

FOR IMMEDIATE RELEASE

Nac Announces Consolidated Financial Results for Fiscal 2014

Tokyo, May 8, 2015 --- Nac Ltd. (TSE:9788) today announced its consolidated financial results for fiscal 2014, ended March 31, 2015.

- Notes:
1. In the case of inconsistencies between the Japanese and English versions of this release, the Japanese version will control and supersede any ambiguities.
  2. Operating income is presented in accordance with financial reporting principles and practices generally accepted in Japan.

## 1. Summary

	The years ended March 31		
	Yen (millions)		YOY change (%)
	2014(A)	2015(B)	
1. Sales	91,630	85,443	(6.8)%
2. Operating income	4,672	1,517	(67.5)%
3. Ordinary income	4,709	1,481	(68.5)%
4. Net income	2,794	519	(81.4)%
5. Net income per share	168.23 yen	31.09 yen	(137.14)yen
6. Return on equity	18.8%	3.2%	(15.6)pt
7. Ordinary income to Total assets	13.4%	3.7%	(9.7)pt
8. Operating margin on Sales	5.1%	1.8%	(3.3)pt

## 2. Financial Position

(Millions of yen)

	As of the end of Mar. 2014	As of the end of Mar. 2015	YOY change
Total assets	40,455	39,862	(593)
Total liabilities	24,449	23,729	(720)
Shareholder's equity	16,849	16,889	40
Total net assets	16,005	16,132	127
Net assets per share	961.07 yen	961.22 yen	0.15 yen
Equity ratio	39.6%	40.5%	0.9pt

### 3. Cash Flows

(Millions of yen)

	As of the end of Mar. 2014	As of the end of Mar. 2015	YOY change
Cash flows from operating activities	5,827	(1,537)	—
Cash flows from investing activities	(10,645)	(4,086)	—
Cash flows from financing activities	2,781	3,727	—
Cash and Cash equivalents at end of year	6,371	4,474	(1,897)

### 4. Cash Dividends

	As of the end of Mar. 2014	As of the end of Mar. 2015	YOY change
Dividends per share	36 yen	38 yen	2yen
Total Annual Cash Dividends	598 million yen	636 million yen	38million
Dividend ratio	21.4%	122.2%	—
Ratio of dividends to shareholder's equity	4.0%	4.0%	—

### 5. Outlook for Fiscal 2015

	Year ending March 31, 2016	
	Yen (millions of yen)	YOY change
1. Sales	89,500	4.7%
2. Operating income	1,600	5.5%
3. Ordinary income	1,600	8.0%
4. Net income	700	34.7%
5. Net income per share	41.71 yen	10.62 yen

## 1. Qualitative Information Concerning Consolidated Business Results

### (1) Business Results

	Year ended March 31, 2015	
	Yen (millions)	YOY change (%)
1. Sales	85,443	(6.8)%
2. Operating income	1,517	(67.5)%
3. Ordinary income	1,481	(68.5)%
4. Net income	519	(81.4)%
5. Net income per share	31.09 yen	(137.14) yen

#### 1. Analysis of Operating Results and Financial Position

##### (1) Analysis of operating results

(Operating results for the fiscal year)

During the fiscal year ended March 31, 2015 (fiscal 2014), the Japanese economy entered a moderate recovery trend, as a result of the effects of economic policies and monetary easing policies by the government and the Bank of Japan. However, the recovery in consumer spending was weak, owing to the effect of lower real disposable income caused by the consumption tax hike and rising prices, and the outlook for the economy remains uncertain.

In the housing market, Nac's core operating domain, the effect of the reflexive downturn in demand following the surge ahead of the consumption tax hike was significant, and new housing starts in 2014 were weak, decreasing 10.8% year on year.

In the retail and services industries, consumer spending was significantly below the level it was at before the surge in demand ramped up, owing to the effect of lower real disposable income in line with the consumption tax hike and rising prices, and the overall business environment was challenging.

Against this backdrop, the Nac Group aggressively opened new stores and expanded its business territory in all business areas, mainly in the Housing Sales Business, and also worked to develop new products and strengthen customer service in line with market

conditions and customer needs. We also aggressively pressed ahead with further improvements to operational efficiency, and as a result further strengthened our existing businesses.

