

1. Qualitative Information on Quarterly Results

(1) Operating Results

During the ninth months ended December 31, 2021 (April 1, 2021 to December 31, 2021), the Japanese economy has been showing signs of recovery as the severe situation caused by COVID-19 (hereinafter referred to as “infectious disease”) gradually eased.

The individual consumption in retail and service industries, our core business domain, has recovered. In terms of the background of consumption trends, gross employment income is within the same range, and consumer sentiment is showing signs of recovery.

Under these circumstances, NAC Group of companies has been actively engaged in selling products for infectious disease, improving customer satisfaction, sales promotion activities, expansion of business areas and business restructuring.

As a result, sales of 39.930 billion yen (decrease of 2.5% year-on-year), operating income of 1.889 billion yen (increase of 11.3% year-on-year), ordinary income 1.882 billion yen (increase of 21.6% year-on-year), profit attributable to owners of parent company of 1.153 billion yen (decrease of 18.3% year-on-year) were posted during fiscal year ended December 31, 2021.

Operating result by Business Segment are as follows:

In addition to the operating income and expenses of each segment, NAC Group of companies posted 1.138 billion yen as corporate expenses not attributable to any particular segment.

<CreCla Business>

In water delivery market, other than the increasing water consumption with more time spent at home because of the infectious disease, the demand for value-added servers was in upward trend. On top of prior investments of recruitment and developing new products, CreCla Business engaged in strengthening sales promotion using Web and SNS, and had collaborations with characters in order to attract new customers.

In our Directly Managed stores division, we continued to engage in active sales promotion activity and improve service quality that resulted a slight increase in sales year-on-year.

The sales of hypochlorous acid aqueous solution (ZiACO) which saw a sharp increase in sales in the previous fiscal year as a result of increasing awareness of sterilization, decreased sales as sales per customer lessened even though the number of customers were in upward trend. As a result, the overall sales of Directly Managed stores division were at the same level year-on-year.

In our Affiliated stores division, aside from decreased in sales of servers year-on-year, the decrease in sales of ZiACO related products caused by reactionary decline resulted a decrease in overall sales year-on-year.

Operating income significantly decreased due to increase in SG&A expenses with prior investments of securing sales staff and strengthening sales promotion activities focusing on Directly Managed store division to increase number of customers.

As a result, sales were 11.227 billion yen (decrease of 0.8% year-on-year) and operating income was 857 million yen (decrease of 34.3% year-on-year).

〈Rental Business〉

The Rental Business engaged in expanding sales network and strengthening service system in anticipation of increased demand for each business in the 100-year life cycle.

In the mainstay Duskin business, the sales of Dust Control Product Division were on the same level year-on-year. However, business expanded (expanding sales activities by increasing sales promotion personnel since capital and business alliance with Diskin Co., Ltd in August 2018) for Care Service Division which provides comprehensive services such as housekeeping services, pest control, and floral and garden management. As a result, the sales increased, and overall sales of Duskin business were higher year-on-year.

Pest Control Business that is centered on “With-brand” resulted a decreased sales year-on-year when restaurants (main customers of the business) that gradually resumed operation and regular deliveries showing signs of recovery after lifting of State of Emergency was not enough to compensate the decline in customers due to prolonged closures and shortened business hours.

Earnest Co., Ltd, which provides cleaning services to business clients, has sales significantly increased as a result of large increase in request for disinfection and cleaning work related to infectious diseases as well as increase in request from major customer related to vaccination sites operation.

The sales decline of Pest Control Business, and increase of SG&A expenses mainly due to strengthening sales promotion activities of Care Service Division was covered by the increase in sales of Duskin Co., Ltd and Earnest Co., Ltd which resulted an increase of operating income year-on-year.

As a result, sales of 12.022 billion yen (increase of 8.5% year-on-year) and operating income of 1.173 billion yen (increase of 12.6% year-on-year) were posted.

And regarding store openings, Duskin Business opened HealthRent Ichikawa Station and HealthRent Odawara Station during the three quarters of the current fiscal year.

〈Construction Consulting Business〉

The local construction industry continued to face significant environmental challenges due to labor shortage and escalating distribution costs, as well as delivery delays of housing equipment due to shortage of supply of semiconductors.

