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July 12, 2023

Consolidated Financial Results for the Nine Months Ended May 31, 2023 (Under Japanese GAAP)

Company name: TRANSACTION CO., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 7818
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 Scheduled date to file quarterly securities report: July 14, 2023
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: None
 Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the nine months ended May 31, 2023 (from September 1, 2022 to May 31, 2023)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
May 31, 2023	17,532	29.6	3,695	49.6	3,800	54.7	2,522	55.3
May 31, 2022	13,526	2.9	2,470	5.7	2,456	3.3	1,624	(6.3)

Note: Comprehensive income For the nine months ended May 31, 2023: ¥2,395 million [18.9%]
 For the nine months ended May 31, 2022: ¥2,014 million [9.2%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
May 31, 2023	86.64	–
May 31, 2022	55.81	–

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
May 31, 2023	18,897	15,023	79.5
August 31, 2022	16,650	13,354	80.2

Reference: Equity
 As of May 31, 2023: ¥15,023 million
 As of August 31, 2022: ¥13,354 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended August 31, 2022	–	0.00	–	25.00	25.00
Fiscal year ending August 31, 2023	–	0.00	–		
Fiscal year ending August 31, 2023 (Forecast)				32.00	32.00

Note: Revisions to the forecasts of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending August 31, 2023 (from September 1, 2022 to August 31, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending August 31, 2023	22,500	23.1	4,500	39.2	4,609	39.5	3,057	39.3	105.00

Note: Revisions to the consolidated earnings forecasts most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of special accounting treatments for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
 - (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None
- (4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of May 31, 2023	29,375,400 shares
As of August 31, 2022	29,375,400 shares

- (ii) Number of treasury shares at the end of the period

As of May 31, 2023	246,865 shares
As of August 31, 2022	270,865 shares

- (iii) Average number of shares outstanding during the period

Nine months ended May 31, 2023	29,118,161 shares
Nine months ended May 31, 2022	29,104,535 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The financial forecast and other forward-looking statements in this material are based on information currently available to the Company and certain preconditions considered to be reasonable. Actual performance, etc. may vary depending on various factors. For the preconditions on which the earnings forecast is based and notes, etc. for using the earnings forecast, please refer to “(3) Explanation of consolidated earnings forecasts and other forward-looking statements” in “1. Qualitative Information on Quarterly Financial Results” on page 5 of the Quarterly Financial Results (attached file).

[Attached Material]

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of operating results

During the first nine months ended May 31, 2023, the Japanese economy showed signs of gradual recovery due to the easing of restrictions on activities due to the COVID-19 pandemic, but the outlook has remained uncertain due to a series of price hikes in daily necessities and rising energy costs, both caused by the weak yen.

In this environment, the TRANSACTION Group (the “Group”) executed marketing activities to capture changes in the social environment and demand trends in a timely fashion, and strengthened new product development based on the five key strategies designated in the 4th medium-term management plan of “finished goods demand arising from the promotion of SDGs,” “tangible goods consumption originating from intangible goods consumption,” “demand for revenge spending coming after COVID-19,” “strengthened e-commerce,” and “strengthened domestic in-house manufacturing.”

Eco-products

In Eco-products, we set the key strategy of “finished goods demand arising from the promotion of SDGs,” and continued to offer and strengthened our lineup of finished goods made from raw materials such as environmentally-friendly materials organic cotton and recycled materials, biomass plastics, and natural materials. We have strengthened our activities to promote fair trade and provide fair trade cotton finished goods as we will be participating in the “Fairtrade Million Action Campaign 2023” again this fiscal year. In addition, we drove expanding and offering the lineup of upcycled finished goods that have been transformed into more valuable goods, by adding value such as ideas and design to wasted resources. These Eco-products are also highly regarded by client entities promoting SDGs and there have been increased opportunities for use as novelties at exhibitions and seminars. Furthermore, overall sales promotions were revitalized by the normalization of socioeconomic activities, resulting in strong sales of mainstay products such as eco-bags and tumblers/thermo bottles, as well as stationery and cutlery products, significantly exceeding those of the same period the previous year. Sales of the ethical brand “MOTTERU” remained strong due to the selection of products for the “Let’s choose! 3R campaign 2022” sponsored by the Ministry of the Environment, as in the previous fiscal year, expanded color variations incorporating genderless colors and the expansion of product categories such as cutlery products, umbrellas, and handkerchiefs, as well as the development and launch of products in collaboration with popular characters and products that combine functionality and design. As a result, overall sales of Eco-products increased by 2,070 million yen, or 36.6% year on year.

