
Financial Results 1Q FY2023/3



July 28, 2022

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Net sales increased, but profits decreased due to lower gross profit margin

¥ billion (ratio of net sales :%)	1Q FY2022/3	1Q FY2023/3		
			Amount(YoY)	Rate(YoY)
Net Sales	269.6	276.2	+6.5	+2.4%
Gross Profit	20.9 (7.78)	20.7 (7.53)	-0.1 (-0.25)	-0.9%
SG&A expenses	13.9 (5.18)	14.2 (5.17)	+0.3 (-0.01)	+2.2%
Operating Profit	7.0 (2.60)	6.5 (2.36)	-0.4 (-0.24)	-7.0%
Ordinary Profit	7.7 (2.87)	7.3 (2.66)	-0.4 (-0.21)	-5.4%
Profit	5.4 (2.02)	5.0 (1.83)	-0.3 (-0.19)	-7.0%

**Although demand recovered
accompanying the relaxation of movement restrictions,
there were concerns about the impact of soaring prices on consumer sentiment**

- ⇒ Demand for products related to going outside, such as make-up and health drinks, recovered due to increased opportunities to go out and take off masks following the relaxation of movement restrictions.
 - ⇒ Demand for hygiene related products such as disinfectants and hand soaps, which was extremely high early in the COVID-19 pandemic, continued to decline.
 - ⇒ Since the full-scale rise in temperature was from mid-June onwards, summer-seasonal products fell below the expectations, but sunscreen sales were strong due to an increase in going outside as the number of infections decreased.
- Sales of summer-seasonal products grew from late June onwards.
(especially heatstroke prevention products)**

Analysis of Profit and Loss YoY (1Q Apr. - Jun.)



Net Sales

¥ 276.2 bn

YoY change : + ¥ 6.5 bn (+ 2.4 %)

- Strengthened initiatives and expanded transactions through collaboration and cooperation with retailers and manufacturers.
- Increase or decrease in demand due to increase in the number of people's outings and decrease in the number of infections. (increase: makeup, health drinks, etc. decrease: mask, disinfectant, etc.)
- Strengthened procurement of new products to meet consumer needs under New Normal.
- Strong sales of sunscreens due to increase in going outside and stable weather.
- Weak sales of insecticides, which had performed well during the COVID-19 pandemic, due to decrease in the number of hours spent at home.

Gross Profit

¥ 20.7 bn (^{GPM} 7.53 %)

YoY change : - ¥ 0.1 bn (GPM : - 0.25 %)

- Responded to low-price strategies such as EDLP and bargain sales due to worsening consumer sentiment more than expected.
- Increase in center fee. (increase in sales for customer that required to pay that.)
- Expenses associated with the launch of "Tochigi distribution center". (personnel expenses, small assets, etc.)

SG&A Expenses ¥ 14.2 bn SG&A ratio
5.17 % **YoY change : + ¥ 0.3 bn (SG&A ratio : - 0.01 %)**

