

Non-consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2023 <under Japanese GAAP>

October 28, 2022

Company name: PALTAC CORPORATION
(URL: <http://www.paltac.co.jp/>)
Listing: Tokyo Stock Exchange (Code number: 8283)
Representative: Representative Director, President
Seiichi Kasutani
Contact: Director, Managing Executive Officer, General Manager of Management Planning
Headquarters
Masaharu Shimada
Tel: +81-6-4793-1090 (from overseas) E-mail: ir@paltac.co.jp
Scheduled date to submit the Quarterly Securities Report: November 11, 2022
Scheduled date to commence dividend payments: December 1, 2022
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: Yes (for institutional investors, analysts and media)

(Figures are rounded down to the nearest million yen)

1. Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2023 (From April 1, 2022 to September 30, 2022)

(1) Operating Results (cumulative) (% increase/(decrease) figures indicate year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Six months ended								
September 30, 2022	554,898	4.4	11,959	(10.4)	13,469	(8.5)	9,293	(11.3)
September 30, 2021	531,555	–	13,341	–	14,718	–	10,482	–

	Earnings per share	Diluted earnings per share
Six months ended	(¥)	(¥)
September 30, 2022	147.87	–
September 30, 2021	164.96	–

Note: From the beginning of the first quarter of the fiscal year ended March 31, 2022, PALTAC (the Company) has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc., and the above-mentioned figures of six months ended September 30, 2021 do not include year-on-year percentage changes.

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(¥ million)	(¥ million)	%	(¥)
September 30, 2022	469,657	251,820	53.6	4,006.89
March 31, 2022	448,877	243,741	54.3	3,878.33

Reference: Equity As of September 30, 2022: ¥251,820 million As of March 31, 2022: ¥243,741 million

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal year ended March 31, 2022	(¥) –	(¥) 39.00	(¥) –	(¥) 39.00	(¥) 78.00
Fiscal year ending March 31, 2023	–	41.00			
Fiscal year ending March 31, 2023 (Forecast)			–	41.00	82.00

Note: Revision to the forecasts most recently announced: No

3. Forecasts of Financial Results for the Fiscal Year Ending March 31, 2023

(From April 1, 2022 to March 31, 2023)

(% increase/(decrease) figures indicate year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit		Earnings per share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Fiscal year	1,080,000	3.3	24,700	(4.7)	27,400	(4.3)	19,000	(3.3)	302.32

Note: Revision to the forecasts most recently announced: No

*** Notes**

(1) Adoption of Accounting Treatments Specific to Preparation of Quarterly Financial Statements: No

(2) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements

- 1) Changes in accounting policies due to revisions to accounting standards, and other regulations: No
- 2) Changes in accounting policies due to other reasons: No
- 3) Changes in accounting estimates: No
- 4) Restatements: No

(3) Number of Issued Shares (common stock)

1) Number of issued shares at the end of the period (including treasury stock)

As of September 30, 2022	63,553,485 shares
As of March 31, 2022	63,553,485 shares

2) Number of treasury shares at the end of the period

As of September 30, 2022	706,599 shares
As of March 31, 2022	706,549 shares

3) Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

For the six months ended September 30, 2022	62,846,919 shares
For the six months ended September 30, 2021	63,547,098 shares

* This quarterly financial results report is not subject to the quarterly review procedures by certified public accountants or audit firms.

* Information regarding proper use of the forecasts of financial results, and other special instructions (Cautionary notes to the forward-looking statements)

The forward-looking statements contained in this report, including forecasts of financial results, are based on information currently available and assumptions that management believes to be reasonable. Actual financial and other results may differ substantially due to various factors. Please refer to the section “1. Qualitative Information for the Six Months Ended September 30, 2022 (3) Forecasts and Other Projections” on page 3 of the attached material to this quarterly financial results report for the suppositions that form the assumptions for the forecasts and cautions concerning the use thereof.

