
Financial Results 2Q FY2023/3



October 28 , 2022

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Profits fell short of the plan due to lower gross profit margin Net sales exceeded the plan

¥ billion (Ratio of net sales : %)	2Q FY2023/3 Plan	2Q FY2023/3 Results	Difference
Net Sales	548.0	554.8	+6.8
Gross Profit	41.7 (7.61)	41.0 (7.39)	- 0.6 (- 0.22)
SG&A expenses	29.2 (5.33)	29.0 (5.24)	- 0.1 (- 0.09)
Operating Profit	12.5 (2.28)	11.9 (2.16)	- 0.5 (- 0.12)
Ordinary Profit	13.9 (2.54)	13.4 (2.43)	- 0.4 (- 0.11)
Profit	9.6 (1.75)	9.2 (1.67)	- 0.3 (- 0.08)

Profits were lower than the previous fiscal year, But net sales expanded

¥ billion (Ratio of net sales : %)	2Q FY2022/3	2Q FY2023/3	YoY	
			Amount	Rate
Net Sales	531.5	554.8	+23.3	+4.4%
Gross Profit	41.3 (7.79)	41.0 (7.39)	-0.3 (-0.40)	-0.8%
SG&A expenses	28.0 (5.28)	29.0 (5.24)	+1.0 (-0.04)	+3.7%
Operating Profit	13.3 (2.51)	11.9 (2.16)	-1.3 (-0.35)	-10.4%
Ordinary Profit	14.7 (2.77)	13.4 (2.43)	-1.2 (-0.34)	-8.5%
Profit	10.4 (1.97)	9.2 (1.67)	-1.1 (-0.30)	-11.3%

Simultaneously rising raw material prices and growing consumer's lifestyle protection awareness
Profits are shrinking throughout our industry

Manufacturer Increase in raw material prices is not sufficiently reflected in selling prices
→ Reduction of sales promotion expenses (Curbing bargain sales)



Wholesaler It is not an environment in which only wholesaler can expand their profits



Retailer SG&A expenses rose amid difficulties in expanding sales (Expenses of electricity, labor, etc.)
→ Strengthening bargain sales and shifting to low-priced products to meet the needs of consumers

- ◆ **Profit maximization in line with market conditions**
 - Expanding shipping volume utilizing our logistics functions
 - Strengthening procurement of new products (New merchandise, New manufacturers)
 - Improving productivity = Improving logistics efficiency, etc.
- ◆ **Upfront investment for the future**
 - Deepening and expanding transactions with customers
 - Pursuing productivity of the entire supply chain
 - Strengthening collaboration with outside business partners in logistics and delivery
 - Stable operation of new logistics model (Tochigi Distribution Center)
 - Promoting DX (Obtained certified for "Digital Transformation Certification")
 - Strengthening human capitals (Mid-career hires, etc.)

Strategic moves toward for sustainable growth through leveraging low-cost management

Analysis of Profit and Loss (VS. Plan Apr. - Sep.)



¥ billion (Ratio of net sales : %)	VS. Plan	Analysis
Net Sales	+ ¥ 6.8 bn [Rate : +1.3%]	<ul style="list-style-type: none"> ○ “Living with COVID-19” moved into a next phase (An environment where our strengths can be demonstrated) <ul style="list-style-type: none"> ⇒ Although under the spread of infection, there were no severe restrictions on behavior, which led to an increase in the use of cosmetics and pharmaceuticals, categories of our strengths ⇒ Expanded effect of sales transactions acquired in the previous and current fiscal year
Gross Profit	- ¥ 0.6 bn (- 0.22%)	<ul style="list-style-type: none"> ○ Rising consumer’s budget-minded and tending to refrain from buying due to price hikes including for food products Progression of preference for low-price led to increases in flyers and bargain sales, etc., beyond expectations <ul style="list-style-type: none"> ⇒ Soaring raw material and energy prices affected manufacturer’s promotion expenses ⇒ Sales measures for improvement of consumer sentiment are required from a medium- to long-term perspective Implemented sales measures by sharing costs across the industry ○ Increased in center fee <ul style="list-style-type: none"> ⇒ Increased sales for customers that required to pay that ⇒ Impact of soaring fuel prices, etc.
SG&A expenses	- ¥ 0.1 bn (- 0.09%)	<ul style="list-style-type: none"> ○ Absorbed fixed expenses due to sales expansion ○ Pursuing improvement of productivity
Operating Profit	- ¥ 0.5 bn (- 0.12%)	<ul style="list-style-type: none"> ○ Impact of lower gross profit margin

Analysis of Profit and Loss (YoY Apr. - Sep.)



Net Sales

¥ 554.8 bn

YoY change : + ¥ 23.3 bn (+ 4.4%)

- Strengthened initiatives and expanded transaction of business through collaboration and cooperation with retailers and manufacturers ⇒ Sales increased
- Strengthened procurement of new products to meet consumer needs under New Normal
- Strong demand for both products related to COVID-19 and products related to outings due to an increase in the number of people's outings even under the spread of infection (Coolants, Cold medicine, Make-up, Health drinks, etc.)
- Weak demand for insecticides which had performed well amid COVID-19 due to low rainfall, heat wave and decrease in stay at home

Gross Profit

¥ 41.0 bn $\left(\begin{array}{c} \text{GPM} \\ 7.39 \% \end{array} \right)$

YoY change : - ¥ 0.3 bn (GPM - 0.40%)

- The growing preference for low-price due to rising consumer's budget-minded and tending to refrain from buying against a backdrop of price hikes including for food products
⇒ Unexpected increase in frequency of bargain sales and flyers by retailers (A cause of decrease in gross profit)
- Decrease in sales promotion expenses of manufacturers due to soaring raw material prices, etc.
- Expenses associated with the launch of "Tochigi Distribution Center"
(- ¥ 0.5 bn personnel expenses, small assets, etc.)
- Increase in center fee (Increased sales for customers that required to pay that. Soaring fuel costs, etc.)

