

1. Qualitative Information Concerning Consolidated Business Results

(1) Information about operating results

During the three months ended June 30, 2018(April 1 to June 30, 2018), the Japanese economy has been recovered gradually (i.e. export, production, capital investment and personal consumption are improving). Moreover, corporate profits is growing even though personnel expenses and material costs are on the increase. On the other hand, there are the uncertainty of politics and economy, trade friction between the United State of America and China and a sharp rise in the price of crude oil. Under these circumstances, global economy might put pressure on the Japanese economy.

The housing industry, our core operating domain, remains stagnant because of the wait-and-see mood before consumption tax hike and the decrease in demand for inheritance tax strategy. Regarding the number of housing starts, single-family houses decreased for the 5 consecutive month and rental houses declined for the 13 consecutive month year on year. What is more, there was an upward trend in the number of housing starts regarding subdivided housing unit, but it dropped at 18.8% year on year in June.

In the retail and services industries, the latest trend in consumer sentiment levels off due to sluggish growth in real income and influence of unseasonable weather even though employment environments is improved.

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

As a result, consolidated results for the first quarter ended June 30, 2018 included sales of 15,581 million yen (down 1.8% year on year), operating loss of 1,497 million yen (compared with a loss of 1,760 million yen in the first quarter of fiscal 2017) and ordinary loss of 1,508 million yen (compared with a loss of 1,756 million yen a year earlier). Loss attributable to owners of parent was 1,106 million yen (compared with a loss of 1,461 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 249 million yen as corporate expenses not attributable to any particular segment.

[CreCla Business (Bottled Water)]

During the three months ended June 30, 2018, the condition of market remained harsh since a price hike in delivery charge affected providers of one-way bottles and competition became more intense.

Under the circumstances, the CreCla business carried out sales promotions nationwide to increase the number of customers before the summer peak demand season, and it produced some positive results. In addition, we initiated production of new products by the use of “hypochlorous acid water”.

In our direct managed stores, a participation rate of the new service called “CreCla Security Support” has been growing steadily from September, 2017. Thus, sales rose year on year.

In our affiliated stores, sales of the water cooler increased, but the number of customers in affiliated stores and sales of bottles to customers declined.

Consequently, sales decreased year on year.

Operating income increased significantly year on year thanks to sales increases in our direct managed stores.

As a result, during the three months ended June 30, 2018, the CreCla Business segment posted sales of 3,273 million yen (up 2.8% year on year), and operating income of 87 million yen (compared with a loss of 104 million yen in the first quarter of fiscal 2017).

[Rental Business]

Based on the society of the aged, the Rental business worked on expansion of the sales network and reinforcement of customer services to respond a variety of customer demand.

The mainstay dust control products business opened a new store and focused on existing customers, so the number of customers and sales per customer rose gradually. In relation to this, we supply total care services (i.e. the housekeeping service, exterminator and gardener) that are intended for elderly people and expand business areas to increase customer base. Taken together, the mainstay dust control products business increased sales year on year.

With-branded pest-control devices business also opened a new store and strengthened sales promotions before the summer peak demand season, so sales rose year on year.

Earnest Co., Ltd. that provides regular cleaning plan for business also grew sales

since there were increases in referrals of new customers by existing customers. Although sales increased in all sections, operating income decreased year on year owing to increases in labor costs and an allowance for the consumer service point. Consequently, during the three months ended June 30, 2018, the Rental Business segment posted sales of 3,541 million yen, up 6.0% year on year, and operating income of 431 million yen down 1.2% year on year.

During the three months ended June 30, 2018, we opened a new store in the mainstay dust control products business and With-branded pest control devices business, respectively.

[Construction Consulting Business]

Although consumption tax hike is going to revitalize the local construction market, the market remains stagnant because of several reasons such as the lack of craftspeople, decreases in the number of household and problems of vacant house. Under these conditions, the construction know-how systems actively reinforced support programs for small and midsize building contractors and promoted new products; however, sales declined year on year.

The construction materials business, which focused on solar energy systems, reinforced sales promotions regarding solar powered house (e.g. new-built house) in the housing market by the use of “Net Zero Energy House (ZEH)”. Additionally, we have started selling storage battery to meet the demand for the end of FIT-based purchasing period. Nevertheless, sales decreased year on year owing to the delay in delivery of commodities, which was affected by Revised-FIT.

Eco & Eco Co., Ltd. have conducted an overhaul of income structure, sales promotions and process management in fiscal 2017, so sales improved year on year. Operating income increased year on year thanks to increases in sales of Eco & Eco Co., Ltd. and revisions to management costs.

As a result, during the three months ended June 30, 2018, the Consulting Business segment posted sales of 1,080 million yen, down 18.6% year on year, and operating income of 49 million yen, up 7.6% year on year.

[Housing Sales Business]

During the three months ended June 30, 2018, the number of housing starts decreased due to the wait-and-see mood before consumption tax hike, uncertainty about the Japanese economy and a rise in property prices. In relation to this, the number of housing starts regarding single-family houses was not glowing as much as expected.

Against this backdrop, Leohouse Co., Ltd. rebuilt a solid sales system for consumption tax hike with new president, and we reduced fixed costs through the closure of unprofitable branches and managed business resources appropriately. Additionally, based on the revitalization of the market, we made serious efforts to tackle many measures to win potential customers such as attractive sales promotions and remodeling of the branches nationwide.

As a result, during the three months ended June 30, 2018, the number of orders received and orders in hand are 470 homes (compared with 439 a year earlier) and 1,233 (compared with 1,245 a year earlier), respectively. In addition, sales declined year on year owing to the delay of the construction and delivery caused by the lack of manufacturers and craftspeople. Operating income also decreased year on year due to decreases in sales and the rise in construction costs that was affected by Tokyo Olympics and redevelopment in the metropolitan area.

J-wood Co., Ltd. made use of the popular customer attraction model with “Housing cafes” to get new customers, and we held “Osawa marche” in housing cafes Sendai. Although the number of orders received increased, that of handover dropped year on year. Hence, sales decreased year on year.

KDI Co., Ltd. increased sales significantly year on year thanks to new stores that was opened in September, 2017 and reinforcements of information collection methods regarding purchase and human resource development.

KUNIMOKU HOUSE Co., Ltd. worked on purchase of housing sites and reinforcements of sending out information through the social network service.

To sum up, during the three months ended June 30, 2018, the Housing Sales Business posted sales of 5,419 million yen (down 1.2% year on year), and operating loss of 1,765 million yen (compared with a loss of 1,640 million yen a year earlier, including goodwill amortization costs at 26 million yen related to J-wood Co., Ltd., KDI Co., Ltd. and KUNIMOKU HOUSE Co., Ltd.).

Regarding store openings, during the first quarter, Co., Ltd. and suzukuri Co., Ltd. opened a new sales base, respectively.

[Beauty and Health Business]

At JIMOS Co., Ltd., the mainstay MACCHIA LABEL brand increased new customers through the new cosmetic series called “CLEAR ESTHE LINE”, but sales decreased year on year resulting from decreases in sales per customers. The Coyori brand of skin and hair care products that is made from natural ingredients declined sales year on year because of the slowdown in the repeat rate and acquisition of new customers.

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

BELAIR Co., Ltd. develops comprehensive services by the use of management resources for an aging society and expands sales network.

As a result, during the three months ended June 30, 2018, the Beauty and Health Business posted sales of 2,277 million yen (down 10.6% year on year), and operating loss of 50 million yen (compared with a loss of 202 million yen a year earlier, including goodwill amortization costs at 141 million yen related to JIMOS Co., Ltd. and BELAIR Co., Ltd.).