1. Qualitative Information Concerning Consolidated Business Results

(1) Information about operating results

During the nine months ended December 31, 2017 (April 1 to December 31, 2017), indexes of business condition was on a gradual recovery path in Japan; for example, capital investment and inventory investment rose steadily (up 2.5% year on year).

In addition to this, the present recovery phase, continuing from the trough in the fourth quarter of 2012, exceeded the Izanami boom that was the Japan's longest postwar period of economic expansion. On the other hand, labor share and personal consumption are expected to glow more and more.

In the housing industry, our core operating domain, increases in the rental house which backed by the inheritance tax strategy peaked out due to some factors (e.g. the Japanese government controls apartment loans for individual). Moreover, the growth of housing starts regarding the rental house and subdivided housing unit have settled down.

In the retail and services industries, personal consumption is reliable, and it seems likely to become a steadily recovery.

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 nine months ended December 31, 2017 included sales of 60,302 million yen (up 9.4% year on year), operating loss of 896 million yen (compared with a loss of 1,632 million yen in the nine months ended December 31, 2016) and ordinary loss of 858 million yen (compared with a loss of 1,590 million yen a year earlier). Loss attributable to owners of parent was 1,042 million yen (compared with a loss of 1,407 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 866 million yen as corporate expenses that is not attributable to any particular segment.

[CreCla Business (Bottled Water)]

According to the Japan Delivery Water & Server Association, the water-related market is still in the growth period (e.g. the number of servers was 3,650 thousand (up to 4.3% year on year), the amount of bottles was 1,260,000 kiloliters (up to 4.5% year on year) and the market size was 147,000 million yen (up to 5.0% year on year) in 2017).

Under the circumstances, the CreCla business carried out a variety of measures in order to build a solid customer base (e.g. sales of the new product like “Caffitaly”, improvements of customer retention rate by the use of the CreCla point system and a reinforce of customer service).

Our direct managed stores continuously tried to improve customer retention rate and bottle consumption per customer, so sales rose slightly year on year.

On the other hand, in our affiliated stores, we focused on customer services and support programs so as to increase the number of customers and sales per customer. However, sales declined year on year since sales of the CreCla plant that contributed to business results last year was not appropriated in this period and the sales volume of bottled water decreased owning to adverse weather conditions in East Japan.

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

As a result, during the nine months ended December 31, 2017, the CreCla Business segment posted sales of 10,061 million yen (down 0.1% year on year), and operating income of 404 million yen, up 287.2% year on year.

In June, 2017, the 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 the third quarter, we do not consolidate Aquaclara Co., Ltd.). In relation to this, we try to reduce the prime costs and improve distribution of goods as a whole in terms of the market.

[Rental Business]

The mainstay dust control products business implemented sales promotions using our strengths (i.e. communication competence) and focused on existing customers to improve customer satisfaction. Meanwhile, we utilized M&A strategy to expand business areas. Furthermore, we broadly supplied total care services (e.g. the housekeeping service, exterminator and gardener) and concentrated energy on house cleaning services for increases in demand at the end of the year.

Consequently, sales increased year on year.

In the With-branded pest-control devices business, the number of loyal customers held steadily thanks to sales promotions before the summer peak demand season in

both our directly managed stores and affiliated stores. What is more, the newest product called "With" is enjoying large sales. As a result, sales rose year on year. Earnest Co., Ltd. that provides regular cleaning plan for business also grew sales because there were increases in referrals of new customers by existing customers. In September, 2017, the Rental business acquired AI LIFE Co., Ltd. to expand business areas and strengthen earning power more and more (in the financial report, a day as regarded as the acquisition date is September 1, 2017).
Operating income increased year on year owing to sales increases in all sections. As a consequence, during the nine months ended December 31, 2017, the Rental business segment posted sales of 10,425 million yen, up 5.1% year on year, and operating income of 1,557 million yen including goodwill amortization costs of 1 million yen related to AI LIFE Co., Ltd., up 11.9% year on year.

