

1. Qualitative Information Concerning Consolidated Business Results

(1) Information about operating results

During the six months ended September 30, 2019 (April 1 to September 30, 2019), the Japanese economy, despite flagging export with deceleration of global economy, recovered gradually. This recovery was supported by domestic demand and improvement in the employment and personal income.

In the retail and service industries, our core operating domain, although employment and income conditions continued to improve, real income was sluggish due to rising consumer prices, and growth of personal consumption remained slow.

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.

Consequently, consolidated results for the six months ended September 30, 2019 included sales of 41,690 million yen (up 10.2% year on year), operating loss of 229 million yen (compared with a loss of 1,204 million yen a year earlier) and ordinary loss of 277 million yen (compared with a loss of 1,220 million yen a year earlier). Loss attributable to owners of parent company was 700 million yen (compared with a loss of 999 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 546 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

During the six months ended September 30, 2019, the market condition remained harsh for this particular segment since unusual weather conditions affected water delivery business negatively.

Under the circumstances, the CreCla Business carried out sales promotion nationwide to increase the number of customers. In addition, we promoted sales of the new product ZiACO utilizing “hypochlorous acid water”, which was launched in the previous fiscal year, 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 sales decreased only slightly compared with the same period of the previous year due to factors such as an increase in unit sales per customer due to an additional bottle consumption per household and a decrease in the churn rate.

In our affiliated stores, sales remained at the same level as the corresponding period of the previous year, as an increase in server sales compensated for a decrease in bottle sales.

Operating income decreased year on year due to the completion of temporary profit factors.

As a result, during the six months ended September 30, 2019, the CreCla Business segment posted sales of 6,570 million yen (down 5.1% year on year), and operating income of 302 million yen (down 34.1% year on year).

[Rental Business]

In view of the super aged society, the Rental Business division 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 the capital and business alliance agreement signed with Duskin Co., Ltd. in August 2018. As a result, the Duskin business increased sales.

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 clients strengthened sales activities in order to acquire new customers. As a result, sales increased year on year.

Operating income was at the same level as the corresponding period of the previous year due to an increase in SG&A expenses due to the opening of new stores and the expansion of the sales promotion.

Consequently, during the six months ended September 30, 2019, the Rental Business segment posted sales of 7,311 million yen (up 2.3% year on year), and operating income of 945 million yen (down 0.1% year on year).

[Construction Consulting Business]

The local construction market continued to face tough environment due to chronic shortages of craftspeople and a decline in the number of households.

None the less, sales and operating income of the construction know-how systems increased due to strong sales promotion during the six months under review. In an effort to integrate research and development of know-how product line as well as joint creation of new business fields, we executed the capital and business alliance agreement with SOUSEI Technology Co., Ltd. in September, 2019.

For the construction materials business, which focused on solar power generation systems, Eco & Eco Co., Ltd. continued to shift the sales target to the residential solar and storage battery market. As a result, operating income increased year on year. In total, during the six months ended September 30, 2019, the Construction Consulting Business segment posted sales of 2,584 million yen (up 6.5% year on year) and operating income of 252 million yen (up 27.8% year on year).

[Housing Sales Business]

During the six months ended September 30, 2019, the domestic housing industry was inactive as the temporary surge in demand before the consumption tax hike didn't last. In August, Ministry of Land, Infrastructure, Transport and Tourism announced decline in new construction starts in owned dwellings for the first time after 11 months, and the new construction starts in total including rented and built for sale dwellings decreased 2 months in a row since July compared with the same period of the previous year.

Under such environment, Leohouse Co., Ltd. strengthened marketing of built-for-sale houses and planned-type houses with 48 variety plans offered in line with life styles in addition to custom-built homes in order to expand order bookings and sales. As a result, the number of orders received and orders in hand became 789 homes (compared with 1,007 a year earlier) and 969 homes (compared with 1,317 a year earlier) respectively. In the period, sales grew year on year because of an increase in the number of completed buildings. Operating loss was reduced year on year due to the decline in the fixed cost as amortization cost associated with reorganization of unprofitable branches in the previous fiscal year.

At J-wood Co., Ltd., we saw decline in sales and expanded operation loss year on year due to insufficient backlog at the beginning of the fiscal year and sluggish booking reflecting fierce competition during the period under review.

KDI Co., Ltd. maintained sales level year on year owing to continued sales strategies focusing on Tokyo metropolitan area. However, due to advance investment in human resource development and increase in sales promotion expenses, operating income decreased year on year.

KUNIMOKU HOUSE Co., Ltd. decreased sales year on year because of postponement of part of property sales and posted increased operating loss compared with the corresponding period of the previous year.

Suzukuri Co., Ltd. tried to expand target segment through cross-industrial cooperation, and posted sales increase and shrinkage in operating loss year on year.

To sum up, during the six months ended September 30, 2019, the Housing Sales Business posted sales of 20,494 million yen (up 21.6% year on year), and operating loss of 1,088 million yen (compared with a loss of 2,195 million yen a year earlier, including goodwill amortization costs at 22 million yen related to KDI Co., Ltd. and KUNIMOKU HOUSE Co., Ltd.).

[Beauty and Health Business]

At JIMOS Co., Ltd., the sales increased year on year due to merger of Infinity Beauty Co., Ltd. at the beginning of the fiscal period. On the other hand, unauthorized access to the server used at the company's EC site for online-shopping of cosmetics took place during the period. As a countermeasure, we suspended use of EC site from August, and sales of new items and regular purchase were temporarily stopped. Therefore, the impact of the merger mentioned earlier was offset by the above accident and the sales increased only slightly. The operating income remained the same level as the corresponding period of the previous year, as budgeted advertisement and sales promotion costs were not used because of suspension of EC site.

At BELAIR Co., Ltd., the expansion of sales channel for the flagship product of nutritional supplementary food and the development of new services targeting the super-aged society were conducted extensively. Reflecting the trend of reduction in the number of clients, the sales of the company declined. However, the operating income showed increase due to reduction in SG&A expenses.

As a result, during the six months ended September 30, 2019, the Beauty and Health Business posted sales of 4,752 million yen (up 5.7% year on year), and operating loss of 94 million yen (compared with a loss of 99 million yen a year earlier, including goodwill amortization costs at 283 million yen related to JIMOS Co., Ltd. and BELAIR Co., Ltd.).