housing subsidy program have had a positive effect on housing starts. Nevertheless, more recently, the market is showing the slowdown of recovery.

In the retail and service industries, on the other hand, personal consumption remained weak although customer sentiment is looking up due to the upturn in employment.

Under these conditions, the Nac Group developed new products and services actively and streamlined operations in all business areas.

As a result, consolidated results for the nine months ended December 31, 2015 included sales of 55,300 million yen (down 10.6% year on year), operating loss of 1,127 million yen (compared with an income of 372 million yen in the nine months ended December 31, 2014) and ordinary loss of 1,139 million yen (compared with an income of 362 million yen a year earlier). Loss attributable to owners of parent was 1,017 million yen (compared with a loss of 68 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 1,209 million yen as corporate expenses that is not attributable to any particular segment.

[CreCla Business (Bottled Water)]

During the nine months ended December 31, 2015, intense competition for new customers continued in the bottled water delivery industry, mainly among providers of one-way bottles. In addition, unseasonable weather during the second quarter of fiscal 2015, which is the summer peak demand season, had an adverse effect on marketing activities. Overall, the market environment was challenging. Under these conditions, the CreCla Business placed priority on “water safety and security” and improved “the quality of products and services”.

In our directly managed stores, although the number of customers remained, sales decreased slightly because adverse weather conditions in the summer reduced the sales volume of bottled water.

In sales to affiliated stores, sales of bottles increased slightly, but that of water coolers to affiliates decreased because of sluggish growth in customer numbers.

Operating income of the CreCla Business declined year on year because it booked depreciation expenses on the Honjo Plant operated from April, 2015.

As a result, during the nine months ended December 31, 2015, the CreCla Business segment posted

sales of 9,912 million yen (up 0.3% year on year), and operating loss of 215 million yen (compared with an income of 46 million yen in the nine months ended December 31, 2014).

[Rental Business]

The mainstay dust control products business strengthened service systems especially in the total care service segment which is expected high demands backed by aging society. Moreover, steady sales efforts in the household-use market contributed to the improvement of contract termination rates.

In the With-branded pest-control devices business, sales grew year on year thanks to directly managed stores that opened up last year have taken off and strong sales to affiliated stores.

Our regular cleaning plan for business recorded year-on-year sales growth because of steady orders received via the Internet and an increase in referrals of new customers by existing customers.

Taken together, operating income rose year on year due to sales growth in all businesses.

As a result, during the nine months ended December 31, 2015, the Rental Business segment posted sales of 9,568 million yen, up 1.6% year on year, and operating income of 1,404 million yen, up 21.5% year on year.

[Construction Consulting Business]

During the nine months ended December 31, 2015, conditions of the local construction market remain harsh. In this environment, the construction know-how systems business kept up sales efforts to sustain growth of new customers; as a consequence, sales increased significantly year on year.

In the construction materials business, which is focused on solar energy systems, sales efforts especially focused on the new housing market. However, sales decreased year on year since these efforts were not sufficient to compensate for the decline of the industrial solar systems market.

Against the background, the NAC group acquired Eco & Eco Co., Ltd. to expand sales network and strengthen construction network.

Overall, operating income increased significantly year on year owing to sales growth of the construction know-how systems and revisions to management costs.

During the nine months ended December 31, 2015, the Construction Consulting Business segment posted sales of 4,433 million yen, up 3.6% year on year, and operating income of 825 million yen, up 65.3% year on year.

[Housing Sales Business]

During the nine months ended December 31, 2015, Japan's housing industry totally experienced a gradual recovery. However, the number of housing starts declined by 0.7% year on year and that of owner-occupied housing including custom-built house levelled off over the third quarter.

Against this backdrop, Leohouse, Ltd. targeted a broad range of customers by offering diverse value-

added products, such as “ZEH (Net Zero Energy House) as a lineup of Dai-ninki no ie,” which is a new high-end product featuring high cost performance, “Surprise as a lineup of Dai-ninki no ie” to mark the 45th anniversary of the founding of Nac Co., Ltd., and “Hapi Sora as a lineup of Dai-ninki no ie,” which features a roof garden.

What is more, during the third quarter, Leohouse, Ltd. introduced “Pepper” that is developed by Softbank Robotics in order to improve customer services in five stores.

Nevertheless, sales declined year on year because the demand of our main customers who purchase house for the first time still waned.

Regarding profit and loss, operating income decreased year on year owing to decrease in sales. Furthermore, the number of orders received and orders in hand decreased year on year to 1,326 homes (compared with 1,470 a year earlier) and 1,109 homes (compared with 1,129 a year earlier), respectively, as of September 30, 2015.

On the other hand, J-wood Co., Ltd. increased sales and new orders received. In relation to this, there was steady growth in orders in hand, which stood at 128 homes (compared with 87 a year earlier) as of December 31, 2015 thanks to the popular customer attraction model named “Housing cafe.” What is more, J-wood opened a new model display site in Sendai during the third quarter.

As a result, during the nine months ended December 31, 2015, the Housing Sales Business posted sales of 23,519 million yen (down 23.7% year on year), and operating loss of 1,715 million yen (compared with a loss of 339 million yen a year earlier, including goodwill amortization costs related to J-wood).

[Mail-order Business]

Based on a number of excellent customers, the Macchia Label brand’s performance continues to be strong; in addition, JIMOS Co., Ltd., offered new products besides a variety of existing goods.

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 thanks to ongoing aggressive spending in advertising.

On the other hand, sales decreased year on year in the mail-order consulting business.

Operating income declined year on year due to aggressive investment in advertising and promotions ahead of the spending plan and a decrease in sales of the mail-order consulting businesses.

As a result, during the nine months ended December 31, 2015, the Mail-order Business posted sales of 7,919 million yen (up 6.0% year on year), and operating loss of 217 million yen (compared with a loss of 96 million yen a year earlier, including goodwill amortization costs related to JIMOS).