* How to access the presentation (Presentation Material for this quarterly financial results)

The Company will hold financial results briefing for institutional investors, financial analysts and media on November 9, 2022. Presentation (Presentation Material for this financial results) is posted on the Company’s website (<http://www.paltac.co.jp/tomorrow/index.html>).

* Information regarding this report (including the attached material)

None of the information in this report constitutes solicitation to purchase or sell the stock of PALTAC CORPORATION. It was not prepared with the intention of providing investment advice about the stock of PALTAC CORPORATION.

Furthermore, this report is an English translation of the original, which was prepared in Japanese.

In the event of any discrepancies between the Japanese original and the English translation, the Japanese original shall prevail.

Attached Material

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1. Qualitative Information for the Six Months Ended September 30, 2022

(1) Operating Results

In the six months ended September 30, 2022, the Japanese economy showed signs of gradually picking up as restrictions on movement were eased, even while there was an increase in the number of infections of the novel coronavirus disease (COVID-19), and normalization of socioeconomic activities progressed. However, due to the impact of inflation, resulting from the rapid weakening of the yen and rising raw material prices and energy prices, on personal consumption, and other factors, the future outlook remains unclear.

In the market of cosmetics and daily necessities and the market of over-the-counter (OTC) pharmaceuticals, due to the resurgence of COVID-19, demand for sanitary related products, such as face masks and disinfectant, and for cold medicines and antipyretic analgesics to relieve throat pain and cough symptoms was significantly higher than in the previous year. In addition, because there was an increasing trend in the number of people's outings even amid the spread of COVID-19, there were signs of a recovery for makeup products, sunscreen and other cosmetics, which are associated with people going outside, and health drinks and other pharmaceuticals.

Under these circumstances, based on the medium-term management plan, with the fiscal year ending March 31, 2023 as the second year of the plan, the Company is taking initiatives for optimizing and streamlining the entire supply chain through collaboration and cooperation with the Company's stakeholders. These initiatives include "strengthening selling systems" through collaboration and cooperation with our business partners, implementing "improvements in logistics" in consideration of our response to the impending "2024 problem" in logistics (possible shortage of truck drivers due to a reduction in the maximum overtime work limit to 960 hours per year from April 2024) and the White-Logistics-Movement, and "actively recruiting human resources" capable of taking charge in achieving medium- to long-term growth. As the use of digital technology supports all of these initiatives, the Company is working to create a system for steadily and quickly promoting DX, and is steadily promoting initiatives for groundbreaking improvement of productivity of the entire supply chain, such as acquiring certification as a "DX-certified operator" as set forth by the Ministry of Economy, Trade and Industry.

Regarding net sales, the Company focused on enhancing retail solution functions that can meet a wide range of retailer needs and actively utilizing these functions through collaboration and cooperation. In addition, the Company worked to increase sales at retail stores and expand its in-store share by taking quick and effective response to demand fluctuations using real-time information from retail stores and the largest collection of retail information in the industry, and by enhancing its product proposals that reinvigorate retail stores, such as new environmentally friendly products.

With regard to SG&A expenses, while there were a decrease in order volume on a per-unit basis and other negative factors due to changes in the market environment, the Company continued to improve the productivity of warehouse operations and worked to implement other measures, such as improving logistics efficiency in response to both rising shipping costs and the White-Logistics-Movement.

Accompanying the new Tochigi Distribution Center, which was established to expand the scale of shipping operations and improve productivity in the largest market, the Kanto region, the one-time increase in costs pushed down operating profit by ¥700 million.

As a result of the above, net sales for the six months ended September 30, 2022 were ¥554,898 million (up 4.4 % year on year), operating profit was ¥11,959 million (down 10.4 %), ordinary profit was ¥13,469 million (down 8.5 %), and profit was ¥9,293 million (down 11.3 %).

As the Company has one reportable segment, disclosure by segment information has been omitted.

