

## 1. Qualitative Information Concerning Consolidated Business Results

### (1) Information about operating results

During the fiscal year ended March 31, 2016 (fiscal 2015), corporate earnings and the employment environment have been improved slowly in the Japanese economy; however, the strength of recovery in personal consumption still waned. In addition to this, the outlook remains clouded by the unstable financial market and fiscal policy.

In the housing market, which is one of our business areas, improvements in employment and income statistics and economic stimulus measures such as the expansion of mortgage loan tax break and housing subsidy program have had a positive effect on housing starts. Overall, Japan's housing industry experienced a gradual recovery.

In the retail and service industries, on the other hand, personal consumption was stagnant, so the market environment was challenging.

Under these conditions, the Nac Group focused on the product development, improvement in customer satisfaction and human resource development in all business areas. What is more, we streamlined operations through rational investment strategy and improvements in management costs.

However, weak personal consumption and the slowdown of recovery greatly influenced our business areas, especially the housing market. As a result, consolidated results for the fiscal year under review included net sales of 80,302 million yen, down 6.0% year on year, an operating income of 701 million yen, down 53.8% year on year, an ordinary income of 795 million yen, down 46.3% year on year, and an income attributable to owners of parent was 252 million yen, down 51.4% year on year.

As for non-consolidated operating results, the Company recorded net sales of 30,777 million yen, up 1.5% year on year, an operating income of 994 million yen, down 22.9% year on year, an ordinary income of 1,505 million yen, down 42.0% year on year, and a net income of 978 million yen, down 53.7% year on year.

Operating results by business segment were as follows.

In addition to the operating income or loss of each segment, the Nac Group posted 1,567 million yen as corporate expenses not attributable to any particular segment.

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

In the fiscal year under review, intense competition continued in the bottled water delivery industry although the rush to enter the market by companies such as major soft drink manufacturers appears to have slowed. In relation to this, recently, industry reorganization is advanced.

In the CreCla Business segment, unseasonable weather during the second quarter of fiscal 2015, which is the summer peak demand season, and deterioration of consumer sentiment had an adverse effect on consumer sentiment and marketing activities.

Under these conditions, the CreCla Business segment continuously strengthened staff training to enhance customer satisfaction. Moreover, we worked on a suggestion for high value-added products

such as hydrogen water. As a result, sales increased slightly year on year.

In sales to affiliated stores, we strengthened customer service and support program to establish the stronger “CreCla” brand. Nevertheless, sales of water coolers to affiliates has declined because the number of customers in affiliated stores has slowed down.

Operating income of the CreCla Business declined year on year due to depreciation expenses on the Honjo Plant operated from April, 2015 and initial investments for “CreCla Mio”.

As a result, during the fiscal year ended March 31, 2016, the CreCla Business segment posted sales of 13,095 million yen (up 0.5% year on year), and operating loss of 201 million yen (compared with an income of 143 million yen in the fiscal year ended March 31, 2015).

#### [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 the improvement of contract termination rates. Furthermore, we strengthened service systems especially in the total care service segment which is expected high demands backed by aging society. As a result, sales increased steadily year on year.

In the With-branded pest-control devices business, sales grew year on year thanks to directly managed stores including new store that opened up last year.

Our regular cleaning plan for business recorded year-on-year sales growth as a result of an increase in referrals of new customers by existing customers.

On the whole, operating income significantly increased year on year owing to sales increases and termination of goodwill amortization related to Earnest Corporation at the end of the previous term.

As a result, during the fiscal year ended March 31, 2016, the Rental Business segment posted sales of 12,765 million yen, up 2.2% year on year, and operating income of 1,841 million yen, up 22.3% year on year.

Moreover, the With-branded pest-control devices business opened a new store in Kumamoto during the fiscal year ended March 31, 2016.

#### [Construction Consulting Business]

During the fiscal year ended March 31, 2016, conditions of the local construction market remained harsh. In this environment, the construction know-how systems business kept up sales efforts to sustain growth of new customers; as a consequence, sales increased year on year.

In the construction materials business, which is focused on solar energy systems, sales efforts focused on the new housing market. However, sales decreased year on year because these efforts were not sufficient to compensate for the decline of the industrial solar systems market.

On the other hand, in September, the Nac group acquired Eco & Eco Co., Ltd. to expand sales network

and strengthen construction network, and it contributed to the sales growth.

Operating income increased significantly year on year owing to sales growth of the construction know-how systems business and revisions to management costs.

As a result, during the fiscal year ended March 31, 2016, the Construction Consulting Business segment posted sales of 6,676 million yen, up 11.0% year on year, and operating income of 1,146 million yen, up 27.3% year on year.

What is more, the Construction Consulting Business newly opened two stores in Sendai and Nagoya during the fiscal year ended March 31, 2016,

#### [Housing Sales Business]

During the fiscal year ended March 31, 2016, the housing market experienced a gradual recovery. Although demand for owner-occupied homes including custom-built houses has been seesawed, the number of housing start has increased two months in a row.

Against this backdrop, Leohouse, Ltd. opened new stores in major urban areas mainly in the Kansai region to expand its business territory. In addition, the company targeted a broad range of customers by offering diverse value-added products, such as “ZEH (Net Zero Energy House) as a lineup of Dai-ninki no ie,” which is a new high-end product featuring high cost performance, “Surprise as a lineup of Dai-ninki no ie” to mark the 45th anniversary of the founding of Nac Co., Ltd., and “Hapi Sora as a lineup of Dai-ninki no ie,” which features a roof garden.

However, sales declined largely year on year because the demand of our main customers who purchase house for the first time waned, contrary to our expectations.

Regarding profit and loss, we posted operating loss owing to a large decrease in sales. The number of orders received and orders in hand both decreased year on year to 1,785 homes (compared with 1,905 a year earlier) and 861 homes (compared with 902 a year earlier) respectively, even though there is an upward trend from the reflective decline in demand following the surge ahead of the consumption tax hike.

At J-wood Co., Ltd., sales increased thanks to the popular customer attraction model with “Housing cafes”, and the number of orders received and orders in hand both increased year on year to 162 homes (compared with 112 a year earlier) and 138 homes (compared with 110 a year earlier) respectively. Operating profit declined since J-wood opened a new model display sites in Sendai and Ishinomaki and carried out a sales promotion campaign aggressively.

As a result, during the fiscal year ended March 31, 2016, the Housing Sales Business posted sales of 37,452 million yen (down 15.1% year on year), and operating loss of 412 million yen (compared with income of 388 million yen a year earlier, including goodwill amortization costs related to J-wood).

Regarding store openings, during the fiscal year ended March 31, 2016, Leohouse, Ltd. opened 7 sales bases and J-wood opened 2 model display sites.

[Mail-order Business]

At JIMOS Co., Ltd., although sales for existing customers were below our prediction, the mainstay Macchia Label brand produced strong results because the number of new customer increased steadily. Furthermore, sales of the Coyori brand of skin and hair care products made from natural ingredients grew year on year as a result of a steady increase in the number of new customers thanks to ongoing aggressive spending in advertising. On the other hand, sales decreased year on year in the wholesaling business due to several reasons (e.g. our main customers has been replaced).

Operating income improved year on year due to the proper operation of investments in advertising.

As a result, during the fiscal year ended March 31, 2016, the Mail-order Business posted sales of 10,378 million yen (up 5.6% year on year), and operating loss of 105 million yen (compared with a loss of 222 million yen a year earlier, including goodwill amortization costs related to JIMOS).