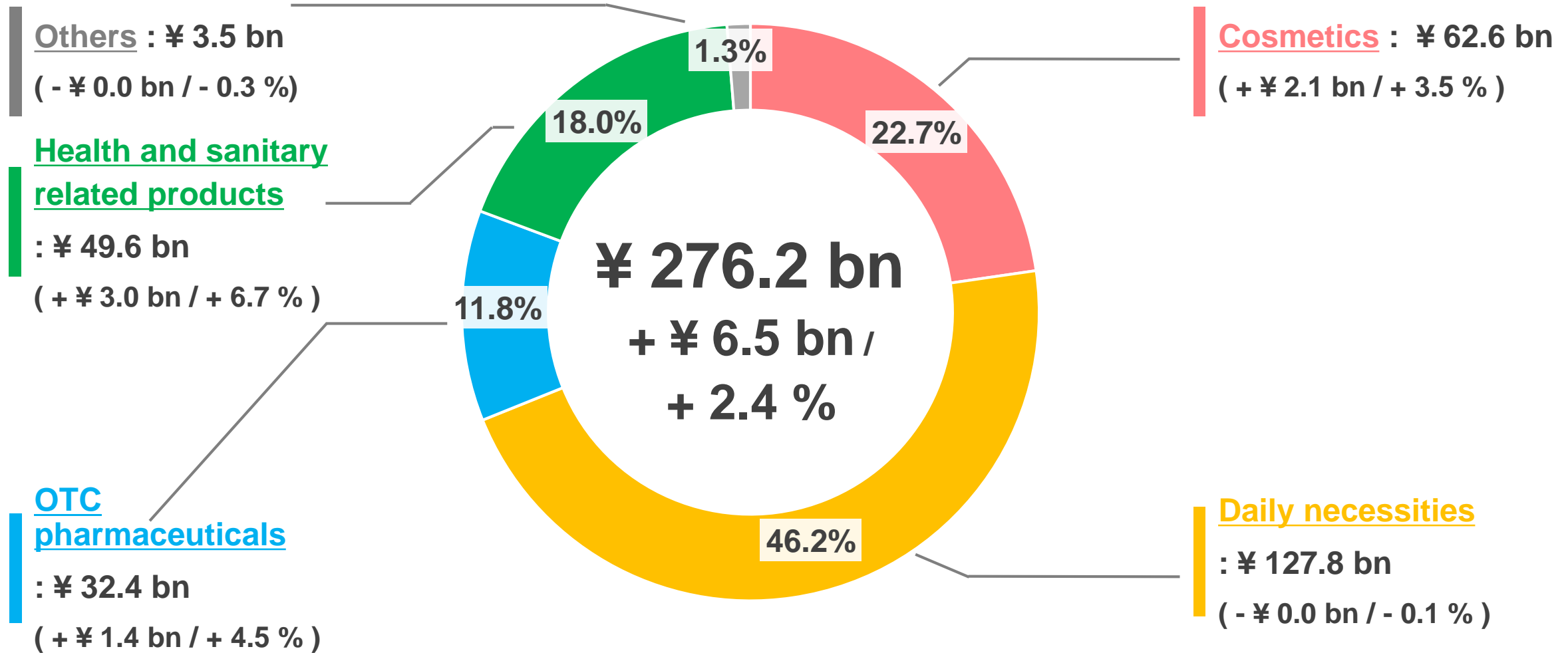
- **Increased in personnel expenses** **+ ¥ 0.2 bn (+ 0.02 %)**
 - ⇒ Securing of human capital for medium- to long-term growth
 - ⇒ Even though operation efficiency declined due to a decrease in shipments per unit (shipping amount), restrained the rise of SG&A ratio through improving warehouse activities.

- **Promoted delivery improvements** **- ¥ 0.0 bn (- 0.05 %)**
(Priority Issues in the medium-term management plan)
 - ⇒ In an environment where the unit price of delivery costs was rising, worked on improvements such as shortening delivery distances by reviewing logistics base and promoting white-logistics-movements.

- **Increased in electricity costs** **+ ¥ 0.0 bn (+ 0.02 %)**

Sales Composition by Product Category (1Q Apr. - Jun.)

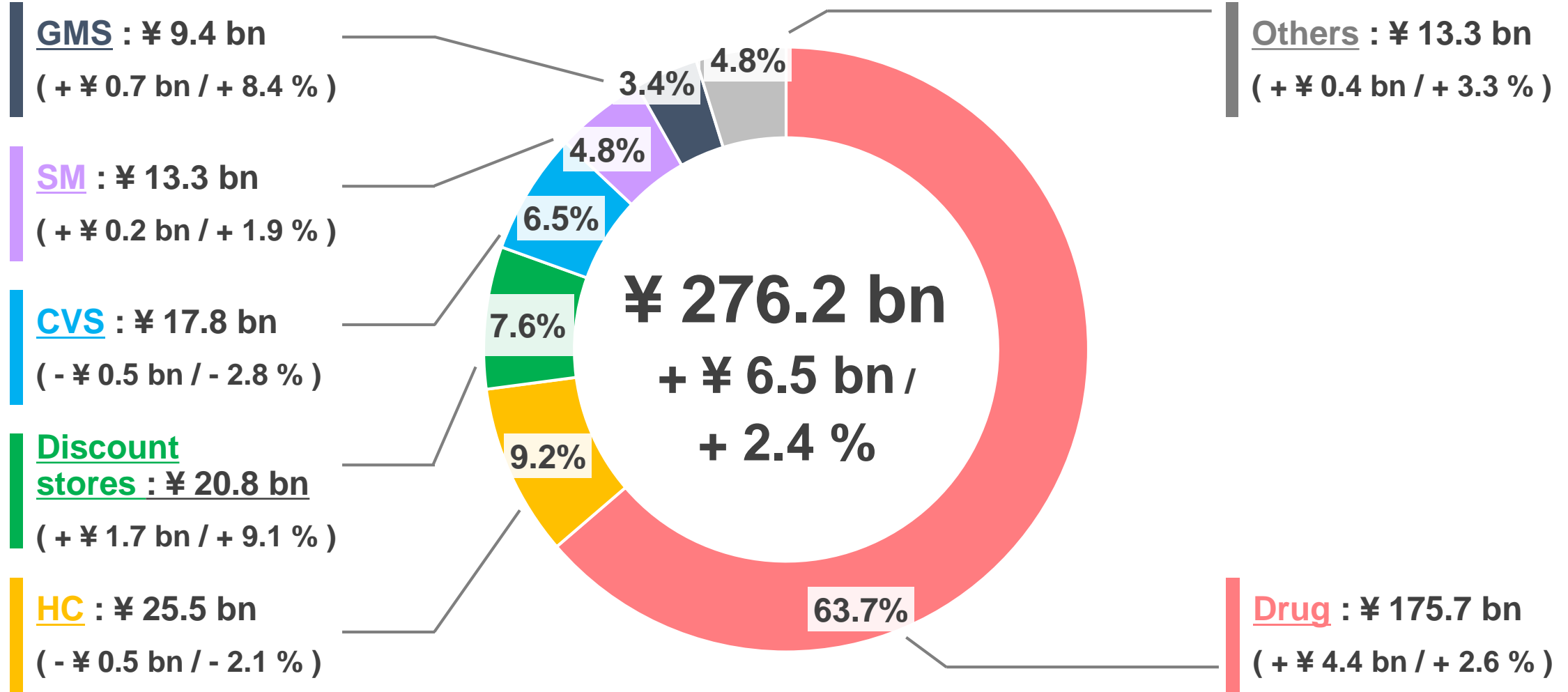
(YoY Change Amount / Rate)