(2) Financial Position

1) Assets, liabilities and net assets

(Assets)

Total assets as of the end of the second quarter were ¥469,657 million, an increase of ¥20,780 million from the end of the previous fiscal year. This was primarily the result of a decrease in cash and deposits of ¥6,770 million and increases in notes and accounts receivable-trade of ¥16,950 million, in merchandise and finished goods of ¥3,120 million and in buildings, net of ¥7,915 million.

(Liabilities)

Total liabilities as of the end of the second quarter were ¥217,836 million, an increase of ¥12,700 million from the end of the previous fiscal year. This was primarily the result of an increase in notes and accounts payable-trade of ¥9,537 million.

(Net assets)

Net assets as of the end of the second quarter were ¥251,820 million, an increase of ¥8,079 million from the end of the previous fiscal year. This was primarily the result of increases in retained earnings of ¥6,842 million and in valuation difference on available-for-sale securities of ¥1,232 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the second quarter were ¥33,900 million, a decrease of ¥6,770 million from the end of the previous fiscal year.

Status of each cash flow during the six months under review and main factors thereof are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥176 million (down ¥3,437 million year on year). Main factors were ¥13,447 million of profit before income taxes, ¥2,772 million of depreciation and amortization, ¥16,950 million of increase in notes and accounts receivable-trade, ¥3,120 million of increase in inventories, ¥9,537 million of increase in notes and accounts payable-trade and ¥4,117 million of income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities was ¥4,420 million (down ¥1,706 million year on year). Main factor was ¥4,229 million of purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities was ¥2,526 million (down ¥53 million year on year). Main factor was ¥2,450 million of cash dividends paid.

(3) Forecasts and Other Projections

There is no revision to the forecasts of financial results for the fiscal year ending March 31, 2023 and dividend forecast, which were announced on May 11, 2022.

2. Quarterly Financial Statements and Notes to Quarterly Financial Statements**(1) Quarterly Balance Sheets**

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	40,670	33,900
Notes and accounts receivable-trade	196,320	213,271
Merchandise and finished goods	47,986	51,107
Other	21,967	25,130
Allowance for doubtful accounts	(8)	(7)
Total current assets	<u>306,936</u>	<u>323,402</u>
Non-current assets		
Property, plant and equipment		
Buildings, net	41,401	49,316
Land	47,446	47,446
Other	29,521	24,204
Total property, plant and equipment	<u>118,369</u>	<u>120,967</u>
Intangible assets	880	858
Investments and other assets		
Investments and other assets	22,695	24,433
Allowance for doubtful accounts	(4)	(4)
Total investments and other assets	<u>22,690</u>	<u>24,428</u>
Total non-current assets	<u>141,940</u>	<u>146,254</u>
Total assets	<u>448,877</u>	<u>469,657</u>
Liabilities		
Current liabilities		
Notes and accounts payable-trade	164,442	173,979
Income taxes payable	4,515	4,446
Provision for bonuses	1,580	1,587
Provision for loss on disaster	497	92
Other	25,322	28,271
Total current liabilities	<u>196,358</u>	<u>208,377</u>
Non-current liabilities		
Provision for retirement benefits	2,732	2,804
Other	6,044	6,654
Total non-current liabilities	<u>8,777</u>	<u>9,458</u>
Total liabilities	<u>205,135</u>	<u>217,836</u>

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	194,277	201,119
Treasury shares	(3,489)	(3,489)
Total shareholders' equity	234,484	241,326
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	9,246	10,478
Deferred gains or losses on hedges	10	15
Total valuation and translation adjustments	9,256	10,494
Total net assets	243,741	251,820
Total liabilities and net assets	448,877	469,657