However, the effect of the reflexive downturn in demand following the surge ahead of the consumption tax hike was significant in the Nac Group's operating domain. As a result, consolidated results for the fiscal year under review included sales of 85,443 million yen (down 6.8% year on year), operating income of 1,517 million yen (down 67.5%), ordinary income of 1,481 million yen (down 68.5%), and net income of 519 million yen (down 81.4%).

As for non-consolidated operating results, the Company recorded sales of 30,334 million yen (up 0.5% year on year), operating income of 1,289 million yen (down 30.4%), ordinary income of 2,593 million yen (up 36.6%), and net income of 2,110 million yen (up 90.2%).

Operating results by business segment were as follows.

In addition to the operating income or loss of each segment, the Nac Group posted 1,199 million yen as corporate expenses not attributable to any particular segment.

## (2) Sales and operating income by Segment

### [CleCla Business (Bottled Water)]

	Year ended March 31, 2015	
	Yen (millions)	YOY change (%)
1. Sales	13,033	(2.6)%
2. Operating income	143	(61.9)%

### [CreCla Business (Bottled Water)]

In the fiscal year under review, the bottled water delivery industry grew by about 6% year on year, but competition to win customers intensified. Also, in addition to a prolonging of consumer thriftiness following the consumption tax hike, Japan was visited by adverse weather conditions that contrasted sharply with the previous year's record-breaking heat in summer, the best demand season. As a result, sales of bottles did not grow, and the market environment was challenging.

Amid these circumstances, our directly managed stores focused on enhancing staff training, and strengthening customer service, with a view to improving customer satisfaction levels and retaining existing customers. Also, a new delivery system started in the previous year in the Greater Tokyo Area met customer needs, which are becoming increasingly diversified, and at the same time contributed to fewer opportunity losses. As a result, sales increased year on year.

In sales to affiliated stores, the Company focused on strengthening the evaluation system for existing affiliated stores in order to improve customer service and quality, in a bid to establish a stronger CreCla brand. 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 fiscal year under review, the CreCla Business segment posted sales of 13,033 million yen (down 2.6% year on year), and operating income of 143 million yen (down 61.9%).

Regarding store openings, during the fiscal year under review, we opened five sales bases.

#### [Rental Business]

	Year ended March 31, 2015	
	Yen (millions)	YOY change (%)
1. Sales	12,485	2.8%
2. Operating income	1,505	(13.4)%

#### [Rental Business]

In the mainstay dust control products business, amid ongoing price competition in the business-use market, our sales strategy, which is mainly focused on the household-use market, contributed to attraction of new customers and cultivation of existing customers. As a result, the number of customers held steady and sales increased.

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.

The business posted a year on year decline in operating income owing to new store openings, and increased spending on sales promotions and higher personnel expenses.

As a result, during the fiscal year under review, the Rental Business segment posted sales of 12,485 million yen (up 2.8% year on year), and operating income of 1,505 million yen (down 13.4%).

Regarding store openings, during the fiscal year under review, we opened two sales bases for the dust control products business, and six sales bases in the With-branded pest-control devices business.

[Construction Consulting Business]

	Year ended March 31, 2015	
	Yen (millions)	YOY change (%)
1. Sales	6,014	6.9%
2. Operating income	900	(7.8)%

[Construction Consulting Business]

In construction know-how systems, our main customers, local building firms, were not eager to invest in our know-how products because they saw little prospect for improvement in orders in hand amid the reflexive decline in demand that followed the demand surge ahead of the consumption tax hike.

Amid these conditions, although we strengthened our sales structure as we looked to expand the number of clients, sales decreased year on year.

In the construction materials business, which is focused on solar energy systems, in the first six months of the fiscal year under review, there was strong demand from the market for solar systems for industry, and we were rewarded for our efforts to present customers with solutions meeting their needs. As a result, sales increased year on year. As a whole, the segment saw its operating income fall year on year, as a decline in know-how systems sales and profits offset higher profits at the construction materials business, which arose from higher sales, initiatives to improve operating efficiency, and

revisions to management costs.