Sales Composition by Customer Category (1Q Apr. - Jun.)



(YoY Change Amount / Rate)



From 2Q onward : Effort to improve gross profit with high priority

1Q: Lower prices in the market due to worsening consumer sentiment ⇒ Lower gross profit margin

■ Sales initiatives ⇒ Improving gross profits by expanding sales (Effective in improving SG&A expenses such as absorption of fixed costs)

Improvements

- Increasing rebates through expanding sales and controlling returned products
- Strengthening sales of high value-added products (high unit price, high gross profit)
- Cultivating new manufacturers and increasing sales of exclusive products (Asian cosmetics, premium hair care, etc.)
- Thorough gross profit management by product unit

Activities

- Responding quickly to ever-changing market demands
 - ⇒ Data utilization × Store support function = Quick development of sales floor on a daily basis
 - ⇒ Early rollout of new products (acquisition of sales opportunities and gross profit)
- Strengthening sales of high-value-added products (offering added value in depth)
 - ⇒ Launching products from new manufacturers with high needs and products planned incorporation with manufacturers
 - ⇒ Sharing information of sales marketing through cooperation between manufacturing, distribution and retail (utilizing virtual exhibition function)
 - ⇒ Effective sales promotion = Utilizing store support function and comprehensive support for promotional items
 - ⇒ Proposal of Planogram (placement of products in stores) that can secure profit in manufacturing, distribution and retail = Utilizing SCM function
- Strengthening and thorough sales management based on data
 - ⇒ Utilizing data such as ABC (Active Based Costing) analysis

Initiatives in light of the results of the 1Q (2/2)

- **Improvement by streamlining logistics** ⇒ Improving gross profit by generating “profits” from “unproductive factors”
(Effective in improving SG&A expenses by reducing logistics costs)

<p>Improvements</p> <ul style="list-style-type: none">▪ Increasing in logistics function fee by strengthening cooperation with manufacturers▪ Improving cost in the contract logistics business	<p>Activities</p> <ul style="list-style-type: none">▪ Improving production and delivery efficiency of manufacturers = Early ordering, bulk ordering, etc.▪ Continuously strengthening improvement of warehouse and delivery (contract logistics business contributes to gross profit)
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Expanding sales and improving SG&A expenses with thorough gross profit improvement as core activity ⇒ Expanding operating profit

Collaborative initiatives with a view across the entire supply chain

Received the “Excellence Award” of the Supply Chain Innovation Awards 2022 for “Reduction of losing sales opportunity by reducing returned products and an eliminating imbalances in inventory” implemented in collaboration with YAKUODO Co. Ltd.

