

## 1. Qualitative Information Concerning Consolidated Business Results

### (1) Information about operating results

During the three months ended June 30, 2017(April 1 to June 30, 2017), the Japanese economy has been recovered gradually based on the improvement of employment environments and corporate earnings. Regarding employment environments, ratio of job offers to seekers (seasonally adjusted annual rate) that indicates supply and demand in the labor market rose for the 4 consecutive months, and in June 2017, it recorded 1.51 times which was well above the economic bubble. Moreover, corporate earnings were in the rise thanks to the exchange rate, increases in public investments and recovery of the world economy. In the housing industry, our core operating domain, the number of housing starts is moving at a million house (seasonally adjusted annual rate) per year because of low interest home loans, the improvement of employment environments and an inheritance tax strategy.

On the other hand, in the retail and services industries, personal consumption is improved due to the improvement of employment environments and consumer sentiment.

Against this backdrop, the Nac Group aggressively worked on developments and promotions of new products, improvement of customer services, encouragements and expansion of business areas.

As a result, consolidated results for the first quarter ended June 30, 2017 included sales of 15,865 million yen (up 9.1% year on year), operating loss of 1,760 million yen (compared with a loss of 1,858 million yen in the first quarter of fiscal 2016) and ordinary loss of 1,756 million yen (compared with a loss of 1,872 million yen a year earlier). Loss attributable to owners of parent was 1,461 million yen (compared with a loss of 1,406 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 posted 296 million yen as corporate expenses not attributable to any particular segment.

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

In the three months ended June 30, 2017, although the market is continuously growing, the rush to enter the market by companies such as major soft drink manufacturers have slowed down. Overall, extension rate of the market have stabilized. On the other hand, industry reorganization is advanced more and more.

Hence, we expect that less companies like small and medium-sized companies will go out of business in the future. In relation to this, there are worries that price hike in delivery charge affects providers of one-way bottles.

Under the circumstances, CreCla business carried out sales promotions nationwide to increase the number of customers before the summer peak demand season.

Our direct managed stores tried to win new customers and increase the bottle consumption per customer to improve sales per customer by the use of additional products. As a result, sales rose year on year.

In our affiliated stores, we continuously worked on customer services and support programs in order to increase the number of customers and sales per customer.

However, sales declined year on year due to decreases in sales of the water cooler to affiliates and bottles to customers.

Operating income increased year on year due to revisions to management costs.

Consequently, during the three months ended June 30, 2017, the CreCla Business segment posted sales of 3,182 million yen (down 1.9% year on year), and operating loss of 104 million yen (compared with a loss of 186 million yen in the first quarter of fiscal 2016).

In June, 2017, CreCla Business established a cooperative corporation named ACC Co., Ltd. with Aquaclara Co., Ltd. so as to supply quality products and services through sharing of experiences and know-how. In addition, we try to reduce the prime costs and improve distribution of goods as a whole in terms of the market.

#### [Rental Business]

Based on the stable customer base, the mainstay dust control products business focused on existing customers and improved sales per customer. Consequently, the number of customers and contract termination rates held steady. Moreover, we supply total care services (i.e. the housekeeping service, exterminator and gardener) and expand business areas to increase customer base, so sales increased year on year. With-branded pest-control devices business strengthened sales promotions before the summer peak demand season in both our directly managed stores and affiliated stores, so sales rose year on year.

Earnest Co., Ltd. that provides regular cleaning plan for business also grew sales since there are increases in referrals of new customers by existing customers.

Operating income decreased year on year owing to sales increases in all sections. Consequently, during the three months ended June 30, 2017, the Rental Business

segment posted sales of 3,341 million yen, up 5.4% year on year, and operating income of 437 million yen up 19.2% year on year.

#### [Construction Consulting Business]

The local construction market remains stagnant because of several reasons such as the lack of craftspeople and postponement of consumption tax hike. Under these conditions, the construction know-how systems actively reinforced support programs for small and midsize building contractors (e.g. upgrade of products, developments of new goods and the provision of financial instruments). However, small and midsize building contractors tended to reduce investments resulting from uncertainty about market prospects. Thus, sales declined year on year.

The construction materials business, which is focused on solar energy systems, concentrated the new housing market by the use of “Net Zero Energy House (ZEH)”. Therefore, the number of orders regarding solar powered house is growing.