As a result, during the fiscal year under review, the Construction Consulting Business segment posted sales of 6,014 million yen (up 6.9% year on year), and operating income of 900 million yen (down 7.8%).

Furthermore, during the fiscal year under review, we opened sales bases for both the construction know-how systems business and the construction materials business in Takasaki.

[Housing Sales Business]

	Year ended March 31, 2015	
	Yen (millions)	YOY change (%)
1. Sales	44,134	(16.8)%
2. Operating income	388	(87.1)%

[Housing Sales Business]

In Japan's housing industry, during the fiscal year under review, the effect of the reflexive decline in demand following the surge ahead of the consumption tax hike was significant, and demand was weak.

Against this backdrop, Leohouse, Ltd. developed products for sale in major urban areas and in narrow sites, in order to expand its business territory, and also offered customers high value-added products, such as homes equipped with solar energy systems, contributing to higher unit prices. However, the effect of the reflexive decline in demand following the surge ahead of the consumption tax hike was significant, and sales decreased year on year.

Operating income declined year on year due to lower sales.

On the subject of orders, during the fiscal year under review, new orders received and orders in hand both decreased year on year, owing to weak orders amid 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 that was planned for October 2015. Orders received were 1,905 homes (compared with 2,809 a year earlier), and orders in hand were 902 as of March 31,



2015 (compared with 1,233 a year earlier).

At J-wood Co., Ltd., sales and new orders received increased, and there was steady growth in orders in hand, which stood at 110 as of March 31, 2015. Operating income decreased owing to aggressive promotional efforts in line with the opening of a new model display site in Hachinohe.

As a result, during the fiscal year under review, the Housing Sales Business posted sales of 44,134 million yen (down 16.8% year on year), and operating income of 388 million yen (down 87.1%, including goodwill amortization costs related to J-wood).

Regarding store openings, during the fiscal year under review, Leohouse, Ltd. opened 14 sales bases, and J-wood opened one sales base.

#### [Mail-order Business]

	Year ended March 31, 2015	
	Yen (millions)	YOY change (% or millions yen)
1. Sales	9,825	32.4%
2. Operating income	(222)	—

#### [Mail-order Business]

At JIMOS Co., Ltd., sales were steady in the mail order cosmetics business, partly owing to the contribution of policies aimed at increasing the retention rate among existing customers for the mainstay Macchia Label brand. Also, JIMOS invested aggressively on advertising the Coyori brand of skin and hair care products made from natural ingredients, leading to an increase in new customers and a significant year on year increase in sales. On the other hand, sales decreased year on year in the wholesaling business and the mail-order consulting business.

Gross profit margin decreased year on year as sales for seasonal products with relatively high profit margins decreased. Also, expenses related to raising the retention rate among existing customers increased.

As a result, in the fiscal year under review, the Mail-order Business posted sales of 9,825 million yen (up 32.4% year on year), and operating loss of 222 million yen

(compared with operating loss of 199 million yen a year earlier, including goodwill amortization costs related to JIMOS).

Furthermore, JIMOS became a subsidiary in the second quarter of the previous fiscal year, and as a result sales were reported over a nine-month period in the previous fiscal year, and a 12-month period in the fiscal year under review.

### **Fiscal 2015 outlook**

In the fiscal year ending March 31, 2016 (fiscal 2015), the Japanese economy is forecast to continue on a moderate recovery trend, but the outlook for trends in consumer spending is uncertain, in view of the effect of lower real disposable income caused by the consumption tax hike and rising prices, in addition to a second consumption tax hike planned for April 2017.

In this environment, the Nac Group plans to renew the management structure, starting with a change to the representative director and president, and is aiming for a recovery in earnings in fiscal 2015.

In the CreCla Business, we will further expand the coverage area of the new delivery system, which contributed to an increase in sales in the fiscal year under review. Also, we will use the one-way service CreClaMio, which started in February 2015, to strengthen our ability to respond to customer needs that we had previously been unable to fully respond to. As a new initiative, we will build a business targeting the elderly, as we strive to explore new markets and win a wide variety of customers.

In the Rental Business, we will focus on winning new customers as we increase customer count with M&A in the dust control products business and focus our sales efforts on areas where new stores have opened in the pest control devices business.