SG&A expenses **¥ 29.0 bn** SG&A ratio
5.24 % YoY change : + ¥ 1.0 bn (SG&A ratio – 0.04 %)

- Increase in personnel expenses + ¥ 0.3 billion (– 0.03%)
 - ⇒ 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 efficiency improvements + ¥ 0.0 billion (– 0.04%)
(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
- Expenses associated with the launch of “Tochigi Distribution Center” + ¥ 0.2 billion (+0.04%)
(Real estate acquisition tax)
- Increase in electricity expenses due to soaring the fuel cost + ¥ 0.1 billion (+0.02%)

**Securely proceed with initiatives to increase profits set forth in the first quarter
(For details, please refer to p. 9 of the first quarter financial results presentation)**

Analysis of Non-operating Profit / Loss (YoY Apr. - Sep.)



¥ billion	2Q FY2022/3	2Q FY2023/3	YoY
Non-operating income	1.40	1.53	+0.13
Research fee income *	0.87	0.93	+0.05
Non-operating expenses	0.02	0.02	- 0.00

* Research fee income is income obtained by providing sales performance of retailers to some manufacturers based on a contract and tends to fluctuate depending on sales

Analysis of Extraordinary Profit / Loss (YoY Apr. - Sep.)



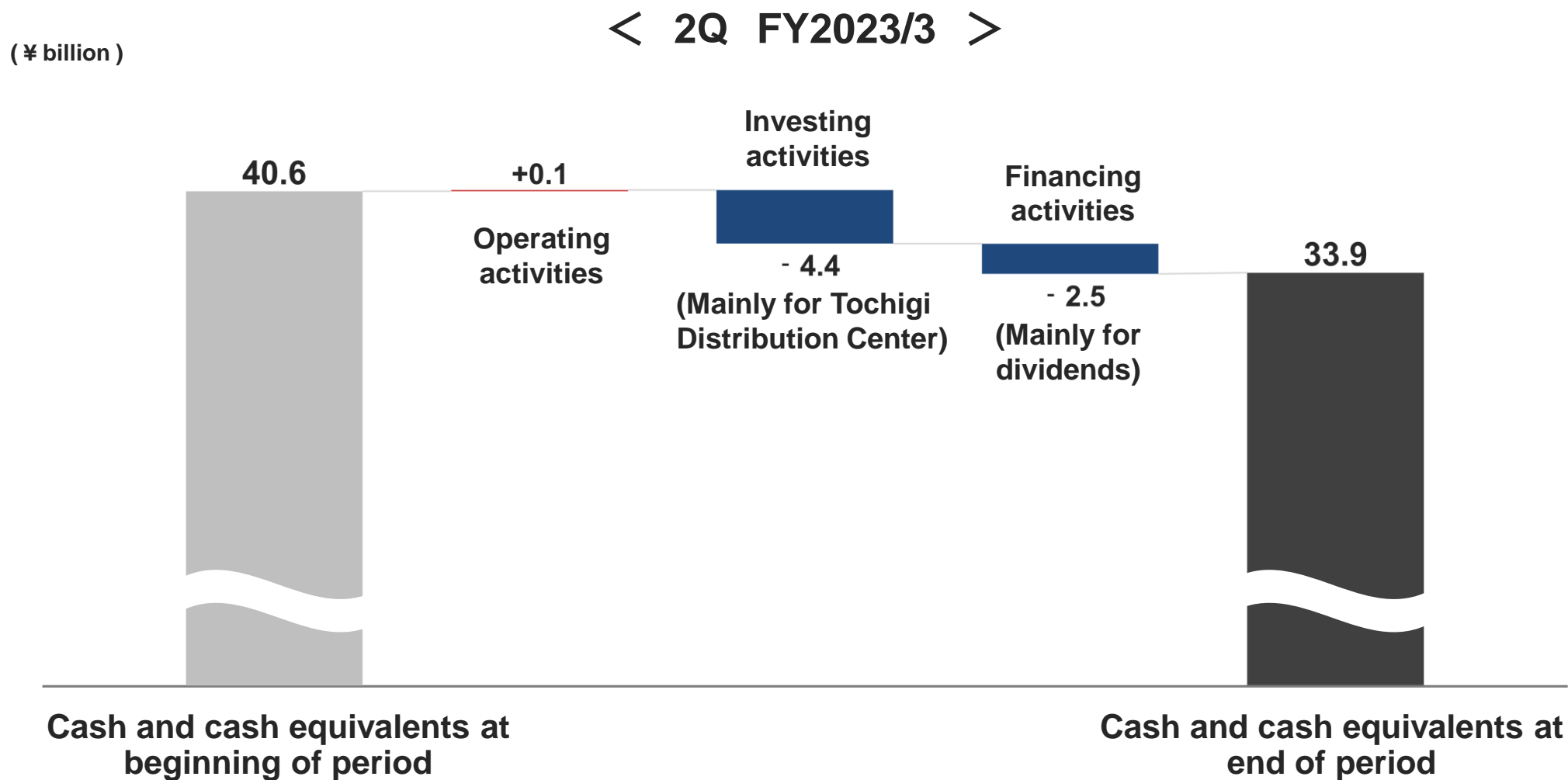
¥ billion	2Q FY2022/3	2Q FY2023/3	YoY
Extraordinary income	0.43	—	– 0.43
Insurance claim income *1	0.33	—	– 0.33
Gain on reversal of *2 provision for loss on disaster	0.09	—	– 0.09
Extraordinary losses	0.00	0.02	+0.02
Loss on disaster *3	0.00	0.02	+0.02