(2) Quarterly Statements of Income

	(Millions of yen)	
	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	531,555	554,898
Cost of sales	490,173	513,865
Gross profit	41,382	41,033
Selling, general and administrative expenses	28,041	29,073
Operating profit	13,341	11,959
Non-operating income		
Dividend income	215	208
Research fee income	872	930
Rental income from real estate	76	76
Other	238	318
Total non-operating income	1,402	1,534
Non-operating expenses		
Interest expenses	3	2
Rental expenses on real estate	17	15
Other	5	4
Total non-operating expenses	25	23
Ordinary profit	14,718	13,469
Extraordinary income		
Gain on sales of investment securities	6	-
Gain on reversal of provision for loss on disaster	95	-
Insurance claim income	333	-
Total extraordinary income	436	-
Extraordinary losses		
Loss on retirement of non-current assets	0	2
Loss on disaster	-	20
Total extraordinary losses	0	22
Profit before income taxes	15,154	13,447
Income taxes-current	4,469	4,048
Income taxes-deferred	202	105
Total income taxes	4,671	4,153
Profit	10,482	9,293

(3) Quarterly Statements of Cash Flows

	(Millions of yen)	
	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	15,154	13,447
Depreciation and amortization	2,728	2,772
Increase (decrease) in allowance for doubtful accounts	1	(0)
Increase (decrease) in provision for bonuses	(169)	7
Increase (decrease) in provision for loss on disaster	(363)	(405)
Increase (decrease) in provision for retirement benefits	43	45
Interest and dividend income	(215)	(209)
Interest expenses	3	2
Loss (gain) on sales of investment securities	(6)	-
Loss on disaster	-	20
Insurance claim income	(333)	-
Decrease (increase) in notes and accounts receivable-trade	(10,221)	(16,950)
Decrease (increase) in inventories	(1,374)	(3,120)
Increase (decrease) in notes and accounts payable-trade	5,113	9,537
Decrease (increase) in consumption taxes refund receivable	-	(246)
Increase (decrease) in accrued consumption taxes	(1,139)	(190)
Other, net	(859)	(38)
Subtotal	8,360	4,669
Interest and dividends received	215	209
Interest paid	(0)	(0)
Payments associated with disaster loss	(368)	(584)
Proceeds from insurance income	333	-
Income taxes paid	(4,926)	(4,117)
Net cash provided by (used in) operating activities	3,614	176
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,822)	(4,229)
Purchase of intangible assets	(121)	(136)
Purchase of investment securities	(169)	(38)
Proceeds from sales of investment securities	21	-
Other, net	(34)	(16)
Net cash provided by (used in) investing activities	(6,126)	(4,420)
Cash flows from financing activities		
Repayments of long-term loans payable	(234)	-
Repayments of lease obligations	(58)	(75)
Cash dividends paid	(2,287)	(2,450)
Purchase of treasury shares	-	(0)
Net cash provided by (used in) financing activities	(2,580)	(2,526)
Net increase (decrease) in cash and cash equivalents	(5,092)	(6,770)
Cash and cash equivalents at beginning of period	37,623	40,670
Cash and cash equivalents at end of period	32,530	33,900

(4) Notes to Quarterly Financial Statements

(Notes on premise of going concern)

No items to report

(Notes on significant changes in the amount of shareholders' equity)

No items to report

3. Supplementary Information

(1) Sales Status

(Sales results)

1) Sales results for the six months ended September 30, 2022 by product category are as follows:

Product classification	Six months ended September 30, 2022	Year-on-year change increase/(decrease) (%)
	Amount (Millions of yen)	
Cosmetics	125,536	6.3
Daily necessities	250,890	0.7
OTC pharmaceuticals	67,897	7.1
Health and sanitary related products	103,384	10.4
Others	7,188	(0.4)
Total	554,898	4.4

2) Sales results for the six months ended September 30, 2022 by customer category are as follows:

Customer category	Six months ended September 30, 2022	Year-on-year change increase/(decrease) (%)
	Amount (Millions of yen)	
Drugstores (Pharmacies)	350,911	3.9
Home centers (DIY stores)	48,823	(2.4)
Discount stores	41,332	7.7
Convenience stores	40,147	8.5
Supermarkets	26,749	2.0
General merchandising stores	18,907	11.4
Export, EC-business and others	28,026	11.0
Total	554,898	4.4