Additionally, we started offering construction materials for subdivided housing unit and renovation in the adjacent market from last year, so it gradually produces positive results. Overall, in the construction materials business, sales increased significantly year on year.

Eco & Eco Co., Ltd. has begun to serious efforts to change its business model in order to generate stable profits through improvements of income structure.

Operating income decreased year on year because the construction know-how systems dropped sales and Eco & Eco Co., Ltd. declined sales significantly.

Consequently, during the three months ended June 30, 2017, the Consulting Business segment posted sales of 1,327 million yen, up 8.8% year on year, and operating income of 45 million yen including goodwill amortization costs of 4 million yen related to Eco & Eco, down 56.0% year on year.

#### [Housing Sales Business]

During the three months ended June 30, 2017, the growth of housing starts regarding rental housing have slowed down, and the number of housing starts regarding subdivided housing unit in June, 2017 dropped 3.4% year on year. Taken together, the housing market has leveled off.

Against this backdrop, Leohouse, Ltd. offered diverse value-added products such as “CoCo as a lineup of Dai-ninki no ie” so as to provide a wide range of customers with

many selections. Meanwhile, we performed effective sales promotion aggressively by the use of trademarks that we won customer's satisfaction. Furthermore, we develop original vibration control system called "L-SAV". On the other hand, in order to meet a wide variety of needs and improve productivity, Leohouse Co., Ltd. changed its brand in 5 bases to "Matrix Concept" that presented by suzukuri Co., Ltd.. In comparison with Leohouse's brand, "Matrix Concept" produced semi-custom, fashionable and low-priced houses.

Nevertheless, sales declined slightly year on year owing to the delay of the construction and delivery caused by the lack of manufacturers and craftspeople.

During the three months ended June 30, 2017, the number of orders received and orders in hand are 439 homes (compared with 457 a year earlier) and 1,245 (compared with 1,114 a year earlier), respectively.

Operating income declined year on year due to the rise in construction costs and costs related to new store openings.

J-wood Co., Ltd., sales rose year on year because orders in hand were increased as of the end of the previous fiscal year. Operating income increased year on year thanks to sales growth.

KDI Co., Ltd. that we acquired in May, 2016 continuously focuses on reinforcement of information collection methods regarding purchase and human resource development so as to increase the number of orders received and secure real estate properties for stable sales.

As a result, during the three months ended June 30, 2017, the Housing Sales Business posted sales of 5,485 million yen (up 25.3% year on year), and operating loss of 1,640 million yen (compared with a loss of 1,543 million yen a year earlier, including goodwill amortization costs at 23 million yen related to J-wood Co., Ltd. and KDI Co., Ltd.).

Additionally, in order to enlarge business area and gain construction know-how, we acquired KUNIMOKU HOUSE Co., Ltd. in June, 2017 that expands the housing business in Hokkaido (in the financial report, a day as regarded as the acquisition date is June 30, 2017). Their original concept is "Strong wooden houses that stress kindness and environmental friendliness".

Regarding store openings, during the three months ended June 30, 2017, Leohouse Co., Ltd. opened 5 sales bases and changed its brand to suzukuri Co., Ltd. in 5 bases, and suzukuri Co., Ltd., newly opened 3 sales bases.

[Mail-order Business]

At JIMOS Co., Ltd., the mainstay Macchia Label brand increased in the number of new customers resulting from the aggressive investment in advertising and promotions ahead of the spending plan, but sales decreased year on year due to a decrease in the repeat rate.

On the other hand, 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.

In addition, sales dropped year on year in the wholesaling business.

Operating income improved year on year because of the proper operation of investments in advertising and promotion.

In December, 2016, we acquired BELAIR Co., Ltd. to gain both production and sales know-how regarding supplements. In relation to this, we would develop comprehensive services using their resources for an aging society (in the financial report, a day as regarded as the acquisition date is March 31, 2017).

As a result, during the three months ended June 30, 2017, the Mail-order Business posted sales of 2,547 million yen (up 0.7% year on year), and operating loss of 202 million yen (compared with a loss of 266 million yen a year earlier, including goodwill amortization costs at 141 million yen related to JIMOS Co., Ltd. and BELAIR Co., Ltd.).