*1: Insurance related to the Fukushima prefecture offshore earthquake that occurred in February 2021

*2: Reversal of provision for disaster loss on repair of RDC Miyagi damaged by the earthquake noted above

*3: Expenses related to the Fukushima prefecture offshore earthquake that occurred in March 2022

Utilizing business revenues to investment for the growth

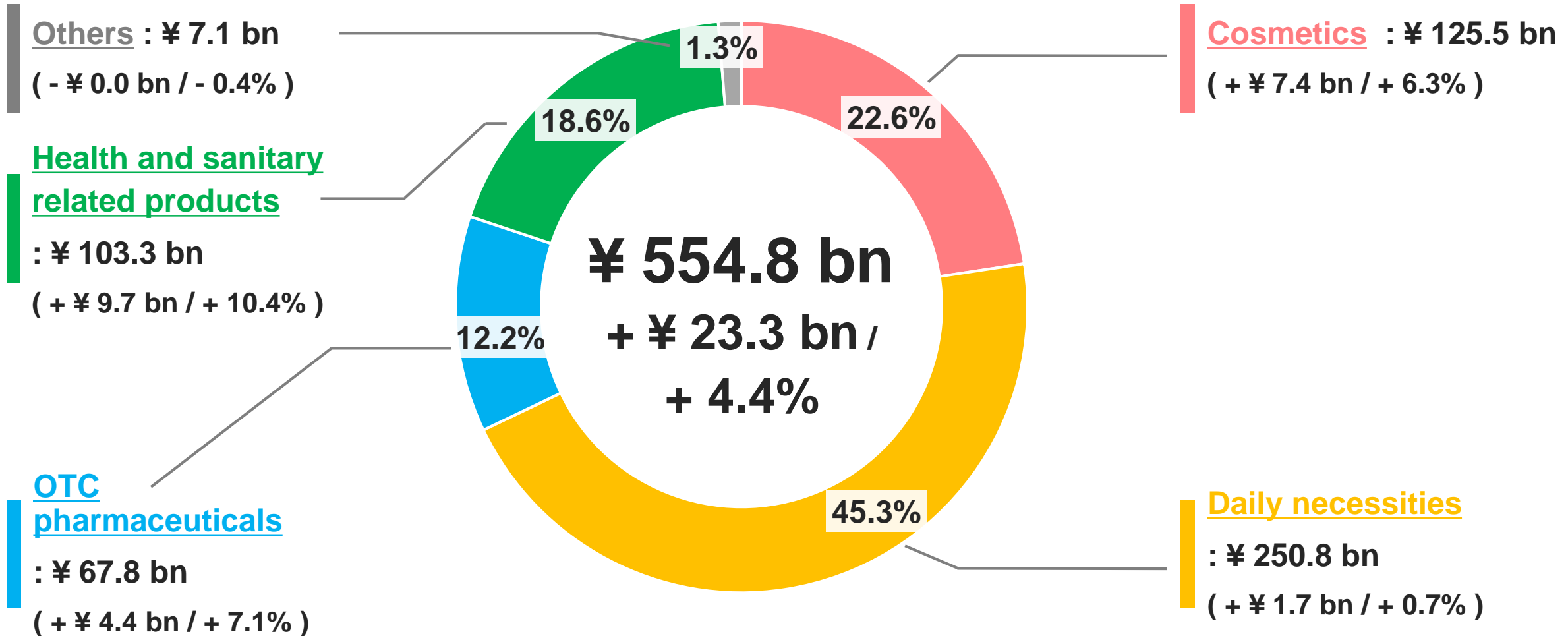


Sales Composition by Product Category (YoY Apr. - Sep.)



Increased sales in almost all categories

(YoY Change Amount / Rate)