[Construction Consulting Business]
The local construction market remains stagnant due to some reasons such as the postponement of consumption tax hike and the lack of manufacturers.
Under these conditions, the construction know-how systems business reinforced with an emphasis on 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 tented to reduce investments resulting from uncertainty about market prospects. Thus, sales declined year on year.
On the other hand, the construction materials business, which is focused on solar energy systems, increased the number of orders regarding solar powered house, especially new-built house, in the housing market by the use of "Net Zero Energy House (ZEH)". Additionally, we have started offering construction materials for subdivided housing unit and renovation in the adjacent market from last year, and it produced positive results. Overall, sales increased significantly year on year.
Eco & Eco Co., Ltd. have conducted an overhaul of income structure, sales promotions and process management to generate stable profits in the future, so sales declined temporarily.
Operating income downed year on year owing to sales decreases in the construction know-how systems business.
Consequently, during the nine months ended December 31, 2017, the Consulting business segment posted sales of 3,772 million yen, down 5.8% year on year, and

operating income of 333 million yen including goodwill amortization costs of 14 million yen related to Eco & Eco, down 26.0% year on year.

[Housing Sales Business]

During the nine months ended December 31, 2017, the growth of housing starts regarding the rental house slowed down. Additionally, the number of housing starts regarding subdivided housing unit dropped for the 7 consecutive months from June, 2017 backed by a wait-and-see mood before the tax hike and a decrease in population.

Against this backdrop, Leohouse Co., Ltd. offered diverse value-added products such as “CoCo as a lineup of Dai-ninki no ie”; meanwhile, we performed effective sales promotions aggressively by the use of trademarks that we won customer’s satisfaction about selling price for 3 straight years. Nevertheless, because of intense competition for new customers in the market, during the nine months ended December 31, 2017, the number of orders received and orders in hand in Leohouse Co., Ltd. are 1,419 homes (compared with 1,531 a year earlier) and 1,309 (compared with 1,361 a year earlier), respectively. Whereas, in order to meet a wide variety of needs and improve productivity, Leohouse Co., Ltd. changed its brand in 5 bases to “Matrix Concept” which presented by suzukuri Co., Ltd. In comparison with Leohouse’s brand, the “Matrix Concept” produces semi-custom, fashionable and low-priced houses.

KDI Co., Ltd. continuously focuses on reinforcement of information collection methods regarding purchase and human resource development so as to increase the number of orders received and adequate real estate properties. In relation, we newly opened sales bases in Tokyo to strengthen sales of ready-built house in the metropolitan area.

In addition, in order to enlarge business area and gain construction know-how, we acquired KUNIMOKU HOUSE Co., Ltd., in June, 2017 that runs 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.”

Although there were the delay of the construction and delivery caused by the lack of manufacturers and craftspeople, sales rose year on year because of increases in hand as of the end of the previous fiscal year in Leohouse Co., Ltd. and J-wood Co.,

Ltd.
Operating income improved year on year resulting from sales increases even though there were an upward tendency about construction costs and expenses related to new store openings.
Eventually, during the nine months ended December 31, 2017, the Housing sales business posted sales of 28,344 million yen (up 22.6% year on year), and operating loss of 2,267 million yen (compared with a loss of 2,358 million yen a year earlier, including goodwill amortization costs at 76 million yen related to J-wood Co., Ltd., KDI Co., Ltd. and KUNIMOKU HOUSE Co., Ltd.).
Regarding store openings, Leohouse Co., Ltd. opened 5 sales bases, suzukuri Co., Ltd. opened 11 sales bases including 5 brand changes from Leohouse Co., Ltd. and KDI Co., Ltd. opened 1 sales base during the third quarter.

[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. However, sales decreased year on year due to a slowdown in the repeat rate and the decrease in sales per customers.
Although sales per customers was improved, sales of the Coyori brand of skin and hair care products made from natural ingredients declined year on year as a result of a decrease in the number of customers.
BELAIR Co., Ltd. develops comprehensive services using management resources for an aging society and expands sales network keeping in mind the synergy effect.
Operating income improved year on year because of the proper operation of investments in advertising and promotion to maintain stable profits in the Macchia Label and Coyori brand.
Taken together, during the nine months ended December 31, 2017, the Mail-order business posted sales of 7,738 million yen (down 3.5% year on year), and operating loss of 58 million yen (compared with a loss of 267 million yen a year earlier, including goodwill amortization costs at 425 million yen related to JIMOS Co., Ltd. and BELAIR Co., Ltd.).