In the Construction Consulting Business, we aim to strengthen coordination between the construction know-how systems business and the construction materials business, and expand the number of new clients as we develop new know-how systems that will lead to home orders for our clients, building firms. Also, we aim to distribute management resources based on analysis of the market conditions in each region, and expand our sales channels.

In the Housing Sales Business, in order to expand the range of our target customers, we plan to offer customers new, high value-added products, and differentiate ourselves

from other companies through customer service. Furthermore, we will develop urban products, and open new stores in Kansai areas, thus expanding our range of customers and business territory.

In the Mail-order Business, we will continue investing in advertising for brands that are performing well in the mail order cosmetics business, and increase customer count. Also, we will analyze and improve the wholesaling business and the mail-order consulting business individually, as we aim to increase profitability in these businesses.

## **(2) Analysis of financial position**

(Assets, liabilities and net assets)

As of the end of fiscal 2014 (March 31, 2015), total assets were 39,862 million yen, a decrease of 593 million yen from the end of the previous fiscal year. The decrease in total assets primarily reflects decreases (1)in costs on uncompleted construction contracts of the Housing Sales Business (781 million yen, related to a decrease in numbers of new house order),(2)in Cash and Deposits(1,907 million yen), (3)Amortizing Intangible assets(741million yen, primarily goodwill) although there was a increase in construction in progress(2,655million yen, primarily related to factory construction for the CreCla Business).

As of the end of fiscal 2014, total liabilities were 23,729 million yen, a decrease of 720 million yen from the end of the previous fiscal year. The decrease in liabilities primarily reflects decreases in (1) Accounts payable (1,576million yen), (2)Advances received on uncompleted construction contracts (1,813million yen), ((1)(2)those were related to termination of the surge in demand ahead of the consumption tax hike in Housing sales Business) and (3)in income taxes payable(1,246million yen) although short-term and long-term loans increased(4,150 million yen).

As of the end of the fiscal year under review, total net assets were 16,132 million yen, an increase of 127 million yen from the end of the previous fiscal year. The growth primarily reflects the increase (2)in Capital surplus(89 million yen, related to ESOP) (1)in Valuation difference on available-for-sale securities (85 million yen).

(Cash flows)

Cash and cash equivalents at the end of the fiscal year under review amounted to 4,474 million yen, a decline of 1,897 million yen from the end of the previous fiscal year.

Cash flows from operating, investing and financing activities during the year are presented below.

i) Cash flows from operating activities

Cash flows from operating activities in the fiscal year under review amounted to a net outflow of 1,537 million yen, 7,364 million yen less than in previous fiscal year. The main flows from income before income taxes(1,310million yen), depreciation and amortization (2,380million yen), an increase in inventories(701million yen), a decrease in notes and accounts payable (1,576 million yen), a decrease in Advances received on uncompleted construction contracts(1,813million yen), income taxes paid(2,461million yen).

ii) Cash flows from investing activities

Investing activities in the fiscal year under review produced a net cash outflow of 4,086 million yen, representing decreased outflows of 6,558 million yen from fiscal 2013. Major outflows was purchasing of PP&E (3,603 million yen).

iii) Cash flows from financing activities

Financing activities in the fiscal year under review resulted in a net cash inflow of 3,727 million yen, 945 million yen more increased than fiscal 2013. A net combined inflow from an increase in short-term and long-term loans (increase of 4,150millions yen) and 650 million yen outflow for cash dividends paid to shareholders.

### **(3) Dividend Policy and Dividends for Fiscal Years 2014 and 2015**

Nac's basic dividend policy is to sustain stable return profits to shareholders over the long term while securing the internal reserves needed to grow our business and strengthen our management constitution. We have set a 4% of consolidated net assets as our specific numerical target for dividend payouts.

In accordance with the above policy, we plan to pay a year-end dividend of 20 yen per share, which combined with the midterm dividend of 18 yen brings the planned annual dividend for the fiscal year under review to 38 yen per share.

In fiscal 2015, we plan to distribute an annual dividend of 39 yen per share (19 yen dividends at the midterm and 20yen dividends at the yearend).