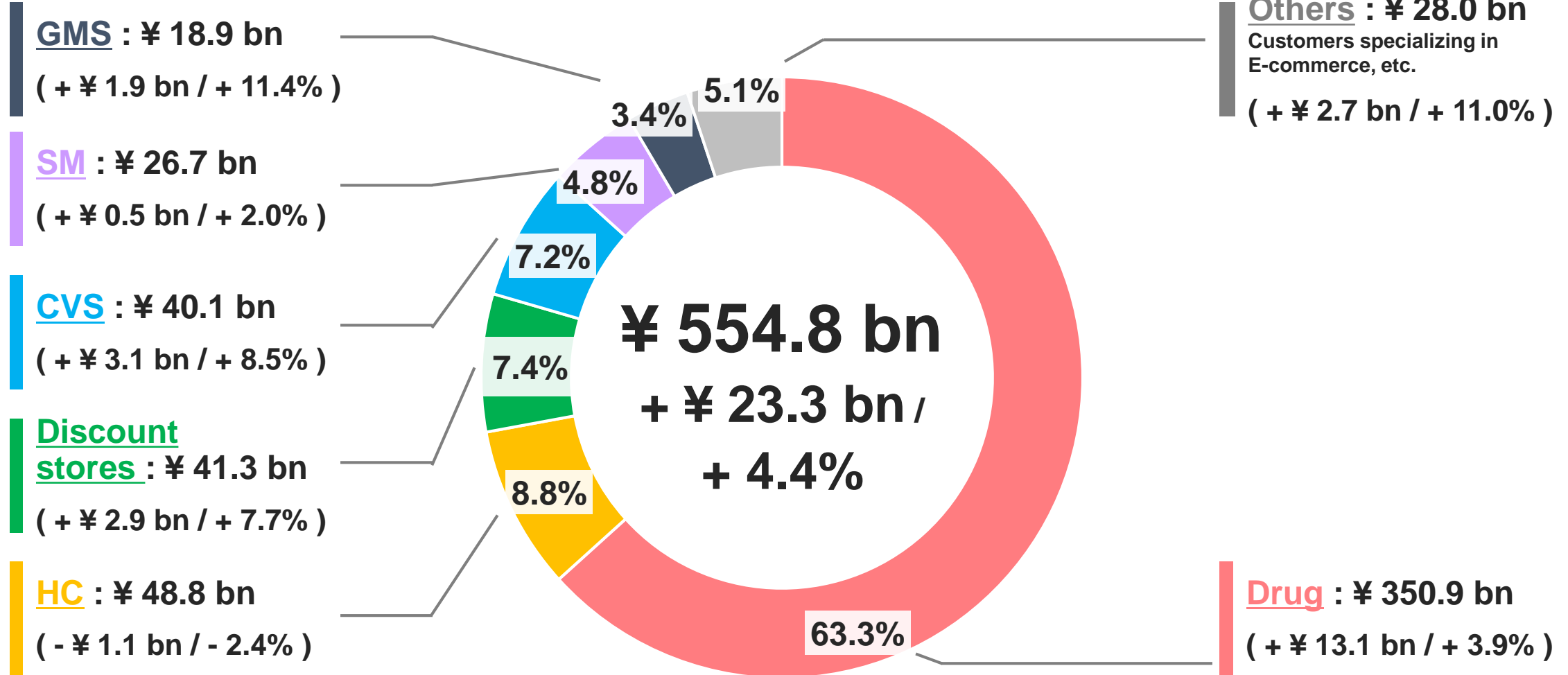


Sales Composition by Customer Category (YoY Apr. - Sep.)



Increased sales in all customer categories except home centers

(YoY Change Amount / Rate)



Sales in the home center category declined due to an increase in outings
(Decreased in “stay at home” such as DIY)

Status in the 2Q (Jul. – Sep.)

**Sales growth exceeded that in the first quarter
Gross profit margin declined due to costs related to the new distribution center
and the response to consumer's preference for low-price**

¥ billion (Ratio of net sales:%)	1Q			2Q		
	FY2022/3	FY2023/3	YoY	FY2022/3	FY2023/3	YoY
Net Sales [Rate (YoY)]	269.6	276.2	+6.5 [+2.4%]	261.8	278.6	+16.7 [+6.4%]
Gross Profit	20.9 (7.78)	20.7 (7.53)	-0.1 (-0.25)	20.3 (7.79)	20.2 (7.26)	-0.1 (-0.53)
SG&A expenses	13.9 (5.18)	14.2 (5.17)	+0.3 (-0.01)	14.0 (5.37)	14.7 (5.31)	+0.7 (-0.06)
Operating Profit	7.0 (2.60)	6.5 (2.36)	-0.4 (-0.24)	6.3 (2.42)	5.4 (1.95)	-0.8 (-0.47)
Ordinary Profit	7.7 (2.87)	7.3 (2.66)	-0.4 (-0.21)	6.9 (2.66)	6.1 (2.20)	-0.8 (-0.46)
Profit	5.4 (2.02)	5.0 (1.83)	-0.3 (-0.19)	5.0 (1.93)	4.2 (1.52)	-0.8 (-0.41)

Expanded demand for a wide range of products due to an increasing trend in the number of people's outings even amid the spread of COVID-19

On the other hand, the trend toward preference for low-price is progressing due to growing consumer's lifestyle protection awareness in the face of rising prices

⇒ The growing preference for low-price due to rising consumer's budget-minded and tending to refrain from buying against a backdrop of price hikes including for food products

Unexpected increase in frequency of bargain sales and flyers by retailers

(A cause of decrease in gross profit)

⇒ Strong demand for products related to outings such as makeup, sunscreen, health drink due to increase in the number of people's outings by easing movement restrictions

⇒ Strong demand for products related to infection such as cold medicines to alleviate symptoms, antipyretic analgesics and coolants due to increase in the number of person recuperating at home with minor illnesses (Increased the use of OTC pharmaceuticals)

⇒ Strong demand for summer-seasonal products such as oral rehydration solution and deodorant due to higher temperature than the previous year

On the other hand, weak demand for insecticides due to a decrease in opportunities to use and increased outings and climatic factors (Heat wave and low rainfall)

Analysis of Profit and Loss YoY (Jul. - Sep.)