In Construction Know-How System Division (not including suzukuri Division), sales increased year-on-year with the contribution of launched new products. On the other hand, the suzukuri Division (it changed Business segment from Housing Sales to Construction Consulting since the previous fiscal year and is calculated with Construction Know-How System Division) which manages housing sales, is in the process of shifting its focus from housing sales into content business. And following the number of orders received which were sluggish, it led to a decrease

in the number of houses completed, resulting a decrease year-on-year in the overall sales of the division.

The NAC Smart Energy Co., Ltd which engages in construction and sales of energy-saving related materials decreased sales year-on-year due to decline in unit price per customer because of change in main customer base from corporate to individual due to shift to residential market, as well as cancellation or delayed delivery of storage batteries and power conditioner due to shortage of semiconductor.

ACE HOME Co., Ltd increased sales year-on-year as a result of good sale of products that were jointly developed with NAC started in October 2020.

The decrease in SG&A expenses of NAC Smart Energy Co., Ltd and increase in sales of ACE HOME Co., Ltd resulted an improvement in the operating income that resulted an increase year-on-year.

As a result, sales of 5.210 billion yen (decrease of 10.1% year-on-year), operating income of 410 million yen (increase of 36.3% year-on-year, including the 30million yen goodwill amortization of ACE HOME Co., Ltd) were posted.

And regarding store openings, Construction Know-How Systems Division opened Matsuyama Branch during the three quarters of the current fiscal year.

〈Housing Sales Business〉

In Housing Sales Industry, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) reported that the number of new housings in December decreased for the first time in 14 months for owner-occupied houses but increased for 10th consecutive month for all housing including rental and for-sale houses which showed a steady movement.

In KDI Corporation, due to the difficulty in land purchase caused by the infectious disease and due to construction delay caused by insufficient construction materials due to lumber shortage made sales inventory decreased and caused sales decline year-on-year.

At J-wood Co., Ltd, the sales increased year-on-year as a result of increase in the number of orders received, increase of sold built-for-sale houses with land, and an improvement in the unit price per house.

The rising land prices of KDI Corporation contributed to higher sales prices which in turn led to increase of operating income year-on-year. At J-wood Co., Ltd, the relocation and reorganization of stores in the previous fiscal year reduced SG&A expenses resulting a higher operating income year-on-year.

As a result, sales of 7.135 billion yen (decreased of 2.0% year-on-year), operating income of 80 million yen (operating loss of 84 million yen in the same period of the previous fiscal year, including the 33million yen goodwill amortization of KDI Corporation and J-wood Co.,Ltd) were posted.

Moreover, J-wood Co., Ltd merged with KUNIMOKU HOUSE effective April 1, 2021. This business is continued by J-Wood Co., Ltd as KUNIMOKU HOUSE brand.

〈Beauty and Health Business〉

Beauty and Health Business continued to face significant environmental challenges due to the infectious disease that led to decline of purchases by incoming tourists, as well as decline in demand for cosmetics, especially for makeups because of stay-at-home measures.

At JIMOS Co., Ltd, sales have decreased year-on-year due to decrease in the number of customers with the unauthorized access to e-commerce site that was discovered in July 2019 and reluctance to purchase makeup products because lesser makeup opportunities caused by prolonged infectious diseases.

At BELAIR Co., Ltd, although the number of customers of nutritional supplements (our leading products) are in a downward trend, sales were in the same level year-on-year as the result of strengthened sales in EC.

Operating income increased at JIMOS Co., Ltd as a result of the efforts made to reduce SG&A expenses, mainly sales promotion expenses and outsourcing expenses through efficient management of advertising expenses.

BELAIR Co., Ltd increased operating income year-on-year following the decrease in SG&A expenses which were mainly personnel expenses and outsourcing expenses.

In addition, TOREMY Co., Ltd which mainly engaged in contract manufacturing cosmetics that was acquired in July 2021 for the purpose of business and new product development centered on beauty and health business, posted income statement from the third quarter of the current fiscal year (the impact of this change is minor).

As a result, sales of 4.397 billion yen (decrease of 19.8% year-on-year), operating income of 504 million yen (operating income of 10million yen in the same period of the previous fiscal year, including the 135million yen goodwill amortization of JIMOS Co., Ltd, BELAIR Co., Ltd and TOREMY Co., Ltd) were posted.

In addition, Infinity Beauty Business and Taisha Seikatsu Club Business of JIMOS Co., Ltd went through company split in September 2021 and established UP SALE Co., Ltd with the purpose of strengthening EC business, focusing on our own EC site and EC mall.