Lifestyle products

In Lifestyle products, we set the key strategies of “tangible goods consumption originating from intangible goods consumption” and “demand for revenge spending coming after COVID-19” and strengthened sales to the entertainment industry, which has become active. In the game and animation industry and new media content-related industries, which have maintained strong sales since the previous fiscal year and have been driving Lifestyle Products sales, net sales were significantly higher than in the same period of the previous fiscal year due to the overall revitalization of the industry, including the holding of major events, due in part to a significant relaxation of restrictions on the holding of events, including a ban on vocal performances at event sites. In the music, stage, and sporting event industries, the number and scale of events is increasing. Since these are expected to be boosted in the coming season, the Company has stepped up sales activities aimed at increasing demand. Pet wear and related finished goods saw strong sales as a result of increased recognition of the “RAKURUMU WEAR” product, which received the 2022 Good Design Award, and efforts to expand sales channels by launching new products in collaboration with outdoor and leisure-related product brands. In travel-related products, on the other hand, despite an overall trend toward recovery in demand for travel, overseas travel has only recovered to about half of its pre-pandemic level, and sales have yet to recover to pre-pandemic levels. In order to capture future demand growth, the Company has focused on sales activities such as sales channel expansion and new product development. As a result, overall sales of Lifestyle products increased by 2,222 million yen, or 34.7% year on year.

Wellness products

In Wellness Products, following the shift of COVID-19 to Category 5 under the Infectious Disease Control Law, we have decided to discontinue handling “infection control products.” As for the remaining inventory, the Company recorded a 38 million yen loss on abandonment of inventories as an extraordinary loss in the third quarter of the current fiscal year, as announced in the “Notice of Extraordinary Loss (Loss on Abandonment of Inventories)” released on June 30, 2023. As a result, sales decreased by 316 million yen, or 24.8% year on year.

■ E-commerce business

In the E-commerce business, in accordance with the key strategy of “strengthened e-commerce,” we reinforced initiatives to achieve the target of accounting for at least 30% of consolidated net sales in the fiscal year ending August 31, 2025. Regarding our main sites, we worked to expand the number of registered finished goods in “HANSOKU-STYLE” and improve its usability. In “MARKLESS STYLE,” together with promoting the expansion of the number of companies that have introduced “MARKLESS Connect” and “MARKLESS Partner,” we focused on responding to the start of collaboration with confirmed customers. Furthermore, we rolled out hybrid marketing activities that fuse the in-person sales approach with e-commerce and promoted growth in sales at companies that have deployed these services. In the “D2C”^{*} site, by strengthening social media activities for our “Original Goods Press” platform site for product sales and OEM, and for the “Calulu ONLINE STORE” for pet wear and related finished goods, we raised awareness among users and promoted activities toward sales growth. We also renewed the “gowell” website, which handles travel-related finished goods, to deal with the future expansion of demand. As a result, along with the D2C site, the main sites recorded significant sales growth, leading to e-commerce sales growing 1,144 million yen, or 53.3% year on year. E-commerce also rose as a proportion of total sales, to 18.8%. The amount of increase in consolidated sales grew due to growth in e-commerce sales. In addition, the expansion of the sales composition ratio was one factor that enabled us to maintain the gross profit margin at the same level as the same period of the previous fiscal year.

^{*} An abbreviation for “Direct to Consumer,” a business model in which a manufacturer plans and manufactures its own commodities and sells them directly to end customers without intermediaries such as wholesalers and stores.

On the production side, the Company has continued to secure multiple production bases, flexibly switch between production sites in response to exchange rate fluctuations and surging raw material prices, and optimize distribution channels in order to achieve a stable and continuous supply and strengthen price competitiveness. However, the Company was compelled to raise product prices due to the increased burden caused by the yen’s much higher-than-expected depreciation. At our in-house factories in Japan, under our key strategy of “strengthening domestic in-house manufacturing,” we have been striving to improve production rates and productivity by expanding capacity and investing in new facilities, but due to higher-than-expected manufacturing costs, we have raised printing and processing costs from January 2023 onward.

As a result, in the nine months ended May 31, 2023, net sales increased to 17,532 million yen (up by 4,006 million yen, or 29.6% year on year), and operating profit increased to 3,695 million yen (up by 1,225 million yen, or 49.6% year on year) owing to securing gross profit by increase in net sales, and well-planned expenditure of selling, general and administrative expenses. Ordinary profit increased to 3,800 million yen (up by 1,344 million yen, or 54.7% year on year). Profit attributable to owners of parent also increased to 2,522 million yen (up by 898 million yen, or 55.3% year on year).

On May 31, we expressed our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Actual sales by sales channel and product classification for the nine months ended May 31, 2023 were as follows.

<Actual sales by sales channel>

(Millions of yen)

Sales channel	Net sales		Change	
	Nine months ended May 31, 2022	Nine months ended May 31, 2023	Change (Amount)	Change (%)
Targeting end-user companies	6,317	8,274	1,956	31.0
Targeting wholesalers	5,062	5,967	904	17.9
E-commerce	2,145	3,290	1,144	53.3
Total	13,526	17,532	4,006	29.6

<Actual sales by product classification>

(Millions of yen)

Product classification	Net sales		Change	
	Nine months ended May 31, 2022	Nine months ended May 31, 2023	Change (Amount)	Change (%)
Eco-products	5,654	7,724	2,070	36.6
Lifestyle products	6,406	8,628	2,222	34.7
Wellness products	1,278	961	(316)	(24.8)
Design and other	187	217	30	16.2
Total	13,526	17,532	4,006	29.6

Note: Design and other refers to those not falling under miscellaneous goods, including commissioned graphic, products and WEB design operations, as well as printing operations.

