

1. Qualitative Information Concerning Consolidated Business Results

(1) Information on operating results

During the six months ended September 30, 2018(April 1 to September 30, 2018), the Japanese economy recovered gradually based on the improvement of employment environments and corporative earnings. Nevertheless, there were some concerns such as unstable financial market, American trade policy, and geopolitical risks in East Asia.

The housing industry, our core operating domain, is expected to recover gradually toward the consumption tax hike in October 1, 2019. On the other hand, the current number of housing starts remains weak.

In the retail and services industries, despite the downward tendency caused by natural disasters, personal consumption was on a recovery trend owing to improvement in employment and income environments.

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

As a result, consolidated results for the six months ended September 30, 2018 included sales of 37,835 million yen (down 0.8% year on year), operating loss of 1,204 million yen (compared with a loss of 1,561 million yen in the six months ended September 30, 2017) and ordinary loss of 1,220 million yen (compared with a loss of 1,561 million yen a year earlier). Loss attributable to owners of parent company was 999 million yen (compared with a loss of 1,429 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 of companies posted 512 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

During the six months ended September 30, 2018, the condition of market remained harsh since a price hike in delivery charge affected providers of one-way bottles and competition became more intense.

Under the circumstances, the CreCla business enhanced brand power through improvement of customer services. In addition, we carried out various measures (e.g. development of new products named ZiACO utilizing “hypochlorous acid water”, improvements of customer retention rate and increases in the bottle

consumption per customer).

In our direct managed stores, customer retention rate improved through the steadily growth of participation rate in the new service called “CreCla Security Support” from September, 2017. What is more, record-setting heatwave this summer increased bottle consumption per customer. Thus, sales rose year on year. In our affiliated stores, we continuously focused on customer services and support programs in order to increase number of customers and sales per customer. Consequently, sales increased year on year.

Operating income increased significantly year on year thanks to sales increases in both direct managed and affiliated stores and reducing the sales promotion expenses.

As a result, during the six months ended September 30, 2018, the CreCla Business segment posted sales of 6,925 million yen (up 3.7% year on year), and operating income of 458 million yen (compared with income of 131 million yen during the six months ended September 30, 2017).

[Rental Business]

In view of the super-aged society, the Rental business worked on expansion of the sales network and reinforced customer services to address variety customer demand.

The mainstay dust control products business opened a new store and focused on existing customers, so the number of customers and sales per customer rose gradually. In relation to this, we supply total care services (i.e. the housekeeping service, exterminator and gardener) that are intended for elderly people and expand business areas to increase customer base. Taken together, the mainstay dust control products business increased sales year on year.

With-branded pest-control devices business strengthened sales promotions before 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 plan for business improved profit margin. Sales were about the same level year on year.

Operating income increased year on year thanks to a solid increase in sales overall. Consequently, during the six months ended September 30, 2018, the Rental Business segment posted sales of 7,145 million yen, up 5.3% year on year, and operating income of 946 million yen up 1.9% year on year.

During the six months ended September 30, 2018, we opened new stores in the

mainstay dust control products business and With-branded pest control devices business, respectively.

[Construction Consulting Business]

Although consumption tax hike is going to revitalize the local construction market, the market remains stagnant because of several reasons such as the lack of craftspeople and decreases in the number of household.

Under these conditions, the construction know-how systems actively reinforced support programs for small and midsize building contractors. Sales were about the same level year on year.

The construction materials business, which focused on solar energy systems, reinforced sales promotions regarding solar powered house (e.g. new-built house) in the housing market. And to date our efforts have met with some success.

Nevertheless, sales decreased year on year owing to the delay in delivery of commodities, which was affected by Revised-FIT and natural disasters including the torrential rain in western Japan.

Eco & Eco Co., Ltd. have conducted an overhaul of income structure, sales promotions and process management in fiscal 2017, so sales improved year on year. Operating income decreased year on year due to decreased in sales of the construction materials business and increase in selling, general, and administrative expenses related to promoting new products in the construction know-how systems.

As a result, during the six months ended September 30, 2018, the Consulting Business segment posted sales of 2,427 million yen, down 5.1% year on year, and operating income of 197 million yen, down 17.3% year on year.

[Housing Sales Business]

During the six months ended September 30, 2018, the number of housing starts remains sluggish. Reasons behind this were a slump in the real estate investment market and declines in demand for saving inheritance tax. However, housing industry is expected to recover gradually toward the consumption tax hike.

Against this backdrop, Leohouse Co., Ltd. rebuilt a solid sales system and enhanced employee training programs through the replacement of top management. And we reduced fixed costs through the closure of unprofitable branches and managed business resources appropriately. Additionally, we performed effective sales promotions aggressively by the use of trademarks that we

won customer's satisfaction about selling price for 3 straight years.

As a result, during the six months ended September 30, 2018, the number of orders received and orders in hand are 1,007 homes (compared with 981 a year earlier) and 1,317 (compared with 1,294 a year earlier), respectively. In addition, sales declined year on year owing to the delay of the construction and delivery caused by natural disasters including the torrential rain in western Japan, typhoons, earthquakes. Operating income also decreased year on year due to decreases in sales and the rise in construction costs that was affected by the lack of craftspeople. J-wood Co., Ltd. made use of the popular customer attraction model with "Housing cafes" to get new customers. However, the sales decreased year on year due to reduced backlog in the beginning of the fiscal year.

KDI Co., Ltd. increased sales significantly year on year thanks to reinforcements of information collection methods regarding purchase and human resource development.

KUNIMOKU HOUSE Co., Ltd. worked on purchase of housing sites and reinforcements of sending out information through the social network service.

Suzukuri Co., Ltd. broaden its customer base through business alliance with partners in different industries.

To sum up, during the six months ended September 30, 2018, the Housing Sales Business posted sales of 16,860 million yen (down 2.1% year on year), and operating loss of 2,195 million yen (compared with a loss of 1,974 million yen a year earlier, including goodwill amortization costs at 37 million yen related to J-wood Co., Ltd., KDI Co., Ltd. and KUNIMOKU HOUSE Co., Ltd.).

Regarding store openings, during the first quarter, Leohouse Co., Ltd. and Suzukuri Co., Ltd. opened new sales bases, respectively.

[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 rate.

The Coyori brand of skin and hair care products that is made from natural ingredients increased new customers through the new cosmetic series called "SAISEI LINE" declined sales year on year because of the decline in the repeat rate.

Operating income improved year on year since we managed investments in advertising and promotion efficiently to maintain stable profits.

BELAIR Co., Ltd. develops comprehensive services by the use of management resources for the society of the aged and expands sales network.

As a result, during the six months ended September 30, 2018, the Beauty and Health Business posted sales of 4,494 million yen (down 9.1% year on year), and operating loss of 99 million yen (compared with a loss of 291 million yen a year earlier, including goodwill amortization costs at 283 million yen related to JIMOS Co., Ltd. and BELAIR Co., Ltd.).