

## 1. Qualitative Information Concerning Consolidated Business Results

### (1) Information about operating results

During the nine months ended December 31, 2014 (April 1 to December 31, 2014), the Japanese economy began recovering from the slump induced by the consumption tax hike. Personal consumption, however, remained weak due to lower real disposable income caused by rising prices.

The housing market continued to be adversely affected by sharply higher costs for materials and labor, although there was some reversal of the reflexive downturn in demand following the surge ahead of the consumption tax hike.

In the retail and services industries, consumers maintained a tight hold on their purse strings on account of a fall in real disposable income caused by the higher consumption tax and rising prices.

Against this backdrop, the Nac Group also was heavily impacted by the uncertain outlook for consumer spending. As a result, consolidated sales for the nine months ended December 31, 2014 reached 61,842 million yen (down 2.4% year on year). The Nac Group posted operating income of 372 million yen (down 87.6%), ordinary income of 362 million yen (down 88.0%), and a net loss of 68 million yen (compared with net income of 1,633 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 Nac Group posted 894 million yen as corporate expenses not attributable to any particular segment.

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

During the nine months ended December 31, 2014, the bottled water delivery industry continued to register year-on-year growth in size. However, competition intensified owing to an increase in new companies—including some major soft drink makers—entering the market. The business climate was made more challenging still by adverse weather conditions that contrasted sharply with the previous year's record-breaking heat in summer, the best demand season, and contributed to stagnation in the number of bottles consumed.

Amid these circumstances, our directly managed stores strengthened staff training with a view to improving customer service levels, redoubled efforts to be more competitive and retain existing customers, and strengthened sales promotion activities aimed at

acquiring new customers. As a result, sales increased year on year.

In sales to affiliated stores, sales of bottles increased year on year, however, sales of water coolers to affiliates declined due to sluggish growth in customer numbers.

Operating income declined year on year due to lower sales in the affiliated stores division in addition to costs relating to new store openings and higher personnel expenses in the directly managed stores division.

As a result, during the nine months ended December 31, 2014, CreCla Business segment posted sales of 9,885 million yen, down 3.3% year on year, and operating income of 46 million yen, down 76.1% year on year.

#### [Rental Business]

The dust control products business continued to face a challenging environment with ongoing competition with other companies, as diversifying customer needs contribute to an increase in customers choosing alternative products available in stores while more widespread use of auto-lock entrances to condominium and apartment buildings reduces opportunities to communicate with customers.

In this environment, the number of customers held steady as we adopted a sales strategy focused on preventing contract terminations by existing customers at our core dust control products business. However, consumer thriftiness following the consumption tax hike caused sales to fall slightly year on year.

Our With-branded pest-control devices and regular cleaning plan for business both saw sales increase year on year as we aggressively opened new directly managed stores, and because our efforts to encourage online ordering bore fruit.

However, the business posted a year-on-year decline in profits owing to increased spending on sales promotions and higher personnel expenses.

As a result, during the nine months ended December 31, 2014, Rental Business segment posted sales of 9,416 million yen, up 1.5% year on year, and operating income of 1,156 million yen, down 14.6% year on year.

During the third quarter, we established two directly managed sales offices in Fukuoka Prefecture's Onga-gun, one handling dust control products and the other pest-control devices.

#### [Construction Consulting Business]

In our construction know-how systems, our main customers, small and midsize building contractors, were not eager to invest in our know-how systems because they saw little prospect for improvement in orders in hand amid the reflexive decline in demand that followed the demand surge prior to the consumption tax hike. As we also struggled to acquire new clients, sales declined year on year.

In the construction materials business, which is focused on solar energy systems, sales increased year on year. There was strong demand from the market for low-pressure solar systems for industry, and we were rewarded for efforts to present customers with solutions meeting their needs.

As a whole, the segment saw its operating income fall year on year, as a decline in know-how system sales and profits offset higher profits at the construction materials business, which arose from stronger sales and initiatives to improve operating efficiency.