Effects from initiatives

30% reduction of returned products
(Compared to the fiscal year ended March 31, 2017, when the system was built)

Reduction of burden on sorting and delivery operation of returned products

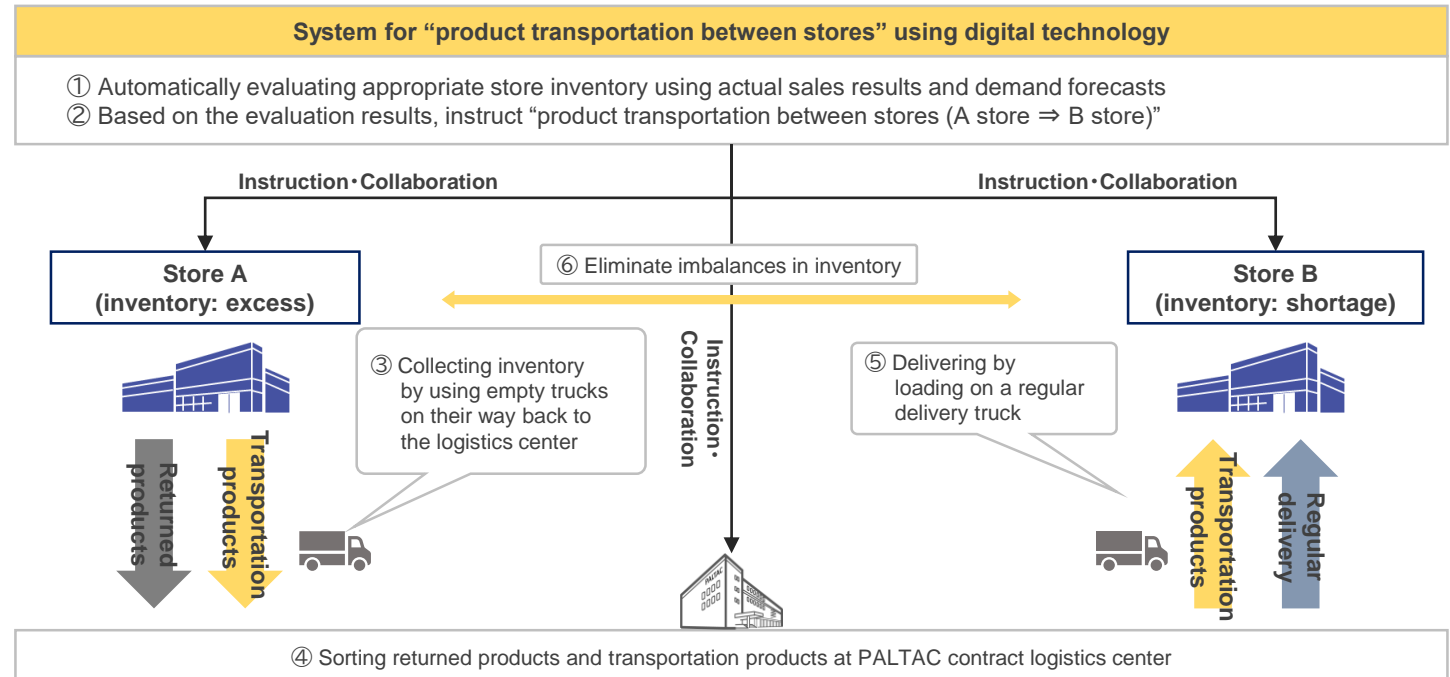
Reduction of environmental load
(Reduction of product waste and CO2 emissions)

Reduction of losing sales opportunities
(Increase in sales at stores with shortages of sales products)

No additional shipping costs
(Utilizing existing delivery flow)

Realization of efficient, timely, and appropriate amount of “product transportation between stores” using digital technology

Flow of “product transportation between stores”



Building a new system to promote DX

~ “DDI”, taskforce-team that plays a central role in promoting DX ~
 Consists of members from various department at their own decision under the leadership of management
 *DDI (Digital Dynamics Initiative)

