

## 1. Qualitative Information Concerning Consolidated Business Results

### (1) Information about operating results

During the nine months ended December 31, 2019 (April 1 to December 31, 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 personal consumption continued to recover moderately, after the consumption tax hike, we saw the rebound of rush demand.

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 nine months ended December 31, 2019 included sales of 62,290 million yen (up 4.8% year on year), operating income of 297 million yen (compared with operating loss of 376 million yen a year earlier) and ordinary income of 234 million yen (compared with ordinary loss of 396 million yen a year earlier). Loss attributable to owners of parent company was 564 million yen (compared with a loss of 437 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 807 million yen as corporate expenses not attributable to any particular segment.

#### [CreCla Business (Bottled Water)]

During the nine months ended December 31, 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 the transfer of customers from the affiliated stores

and 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, although there was the transfer of customers to the direct managed stores, sales remained at the same level as the corresponding period of the previous year due to an increase in server sales and bottle price hike.

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

As a result, during the nine months ended December 31, 2019, the CreCla Business segment posted sales of 9,958 million yen (down 2.5% year on year), and operating income of 587 million yen (down 9.4% 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 remained at the same level as the corresponding period of the previous year.

Operating income decreased 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 nine months ended December 31, 2019, the Rental Business segment posted sales of 11,160 million yen (up 1.8% year on year), and operating income of 1,476 million yen (down 6.7% 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 nine months under review.

For the construction materials business, which focused on solar power generation

systems continued to shift the sales target to the residential solar and storage battery market. As a result, operating income increased year on year.

At Eco & Eco Co., Ltd. we saw increase in operating income, despite a decline in sales. In total, during the nine months ended December 31, 2019, the Construction Consulting Business segment posted sales of 3,842 million yen (up 0.3% year on year) and operating income of 400 million yen (up 9.7% year on year).

#### [Housing Sales Business]

During the nine months ended December 31, 2019, the domestic housing industry was inactive as the temporary surge in demand before the consumption tax hike didn't last. In December, Ministry of Land, Infrastructure, Transport and Tourism announced decline for 5 consecutive months in new construction starts in owned dwellings, and the new construction starts in total including rented and built for sale dwellings decreased 6 months in a row since July compared with the same period of the previous year.

Under such environment, the number of orders at Leohouse Co., Ltd. decreased from the same period of the previous year due to the decrease in the number of stores due to withdrawal of unprofitable branches in the previous fiscal year.

As a result, the number of orders received and orders in hand became 1,073 homes (compared with 1,375 a year earlier) and 910 homes (compared with 1,271 a year earlier) respectively. Sales grew year on year because of an increase in the number of completed buildings. Operating loss 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. increased sales year on year owing to continued sales strategies focusing on Tokyo metropolitan area. However, due to advance investment in human resource development and an increase in sales promotion expenses, operating income remained at the same level as the corresponding period of the previous year.

Both KUNIMOKU HOUSE Co., Ltd. and Suzukuri Co., Ltd. increased sales year on year and decreased operating loss compared with the corresponding period of the previous year.

To sum up, during the nine months ended December 31, 2019, the Housing Sales Business posted sales of 30,603 million yen (up 11.7% year on year), and operating loss

of 1,439 million yen (compared with a loss of 2,325 million yen a year earlier, including goodwill amortization costs at 33 million yen related to KDI Co., Ltd. and KUNIMOKU HOUSE Co., Ltd.).

[Beauty and Health Business]

At JIMOS Co., Ltd., sales decreased year on year in spite of merger of Infinity Beauty Co., Ltd. at the beginning of the fiscal period. The main factor is 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. Operating income decreased year on year due to lower sales.

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, sales of the company declined. However, operating income showed increase due to reduction in SG&A expenses.

As a result, during the nine months ended December 31, 2019, the Beauty and Health Business posted sales of 6,758 million yen (down 3.9% year on year), and operating income of 80 million yen (down 34.3% year on year, including goodwill amortization costs at 425 million yen related to JIMOS Co., Ltd. and BELAIR Co., Ltd.).