(1) Information about operating results

During the first quarter of fiscal 2014 (April 1 to June 30, 2014), the operating environment for Japanese enterprises improved somewhat as government-driven economic stimulus and monetary easing set the stage for improvements in corporate earnings and the employment environment while also stimulating corporate capital expenditures. On the other hand, the impact of the consumption tax on consumer spending and slowdowns in overseas economies present some downside risks for the domestic economy.

The housing market, the Nac Group's core operating domain, faced more challenging conditions as the reflexive downturn in demand following the surge ahead of the consumption tax hike led to three consecutive months of lower housing starts from March through May.

Meanwhile, conditions in the retail and services industries brightened on improvements in the employment environment and wage levels, but the outlook remains clouded by consumers' tendency to tighten purse strings in reaction to the higher consumption tax and rising prices.

Under these conditions, the Nac Group maintained an aggressive stance on new store openings and sales promotions as it works toward achieving its fiscal 2014 target for consolidated sales of 100 billion yen.

As a result, consolidated sales for the first quarter of fiscal 2014 reached 19,149 million yen (up 25.8% year on year). However, the Nac Group posted an operating loss of 676 million yen (compared with a loss of 371 million yen in the first quarter of fiscal 2013), an ordinary loss of 693 million yen (compared with a loss of 352 million yen a year earlier), and a net loss of 555 million yen (compared with a loss of 541 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 Group posted 300 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

In the period under review, redoubling of our efforts to win new customers led to

above-plan increases at our directly managed stores and affiliated stores. As a result, we achieved a solid year-on-year increase in sales of our bottled water. However, we were not able to increase sales of water coolers to affiliated stores because of their large inventories at the start of the period.
As a result, CreCla Business first-quarter sales totaled 3,117 million yen, down 0.8% year on year. This sales decline combined with aggressive spending on sales promotions led to an operating loss of 299 million yen, compared with an operating loss of 192 million yen in the first quarter of fiscal 2013.
During the first quarter, we opened three directly managed sales offices, each in Mitaka City, Minami Osaka, and Okayama City.

[Rental Business]
To improve sales of our mainstay Duskin dust control products, we strengthened training of our sales staff and stepped up efforts to win new customers. While first-quarter sales and operating income fell marginally on a year-on-year basis, they were generally in line with plan.
Sales of With-branded pest-control devices expanded steadily reflecting our expansion of sales outlets handling the product and favorable business sentiment.
As a result, Rental Business first-quarter sales totaled 3,000 million yen, up 1.6% year on year. Operating income totaled 340 million yen, down 4.7% year on year, reflecting our aggressive spending on sales promotions.
During the quarter, we established four directly managed sales offices specializing in the With-branded pest-control devices, one each in Isesaki City, Fuji City, Okayama City, and Hiroshima City.

[Construction Consulting Business]
Our construction know-how systems business focused on proposals to existing clients and winning business with new clients. However, our sales efforts were hampered by a shortage of sales staff as the improving economic conditions made it more difficult to attract new employees. As a result, sales of our know-how systems fell slightly year on year. Meanwhile, our construction materials business, which is focused on solar energy systems, achieved strong gains in both sales and profits as we were successful on proposals to make our systems standard equipment on newly built homes as well as on proposals for our other housing construction materials.
As a result, the Construction Consulting Business segment posted sales of 1,362 million yen, up 27.1% year on year, and operating income of 181 million yen, up 12.4%.

During the period, we opened two new sales office in Takasaki City, one dedicated to our construction know-how systems and the other specializing in construction materials sales.

[Housing Sales Business]

The housing industry faced a difficult operating environment during the first quarter of fiscal 2014. In addition to the reflexive downturn in demand following the surge in demand prior to the consumption tax hike, the industry was challenged by rising material prices and a continued shortage of construction workers. In this environment, Group home builder Leohouse, Ltd., saw orders for new homes fall below the previous-year level despite stepping up its sales efforts focused on the proposal of new homes with optional features, such as solar energy systems. Sales, however, increased year on year owing to the completion of 1,233 homes for which orders were received during the previous fiscal year. Orders in hand as of the end of the first quarter (June 30) totaled 1,267, compared with 1,606 a year earlier.

J-wood Co., Ltd. that became a Nac subsidiary in the second quarter of fiscal 2013, overcame the difficult operating environment for home builders and steadily expanded sales thanks in part to winning new orders from customers introduced by satisfied owners of J-Wood homes. J-wood's orders in hand as of the end of the first quarter (June 30) totaled 102.

As a result of the above developments, the Housing Sales Business recorded first-quarter sales of 9,304 million yen, up 15.6% year on year. However, the cost of opening new sales outlets, combined with sales promotion expenses, led to an operating loss of 440 million yen, compared with a loss of 410 million yen a year earlier.

During the period under review, Leohouse opened three sales branches or model display sites, one each in Gifu City, Isesaki City and the Mizoguchi district of Kawasaki City, bringing its nationwide network to 47 sales branches and 49 model display sites. J-wood did not open any new outlets during the period, leaving its sales network at four model display sites.

[Mail-order Business]

Our mail-order business operated by JIMOS Co., Ltd., which became a consolidated subsidiary in the second quarter of fiscal 2013, achieved solid sales in the first quarter of fiscal 2014 as it increased spending on advertising to expand its customer base. However, sales to corporate customers, including wholesale sales and mail-order consulting services, were somewhat weak amid increased competition from rival companies.

As a result, the Mail-order Business recorded sales of 2,364 million yen in the first quarter of fiscal 2014. However, the posting of goodwill amortization related to the JIMOS acquisition on this segment resulted in an operating loss of 156 million yen.

(2) Information about financial position

As of the end of the first quarter (June 30, 2014), total assets were 39,327 million yen, a decrease of 1,127 million yen from the end of the previous fiscal year. The decline is primarily attributable to the use of cash and cash equivalents to pay taxes, dividends, and accounts payable, which more than offset the positive impact on asset growth of other factors, including an increase in costs on uncompleted construction contracts of the Housing Sales Business. Total liabilities amounted to 24,149 million yen, a decrease of 300 million yen from the end of the previous fiscal year. The decline in liabilities primarily reflects a fall in accounts payable owing to payment of outstanding construction bills and a decline in income taxes payable following tax payments. These changes offset increases in short-term loans and advances received on uncompleted construction contracts.

Total net assets as of June 30, 2014, were 15,178 million yen, a decrease of 826 million yen from the end of the previous fiscal year. The decline primarily reflects the fall in retained earnings caused by the payment of dividends of 316 million yen and the posting of a net loss of 555 million yen for the period under review.

(3) Information about consolidated outlook and other forward-looking statements

The consolidated outlook for the full fiscal year ending March 31, 2015, is unchanged from the forecast announced by the Company on May 9, 2014.