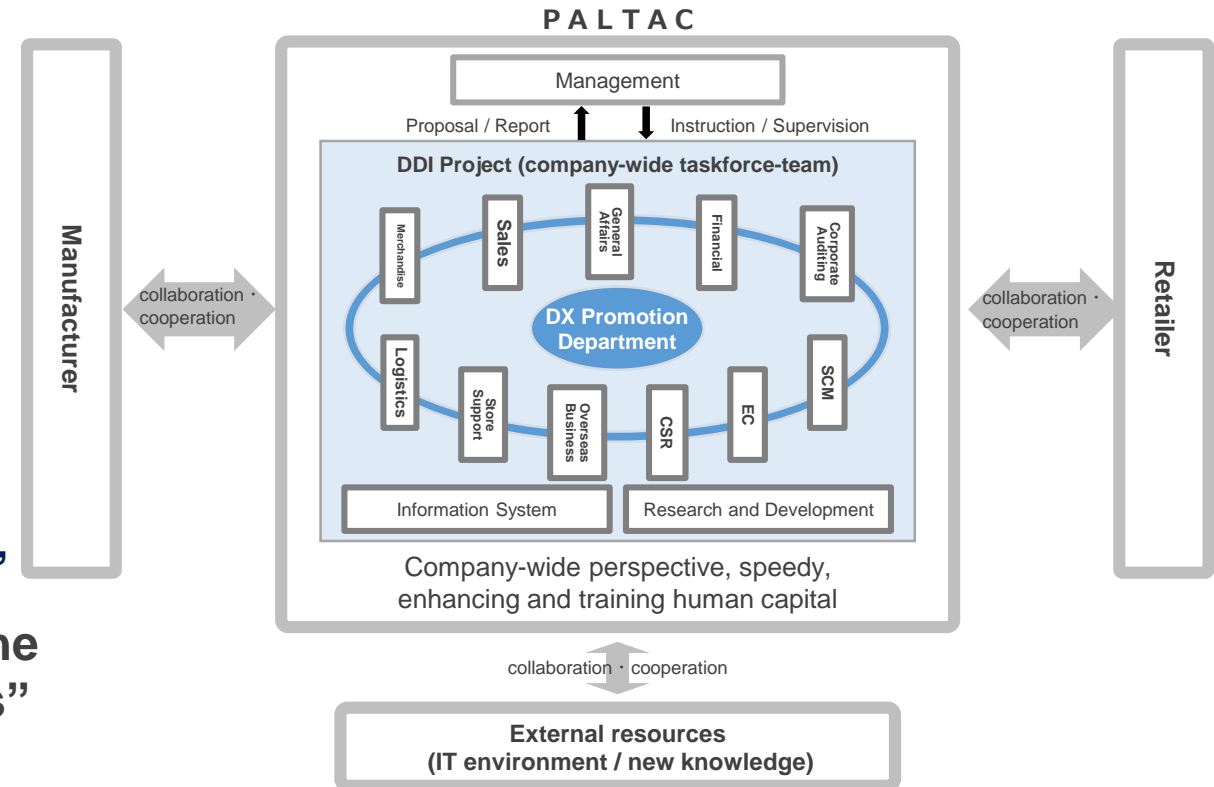
Accelerating internal and external collaboration and cooperation

⇒ As a company-wide organization, solving wide-ranging issues and actively exploring collaboration beyond the Company.

Expansion and acceleration existing initiatives by “DDI”

⇒ Responding to digital needs inside and outside the company by deploying technology that “connects” things and people and utilizing data.

DX promotion system



Aiming for “Innovative productivity improvement of entire supply chain” through digital utilization

