

1. Qualitative Information Concerning Consolidated Business Results

(1) Information about operating results

During the three months ended June 30, 2016 (April 1 to June 30, 2016), while the Japanese economy continued to improve employment situation, personal consumption was still weak. What is more, temporarily, share price has dropped steeply due to appreciation of the yen that related to the result of national referendum in the UK. Under the circumstances, there are increasing fears about business recession.

The housing industry, our core operating domain, is recovering gradually from the end of last year; in fact, the number of housing starts measured a million house per month in May. Furthermore, in June, the number of owner-occupied homes also showed signs of recovery even though that of subdivided housing unit was slightly weak.

On the other hand, in the retail and services industries, personal consumption lacked strength because of several reasons (e.g. the stagnation of disposal income following an increase in social insurance premium, a fall in share prices, and so on).

Against this backdrop, the Nac Group aggressively performed sales promotion activities in each of the operating segments.

As a result, consolidated results for the first quarter ended June 30, 2016 included sales of 14,538 million yen (down 7.0% year on year), operating loss of 1,858 million yen (compared with a loss of 1,514 million yen in the first quarter of fiscal 2015) and ordinary loss of 1,872 million yen (compared with a loss of 1,513 million yen a year earlier). Loss attributable to owners of parent was 1,406 million yen (compared with a loss of 1,155 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 332 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

In the three months ended June 30, 2016, the rush to enter the market by companies such as major soft drink manufacturers and providers of one-way bottles have slowed down. On the other hand, industry reorganization is advanced more and more. Hence, we expect that less companies will go out of business in the future.

Amid these circumstances, direct managed stores continuously worked on sales promotions to increase new customers. Besides, we tried to improve sales per customer by the use of additional products such as Hydrogen Generator “Magic Pot”. As a consequence, sales increased slightly year on year.

In our affiliated stores, we continuously strengthened customer services and support program to improve customer satisfactions; therefore, sales increased slightly year on year.

Operating income increased year on year due to an increase in sales.

As a result, during the three months ended June 30, 2016, the CreCla Business segment posted sales of 3,243 million yen (up 1.0% year on year), and operating loss of 186 million yen (compared with a loss of 262 million yen in the first quarter of fiscal 2015).

[Rental Business]

The mainstay dust control products business mainly promotes three strategies that are “an increase in basic customers by the use of M&A”, “the improvement of sales per customer” and “the expansion of total care services to extend customer basis”. As a result, the number of customers held steady and sales per customer was improved, so sales increased year on year.

In our With-branded pest-control devices and regular cleaning plan for business, both directly managed stores and affiliates reinforced sales activities. What is more, there are increases in referrals of new customers by existing customers. As a result, sales increased year on year.

Operating income decreased year on year owing to increases in personnel expenses and sales and general administrative expenses.

Consequently, during the three months ended June 30, 2016, Rental Business segment posted sales of 3,170 million yen, up 3.1% year on year, and operating income of 366 million yen down 17.0% year on year.

During the three months ended June 30, 2016, we opened a Nagoyaminami store in the With-branded pest control devices business.

[Construction Consulting Business]

In construction know-how systems, the condition of local construction market remained harsh. Under these conditions, we actively worked on developments of original products and evolutions of existing products. However, sales decreased year on year due to the influence of market deterioration.

In the construction materials business, which is focused on solar energy systems, the trend has changed from “sell power” to “self-consumption”. We concentrated energy on the new house market by the use of construction network (Eco & Eco). In relation to

this, we proposed “Zero energy house” to increase customers. Nevertheless, sales decreased year on year.

On the whole, operating income decreased year on year owing to sales decreases in the construction know-how systems.

As a result, during the three months ended June 30, 2016, the Construction Consulting Business segment posted sales of 1,220 million yen, down 11.7% year on year, and operating income of 103 million yen including goodwill amortization costs related to Eco & Eco, down 55.3% year on year.

During the three months ended June 30, 2016, in the construction materials business, we opened a new base in Saitama.

[Housing Sales Business]

During the three months ended June 30, 2016, the housing market experienced a gradual recovery, and the number of owner-occupied homes increased year on year. Against this backdrop, Leohouse, Ltd. tapped into neighboring business areas to reorganise financial performances. Furthermore, we acquired KDI Co., Ltd. in May, 2016 to explore new customers in metropolitan area and entry into the real estate business (in the financial report, a day as regarded as the acquisition date is June 30, 2016). In addition to this, we used effective trademarks that we won customer’s satisfaction No.1 in three categories last year and diversified our products to seek a variety of customers.

As a result, the number of orders received rose year on year. Nevertheless, sales declined year on year because orders in hand were decreased as of the end of the previous fiscal year.

Operating income declined year on year due to the effect of lower sales and costs related to new store openings.

Orders received for the first quarter under review increased due to appropriate sales strategies. Orders received and orders in hand both rose year on year, 457 homes (compared with 387 a year earlier) and 1,114 (compared with 1,035 a year earlier), respectively, as of June 30, 2016.

At J-wood Co., Ltd., sales increased thanks to the popular customer attraction model with “Housing cafes”, and both the number of orders received and orders in hand rose year on year to 56 homes (compared with 35 a year earlier) and 169 homes (compared with 115 a year earlier), respectively. On the other hand, sales decreased year on year owing to the delay of construction and delivery.

J-wood Co., Ltd., opened a new model display site in Sendaiminami and Hanamizuki

Café in Akita, so we carried out a sales promotion campaign aggressively. Thus, Operating profit declined year on year.

Consequently, during the three months ended June 30, 2016, the Housing Sales Business posted sales of 4,376 million yen (down 20.5% year on year), and operating loss of 1,543 million yen (compared with a loss of 1,317 million yen a year earlier, including goodwill amortization costs related to J-wood Co., Ltd.).

Regarding store openings, during the three months ended June 30, 2016, Leohouse, Ltd. opened two sales bases and J-wood Co., Ltd., opened 2 sales bases including a café.

[Mail-order Business]

At JIMOS Co., Ltd., although sales for existing customers were below our prediction, the mainstay Macchia Label brand produced strong results because the number of new customers increased steadily.

Furthermore, 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. On the other hand, sales decreased year on year in the wholesaling business due to some reasons (e.g. our main customers has been replaced).

Operating income improved year on year due to the proper operation of investments in advertising. As a result, during the three months ended June 30, 2016, the Mail-order Business posted sales of 2,528 million yen (up 2.5% year on year), and operating loss of 266 million yen (compared with a loss of 316 million yen a year earlier, including goodwill amortization costs related to JIMOS Co., Ltd.).