### **(4) Business risks**

Listed below are the main factors that could pose a risk to the Nac Group's businesses and operations and have a significant impact on the decisions of investors. Highly cognizant of the possible emergence of these risks, the management of the Nac Group makes every effort to conduct businesses in a manner that will avoid the emergence of such risks and minimize their impact should they arise.

Forward-looking statements appearing in this document represent management's judgment based on information available at the end of the fiscal year under review.

i) Dependence on particular business partners

The Nac Group has a franchise agreement with Duskin Co., Ltd., under which the Rental Business borrows or purchases outright Duskin products that are then leased or sold to its customers. These borrowed or purchased Duskin products accounted for 65.7% of the Rental Business' cost of goods sold of 5,145 million yen in the fiscal year under review.

ii) Sales of new products

The Construction Consulting Business provides various know-how products developed to support the management of local building firms. Because these products have a relatively short useful lifespan, delays in the development and introduction of follow-up products could adversely affect the Company's profits.

iii) Provisioning for doubtful accounts

The Construction Consulting Business' customer base is predominantly local building firms. As such, the Business is exposed to risks from deterioration in economic conditions as well as concerns over customer credit risk. The Company may therefore have to make additional provisions to its reserves against doubtful accounts from time to time.

iv) Regulatory environment

The Nac Group, with guidance from its legal department, endeavors to maintain compliance with the many domestic laws governing its various businesses. These include but are not limited to the Construction Business Act, the Building Standards Act, and the Housing Quality Assurance Act (Housing Sales Business); the Food Sanitation Act (CreCla Business); and the Act on Specified Commercial Transactions, the Pharmaceutical Affairs Act, and the Premiums and Representations Act (Mail-order Business). The passage of new laws or revisions to existing laws, as well as any violations of such laws, could have an impact on the Group earnings.

v) Changes in the operating environment

The Housing Sales Business is exposed to trends in consumer spending, interest rates, land prices and government policies on housing and taxes, including the consumption tax, as well as the changes in rental market conditions caused by those trends. The Business also tends to be easily affected by regional economic

conditions. Any changes in the operating environment caused by these trends could impact Group earnings.

vi) Rising material and resource prices

Sudden, sharp rises in the prices of plywood, lumber and other structural materials used in housing construction can lead to higher material and resource costs at the Housing Sales Business, which in turn could impact Group earnings.

vii) Quality assurance

The Housing Sales Business endeavors to assure the quality of its housing construction and the materials, components and equipment used in the same. However, the emergence of quality issues not within the expected scope of warranty liability could lead to large expenditures and damage consumer confidence in the Company and its product, which could in turn impact Group earnings.

The CreCla Business produces mineral water under a strict quality control system that conforms to the Hazard Analysis and Critical Control Point (HACCP) guidelines for comprehensive sanitation management of production processes. The related manufacture, rental, and maintenance of water coolers also are subject to thorough quality control processes. Quality issues related to our bottled water or the water coolers provided by the Company could damage consumer confidence in the Company and its product, which could in turn impact Group earnings.

The Mail-order Business endeavors to maintain the quality of the cosmetics and health foods it sells by conducting regular inspections of contracted manufacturers' facilities and overseeing actual production. However, if quality issues were to arise, damage to consumer confidence in the Company and its product could impact Group earnings.

viii) Exchange rate fluctuations

In the CreCla Business, the price of imported water coolers is primarily denominated in the Korean won. A greater-than-expected depreciation of the yen could impact the Business's earnings. The Company uses foreign exchange contracts and other means to hedge its exposure to currency risk.

ix) Expansion of affiliated store network

The CreCla Business has a nationwide network of some 600 affiliated stores, some of which produce their own bottled water while others are engaged only in the sale

of bottled water. Nac provides these affiliates with the know-how and materials required to conduct business. However, the affiliates are responsible for quality control and marketing practices. Any problems in these areas could damage the CreCla brand image and have an impact on Group earnings.

x) Management of personal information

The Nac Group is in possession of a large amount of personal information. We take thorough precautions to protect that information, including establishing rules on the use of personal information and employee education programs. Nonetheless, any leakage of personal information could damage public trust in the Company and have an impact on Group earnings.