Net Sales **¥ 278.6 bn** YoY change : + ¥ 16.7 bn (+ 6.4%)

- Strengthened initiatives and expanded transaction of business through collaboration and cooperation with retailers and manufacturers ⇒ Sales increased
- Strengthened procurement of new products to meet consumer needs under New Normal
- Strong demand for both products related to COVID-19 and products related to outings, due to increases in the number of people's outings even amid the spread of infection (Coolants, Cold medicine, Make-up, Health drinks, etc.)
- Strong demand for summer-seasonal products due to higher temperature than the previous year (Drinks, Deodorant, Sunscreen, etc.)
- Weak demand for insecticides which had performed well amid COVID-19 due to low rainfall, heat wave and decrease in stay at home

Gross Profit **¥ 20.2 bn** ^{GPM}
7.26 % YoY change : – ¥ 0.1 bn (GPM – 0.53%)

- The growing preference for low-price due to rising consumer's budget-minded and tending to refrain from buying against a backdrop of price hikes including for food products
⇒ Unexpected increase in frequency of bargain sales and flyers by retailers (A cause of decrease in gross profit)
- Decrease in sales promotion expenses of manufacturers due to soaring raw material prices, etc.
- Expenses associated with the launch of "Tochigi Distribution Center"
(- ¥ 0.4 bn personnel expenses, small assets, etc.)
- Increase in center fee (Increased sales for customers that required to pay that. Soaring fuel costs, etc.)

Analysis of Profit and Loss YoY (Jul. - Sep.)



SG&A expenses ¥ 14.7 bn

SG&A ratio
5.31 %

YoY change : + ¥ 0.7 bn (SG&A ratio – 0.06%)

- **Increase in personnel expenses** **+ ¥ 0.1 billion (– 0.09%)**
 - ⇒ 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** **+ ¥ 0.1 billion (– 0.03%)**
(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
- **Expenses associated with the launch of “Tochigi Distribution Center”** **+ ¥ 0.2 billion (+0.07%)**
(Real estate acquisition tax)
- **Increase in electricity expenses due to soaring the fuel cost** **+ ¥ 0.0 billion (+0.03%)**

Priority initiatives for sustainable growth

Taking on the challenge of new growth through expanding overseas business

Established a local subsidiary in Vietnam in September 2022

Vietnamese market

Large population of youth
and expected economic growth

Issues in the Vietnamese market

Management of confidential information in license applications, Enhancement of marketing and Securing of sales channels, etc.

⇒ Many manufacturers have not yet entered the Vietnamese market

We try to develop the wholesale business in Vietnam and solve the issues through taking advantage of trustworthy relationships with manufacturers which we have built up in Japan

⇒ Immediately started initiatives after establishment of this subsidiary
Developed business relationships with 17 new manufacturers

⇒ Expanding the distribution of high-quality Japanese products
(Contributing to the Japanese manufacturers)

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

Steadily promoting the development of business infrastructure for DX

Obtained certified for “Digital Transformation Certification” on September 1, 2022

Established a system to steadily and speedily promote DX

- ⇒ Enhancing IT infrastructure
(Utilizing open cloud, Enhancing cybersecurity, etc.)
- ⇒ Establishment of specialized department and company-wide organization
(DX Promotion Department,
a cross-divisional taskforce-team that plays a central role in promoting DX)



**DX Promotion Department × A cross-divisional taskforce-team × External Know-How
Accelerating DX promotion through deepening collaboration and cooperation**

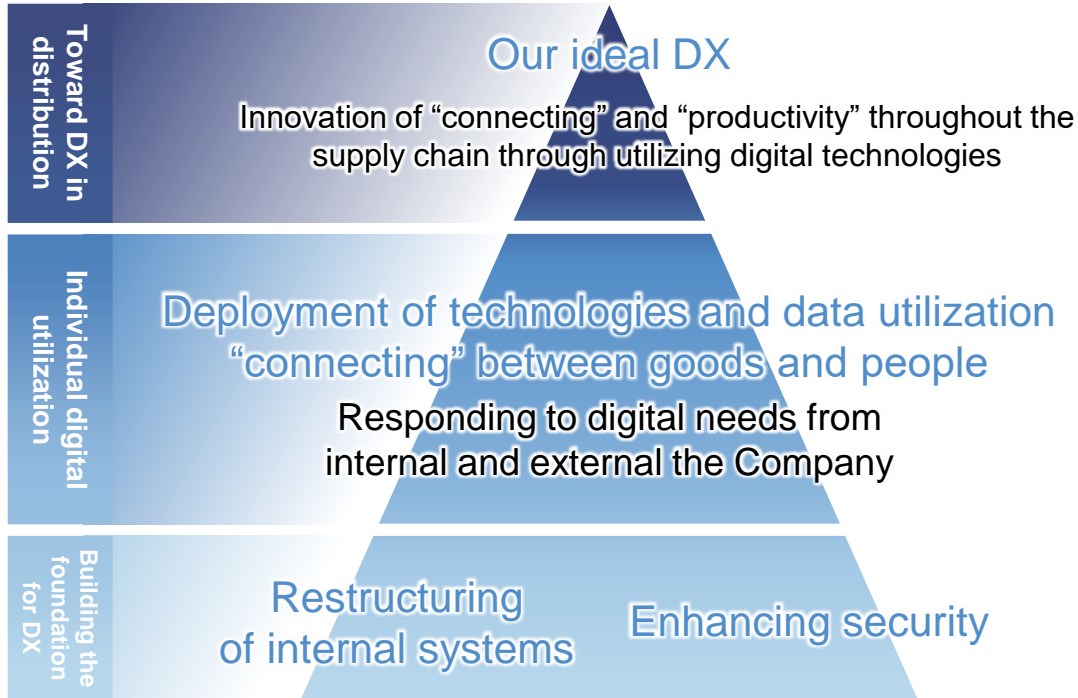
Accelerating innovative productivity improvements across the entire supply chain with DX promotion

Our Aim

We would like to strive to contribute to customer's prosperity and to create people's rich and comfortable daily lives through distribution

Our ideal DX

Innovation of "connecting" and "productivity" throughout the supply chain through utilizing digital technologies



Promoting the use of digital technology and data such as responding to internal and external digital needs, etc.