As a result, during the nine months ended December 31, 2014, the Construction Consulting Business segment posted sales of 4,279 million yen, up 13.1% year on year, and operating income of 499 million yen, down 24.3% year on year.

#### [Housing Sales Business]

During the nine months ended December 31, 2014, Japan's housing industry experienced a gradual recovery from the reflexive decline in demand following the surge ahead of the consumption tax hike. However, prices for materials and labor continued to climb.

Against this backdrop, Nac Group home builder Leohouse, Ltd., saw sales decline year on year due to an impact from the reflexive decline in demand following the surge ahead of the consumption tax hike.

Operating income declined year on year, from a combination of lower sales and higher costs for materials and labor.

On the subject of orders, target customers took a more cautious approach to new home purchases than we had expected on the back of the reflexive decline in demand following the surge ahead of the consumption tax hike, the likelihood of mortgage-loan rates remaining low, and the decision to postpone the second consumption tax hike. Thus in the nine months ended December 31, 2014, there were year-on-year declines in both new orders received and orders in hand. Orders received was 1,470 homes (compared with 2,278 a year earlier), and orders in hand was 1,129 as of December 31,

2014 (compared with 1,636 a year earlier).

J-wood Co., Ltd. increased both sales and operating income year on year, while its orders in hand was 87 as of December 31, 2014.

As a result, during the nine months ended December 31, 2014, the Housing Sales Business segment recorded sales of 30,828 million yen, down 12.7% year on year. The segment posted an operating loss of 339 million yen, compared with operating income of 1,534 million yen a year earlier.

During the third quarter, J-wood opened a new model display site in Hachinohe.

#### [Mail-order Business]

Mail-order business operator JIMOS Co., Ltd., became a consolidated subsidiary in the second quarter of fiscal 2013. Consequently, results for the first nine months of fiscal 2014 are based on sales posted over the full nine-month period, as opposed to just six months in fiscal 2013. Sales increased year on year, as JIMOS spent aggressively on advertising its cosmetics products to individuals. It also benefited from an easing of the drop-off in demand after customers stocked up before the consumption tax hike. Sales in the cosmetics product wholesaling business for corporate customers and mail-order consulting business declined year on year, owing to increased competition.

Increased aggressive spending on advertising on cosmetics products to individuals combined with the decline in sales from the cosmetics product wholesale for corporate customers and from the mail-order consulting business led to a decline in operating income year on year.

As a result, during the nine months ended December 31, 2014, the Mail-order Business segment posted sales of 7,474 million yen, up 55.8% year on year. The segment recorded an operating loss of 96 million yen (compared with operating income of 152 million yen a year earlier).

## (2) Information about financial position

### (i) Assets, liabilities and net assets

#### (Assets)

As of the end of the third quarter (December 31, 2014), total assets were 42,922 million yen, an increase of 2,467 million yen from the end of the previous fiscal year. The increase is primarily attributable to an increase in costs on uncompleted construction

contracts and construction in progress related to factory construction for the CreCla Business, despite a decrease in cash and cash equivalents owing to the payments of taxes, dividends, and accounts payable.

(Liabilities)

As of the end of the third quarter (December 31, 2014), total liabilities amounted to 27,476 million yen, an increase of 3,027 million yen from the end of the previous fiscal year. The increase in liabilities primarily reflects increases in short-term loans to cover factory construction costs, and in advances received on uncompleted construction contracts, which more than offset declines in accounts payable owing to payment of outstanding construction bills, and in income taxes payable and others following tax payments.

(Net assets)

As of the end of the third quarter (December 31, 2014), total net assets were 15,445 million yen, a decrease of 560 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.

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

Considering the Nac Group's recent earnings and other relevant factors, we have revised the consolidated outlook for the full fiscal year ending March 31, 2015, issued on November 7, 2014. For details, please see the news release issued today (February 9, 2015) entitled "Notification of Differences in Actual and Outlook for the First Nine Months of Fiscal 2014 (April 1, 2014, to March 31, 2015) and Revisions to Consolidated Earnings Forecasts for the Full Fiscal Year" (only in Japanese).