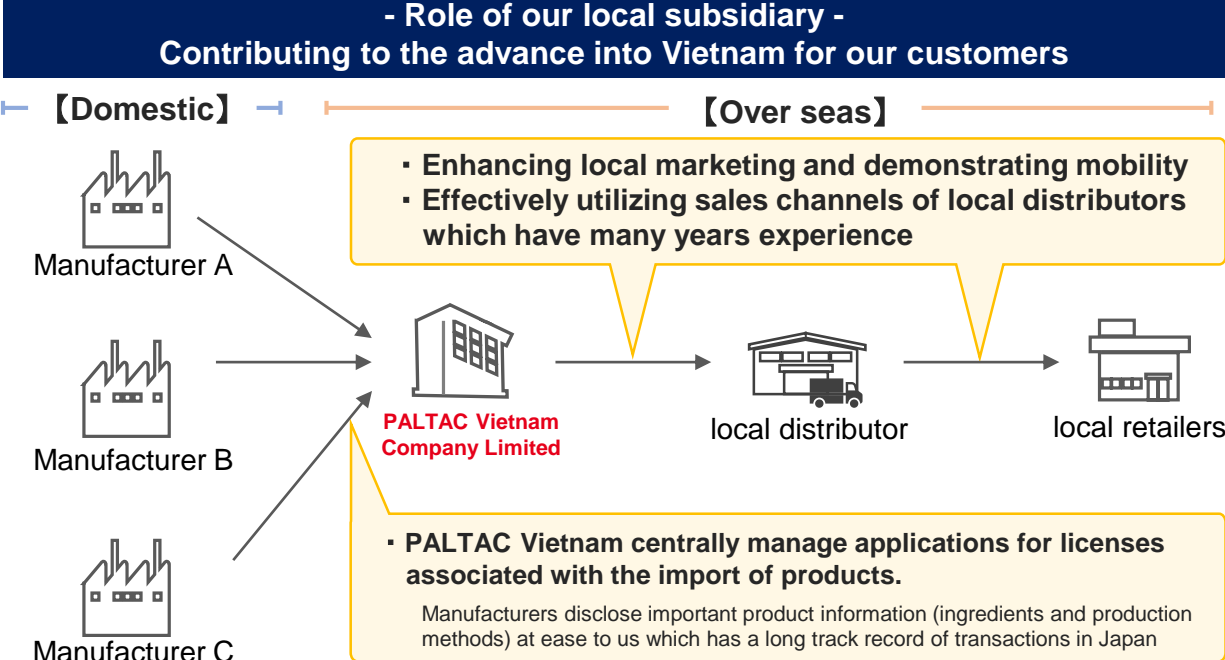
Taking on the challenge of new growth overseas business

Established a local subsidiary in Vietnam, which is experiencing remarkable growth
 Expanding the distribution of high-quality Japanese products and contributing to the business expansion of retailers and manufacturers

Vietnamese market

Attractive market	<ul style="list-style-type: none"> • A lot of Vietnamese have an affinity for Japan • High economic growth rates • Increase in the middle-income group • Demographic composition with large portion of youth
Issues	<ul style="list-style-type: none"> • Management of confidential information in license applications • Enhancement of marketing • Securing of sales channels

⇒ Many manufacturers have not yet entered the market



Accumulating know-how and experience in overseas wholesale business
Being the cornerstone of promoting horizontal development in other countries

Enhancing information disclosure

Endorsement of TCFD recommendations and information disclosure in line with TCFD requirements



【CO2 Emissions reduction targets (Scope1+2)】

FY2030 : 50% reduction (compared to FY2020)

FY2050 : Net zero emissions

- ⇒ Strengthening initiatives to realize reduction targets.
- ⇒ Promoting deeper dialogue with stakeholders through TCFD disclosures, enhancing information disclosure, and improving the level of initiatives.

Integrated Report issued “WHAT'S PALTAC 2022”

**WHAT'S
PALTAC**



統合報告書2022
株式会社PALTAC

Major updates (additional contents)

- Progress of initiatives based on the medium-term management plan and new challenges for sustainable growth.
- Improving contents and enhancing information disclosure based on dialogue with investors. (enhancing descriptions of governance, etc.)

※ English version will be published at the end of September

Strengthening initiatives for sustainable growth through dialogue with stakeholders

FY2023/3 Forecasts

A temporary decline in profits is expected due to start of operation at the new distribution center

¥ billion (ratio of net sales :%)	FY2022/3	FY2023/3	YoY(Amount)	YoY(Rate)
Net sales	1,045.7	1,080.0	+34.2	+3.3%
Gross Profit	81.7 (7.82)	82.8 (7.67)	+1.0 (-0.15)	+1.3%
SG&A expenses	55.8 (5.34)	58.1 (5.38)	+2.2 (+0.04)	+4.1%
Operating Profit	25.9 (2.48)	24.7 (2.29)	-1.2 (-0.19)	-4.7%
Ordinary Profit	28.6 (2.74)	27.4 (2.54)	-1.2 (-0.20)	-4.3%
Profit	19.6 (1.88)	19.0 (1.76)	-0.6 (-0.12)	-3.3%
Earnings per share (¥)	310.34	302.32	-8.02	-2.6%

Note Concerning **Forward-Looking Statements**

Information in this document presented by PALTAC CORPORATION (the “Company”) contains forward-looking statements regarding to the Company. Other than historical facts, these forecasts and strategies prepared under certain assumptions, and such matters include certain risks and uncertainties. As such, please be forewarned that actual results may not necessarily match these forecasts due to a variety of changes in the business environment and others causes.

Please also note that even in cases where it might be desirable for the forecast information to be updated or revised due to new information, future events or other items. The Company is not obliged, and dose not have a policy of updating this document and information to the most recent.