Individual digital utilization

Expansion and acceleration of existing initiatives

- PIT system (In-store information sharing platform)
- Virtual exhibition
- VAN Service
- Responding to needs for product information, etc.

⇒ Launched company-wide cross-divisional PJ Promoting the use of digital in on-site business

Taking on the challenge of creating new value through accelerating solve issues with utilizing digital

Steady progress in initiatives to start “Tochigi Distribution Center”

Aiming for expansion of shipping capacity and optimization of distribution in the Kanto area, our largest market

RDC Saitama



RDC Kanto



RDC Yokohama



“Tochigi Distribution Center” (Scheduled to begin operation in February 2023)



Location : Nogi-machi,
Shimotsuga-gun, Tochigi

Yearly shipment capacity : ¥120.0 bn

Amount Investment : about ¥23.3 bn

⇒ Improving productivity by introducing a new logistics model

(Utilization of AI and robots:
productivity doubled compared to conventional model)

⇒ Improving delivery efficiency throughout the Kanto area

Promoting initiatives for sustainable growth

Reduction of CO2 emissions through optimizing the entire supply chain

- ⇒ Promoting initiatives for improvement of delivery efficiency
 - Effective utilization of empty trucks and optimization of delivery routes
(Promoting company-wide delivery innovation project)
 - Reducing delivery frequency by optimizing the number of orders, etc.
(Proposal for optimization from the perspective of the entire supply chain)
- ⇒ Reducing returned products through utilizing digital
 - Received the “Excellence Award” of the Supply Chain Innovation Awards 2022

Endorsement of GX^{*} League Basic Concept

- ⇒ Aiming to gain knowledge on the calculation and reduction of supply chain CO2 emissions (*GX : Green Transformation)

Ensuring human capitals which implement medium-to long-term strategies

- ⇒ Recruiting human capitals with diverse skills
 - Development, Logistics, Systems, etc.
- ⇒ Promoting health and productivity management
 - Certified “Health and Productivity Management Organization” in March 2022



2022
健康経営優良法人
Health and productivity

(Application also filed for FY2023)

FY2023/3 Forecasts

We aim to achieve the plan by promoting the improvement of productivity in the entire supply chain despite the challenging environment of simultaneous proceeding soaring raw material prices and growing consumer's lifestyle protection awareness

■ Net sales

- Collaboration and cooperation with customers and full utilization of our functions.
⇒ Expanding sales
- From October onwards, the number of our handling products subject to price hikes is forecasted to increase significantly
- An environment in which we can demonstrate our strength in sales of cosmetics and pharmaceuticals, categories in which we have expertise due to increase in the number of people's outings by easing movement restrictions

■ Gross Profit

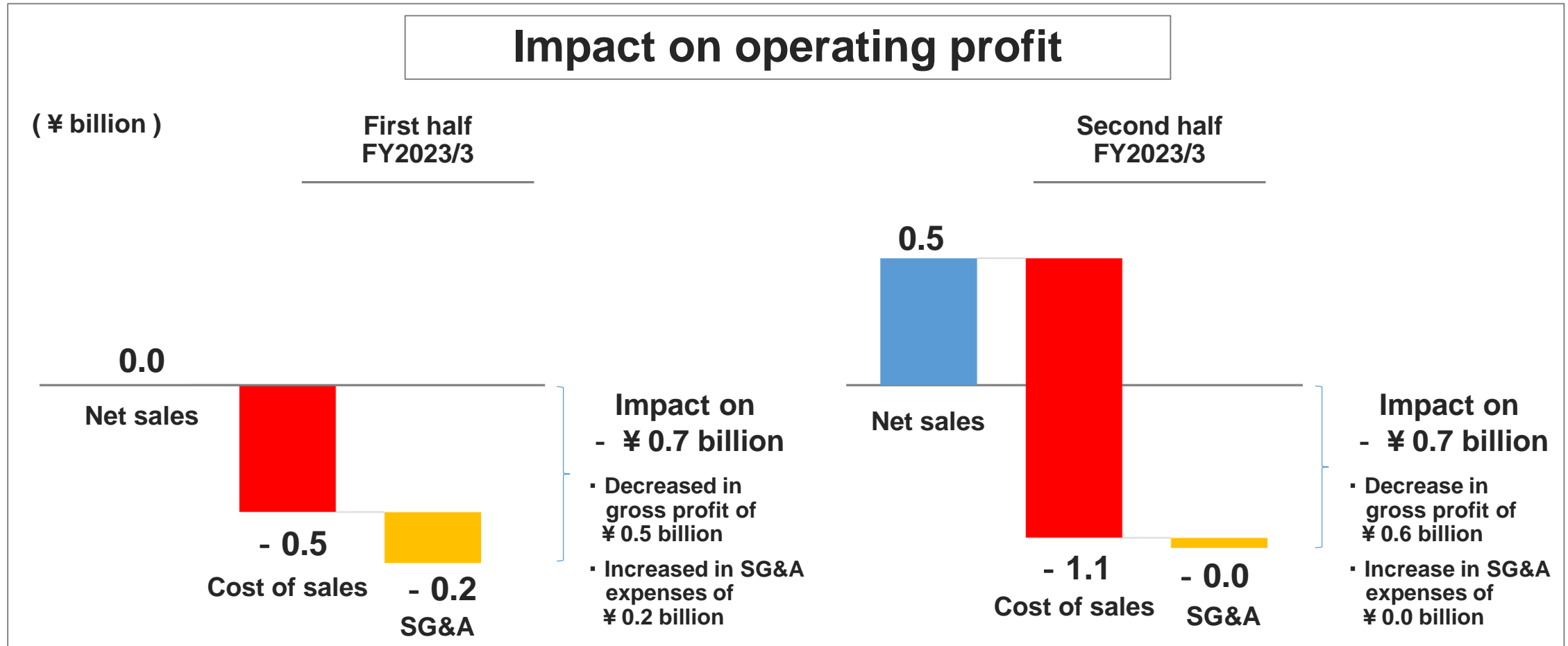
- Aiming to maximize gross profit in line with the challenging environment through expanding rebates earned by sales growth and improving logistics efficiency, strengthening procurement of new products and new manufacturer's products (Attractive and relatively high gross profit products) and strengthening the appeal of high value-added products, etc.

■ SG&A expenses

- Trying to control increase of expenses in the face of soaring energy prices, etc., through promoting initiatives of improvement of productivity from perspective of the entire supply chain
- Enhancing the effect of absorbing fixed expense through sales expansion

The impact on operating profit in the first half was a decrease of 0.7 billion yen,
 That in the second half is expected to be a decrease of 0.7 billion yen,
 Resulting in a decrease of 1.4 billion yen for the full year

(Expected operating profit of 0.4 billion yen in the fiscal year ending March 2024)



No revision from the announced at the beginning of the period (May 11, 2022)

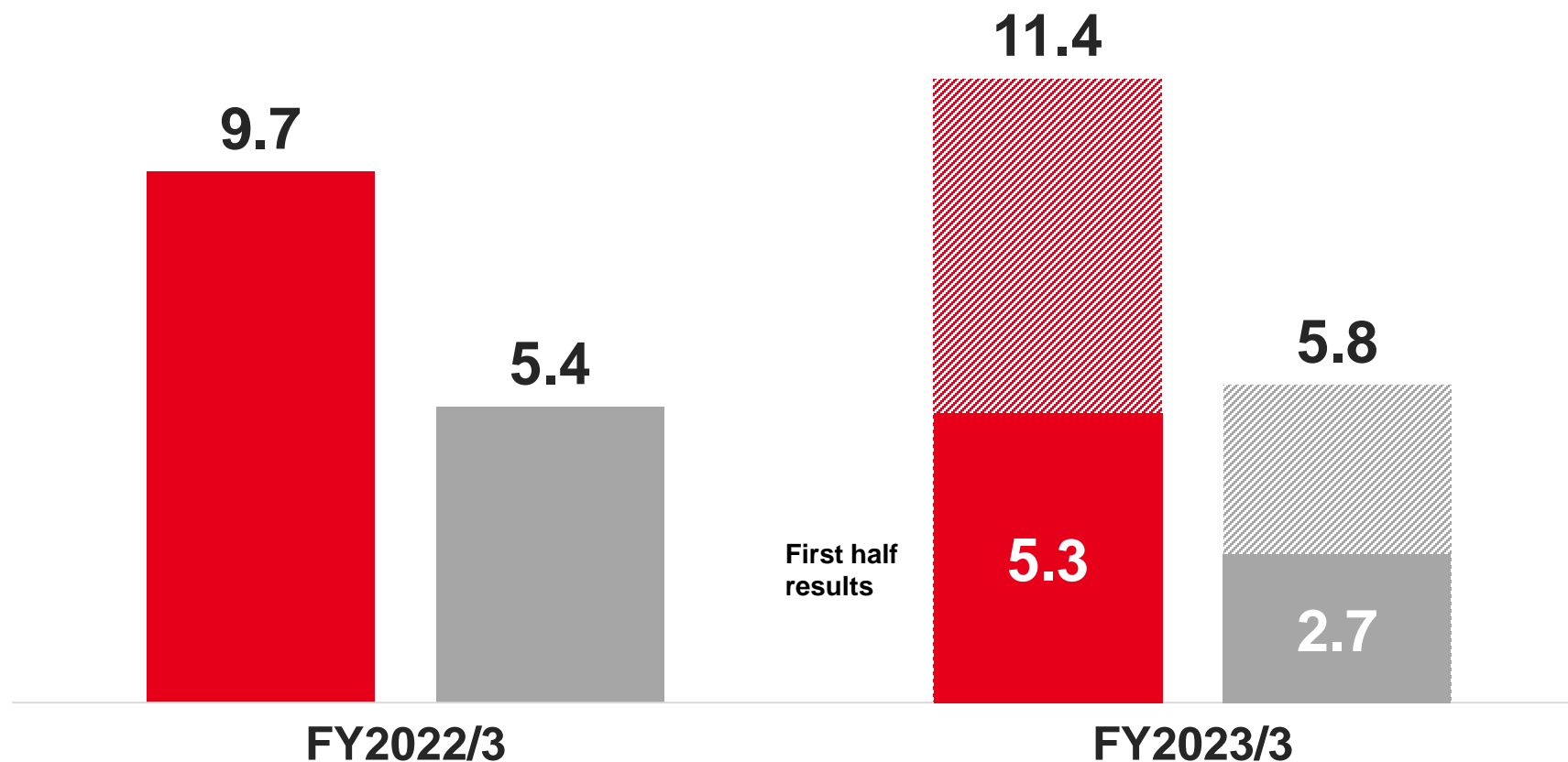
¥ billion (Ratio of net sales : %)	FY2022/3 Results	FY2023/3 Plan	YoY(Amount)	YoY(Rate)
Net sales	1,045.7	1,080.0	+34.2	+3.3%
Gross Profit	81.7 (7.82)	82.8 (7.67)	+1.0 (-0.15)	+1.3%
SG&A expenses	55.8 (5.34)	58.1 (5.38)	+2.2 (+0.04)	+4.1%
Operating Profit	25.9 (2.48)	24.7 (2.29)	-1.2 (-0.19)	-4.7%
Ordinary 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%

Strategic moves toward sustainable growth through taking advantage of low-cost management despite of a temporary decrease in profit due to start of operation of Tochigi Distribution Center

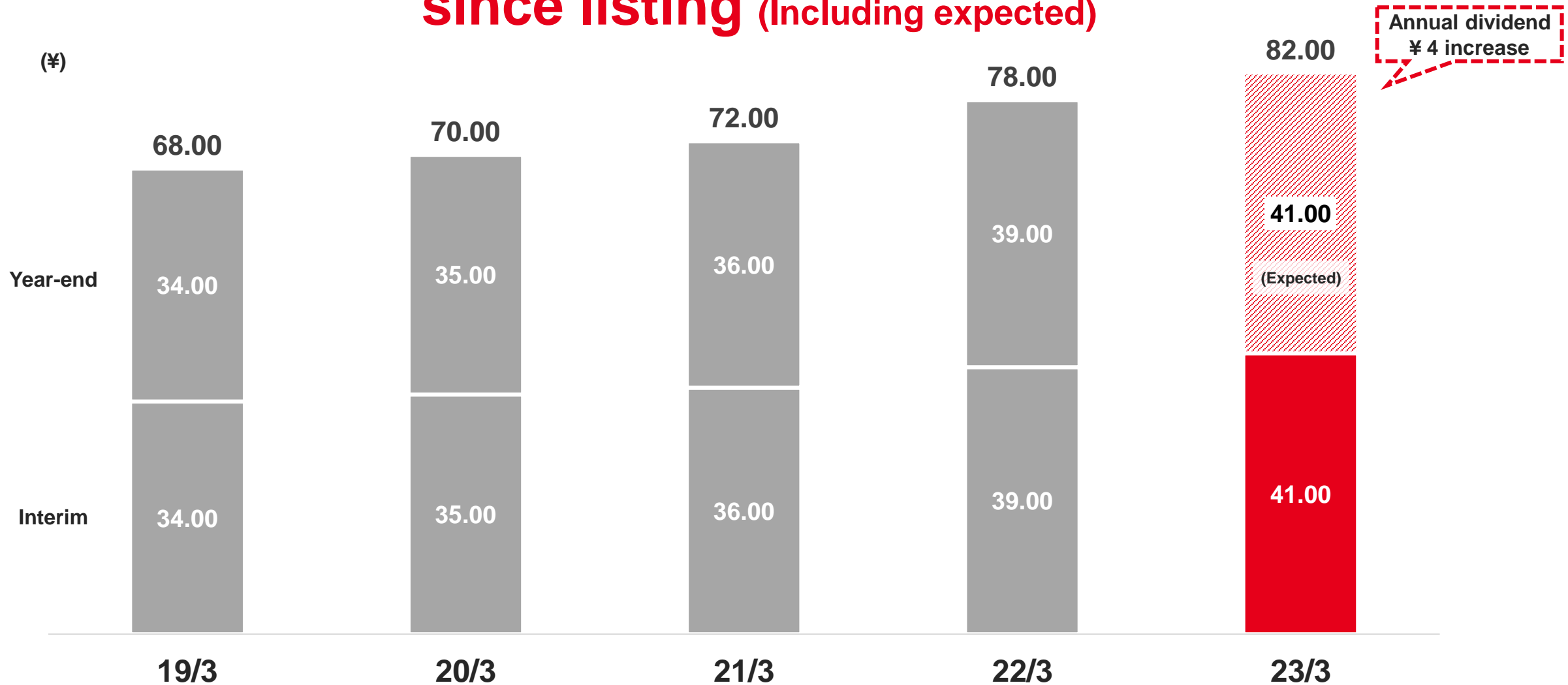
Investments for growth as planned at the beginning of the period

■ Capital investment ■ Depreciation(Cost of sales, SG&A)

(¥ billion)



Increase in dividend for 13th consecutive years since listing (Including expected)



Appendix

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	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ Responding quickly to ever-changing market demands <ul style="list-style-type: none"> ⇒ Data utilization × Store support function = Rapid development of sales floor on a daily basis ⇒ Faster rollout of new products (Acquisition of sales opportunities and gross profit) ▪ Strengthening sales of high-value-added products (Offering added value in depth) <ul style="list-style-type: none"> ⇒ 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 <ul style="list-style-type: none"> ⇒ Utilizing data such as ABC(Active Based Costing) analysis
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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

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.