(2) Explanation of financial position

Status of assets, liabilities, and net assets

(Current assets)

Current assets at the end of the third quarter under review amounted to 13,828 million yen, an increase of 1,017 million yen compared to the end of the previous fiscal year. This was due mainly to an increase in cash and deposits by 562 million yen, and an increase in notes and accounts receivable - trade and contract assets by 377 million yen.

(Non-current assets)

Non-current assets at the end of the third quarter under review amounted to 5,068 million yen, an increase of 1,229 million yen compared to the end of the previous fiscal year. This was due mainly to an increase in investments and other assets by 1,243 million yen, an increase in intangible assets by 15 million yen, and a decrease in property, plant and equipment by 29 million yen.

(Current liabilities)

Current liabilities at the end of the third quarter under review amounted to 2,965 million yen, an increase of 311 million yen compared to the end of the previous fiscal year. This was due mainly to an

increase in other current liabilities by 215 million yen and an increase in income taxes payable by 104 million yen.

(Non-current liabilities)

Non-current liabilities at the end of the third quarter under review amounted to 908 million yen, an increase of 266 million yen compared to the end of the previous fiscal year. This was due mainly to an increase in long-term borrowings by 263 million yen.

(Net assets)

Net assets at the end of the third quarter under review amounted to 15,023 million yen, an increase of 1,669 million yen compared to the end of the previous fiscal year. This was due mainly to an increase in retained earnings by 1,765 million yen, a decrease in deferred gains or losses on hedges by 116 million yen.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

For the annual earnings forecast and year-end dividend forecast for the fiscal year ending August 31, 2023, we have revised the earnings forecast announced on April 12, 2023, and increased the year-end dividend forecast by 3 yen to 32 yen, based on recent business trends, as set out in the “Notice Concerning Revisions to the Annual Earnings Forecast and Upward Revision to Dividend Forecast for the Fiscal Year Ending August 31, 2023” released on June 30, 2023.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of August 31, 2022	As of May 31, 2023
Assets		
Current assets		
Cash and deposits	4,335,232	4,898,030
Notes and accounts receivable - trade, and contract assets	2,679,941	3,057,675
Securities	291,900	449,282
Finished goods	4,443,094	4,631,392
Other	1,068,729	799,802
Allowance for doubtful accounts	(8,187)	(7,563)
Total current assets	12,810,710	13,828,620
Non-current assets		
Property, plant and equipment	1,067,821	1,038,487
Intangible assets		
Other	126,671	142,005
Total intangible assets	126,671	142,005
Investments and other assets		
Investment securities	1,578,124	2,685,789
Other	1,067,257	1,203,022
Allowance for doubtful accounts	(380)	(401)
Total investments and other assets	2,645,001	3,888,410
Total non-current assets	3,839,494	5,068,903
Total assets	16,650,205	18,897,523

(Thousands of yen)

	As of August 31, 2022	As of May 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	1,035,921	1,076,464
Current portion of long-term borrowings	387,628	399,446
Income taxes payable	647,298	751,577
Provision for bonuses	169,848	116,740
Provision for shareholder benefit program	6,909	–
Other	406,209	621,246
Total current liabilities	2,653,814	2,965,474
Non-current liabilities		
Long-term borrowings	234,819	498,471
Retirement benefit liability	315,035	320,354
Asset retirement obligations	36,791	37,113
Other	55,390	52,726
Total non-current liabilities	642,035	908,665
Total liabilities	3,295,850	3,874,140
Net assets		
Shareholders' equity		
Share capital	93,222	93,222
Capital surplus	3,294,777	3,305,428
Retained earnings	9,567,299	11,332,656
Treasury shares	(223,253)	(203,471)
Total shareholders' equity	12,732,046	14,527,834
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	180,323	172,391
Deferred gains or losses on hedges	239,913	123,860
Foreign currency translation adjustment	160,031	163,588
Remeasurements of defined benefit plans	42,039	35,708
Total accumulated other comprehensive income	622,307	495,548
Total net assets	13,354,354	15,023,383
Total liabilities and net assets	16,650,205	18,897,523

(2) Quarterly Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income) (Cumulative)

(Thousands of yen)

	Nine months ended May 31, 2022	Nine months ended May 31, 2023
Net sales	13,526,386	17,532,668
Cost of sales	8,181,094	10,664,487
Gross profit	5,345,292	6,868,180
Selling, general and administrative expenses		
Salaries and allowances	943,574	948,290
Provision for bonuses	69,837	97,677
Retirement benefit expenses	39,163	22,174
Provision of allowance for doubtful accounts	(101)	(603)
Other	1,822,700	2,105,474
Total selling, general and administrative expenses	2,875,174	3,173,014
Operating profit	2,470,117	3,695,166
Non-operating income		
Interest income	227	827
Interest on securities	16,273	52,767
Foreign exchange gains	-	49,724
Other	16,777	3,844
Total non-operating income	33,278	107,164
Non-operating expenses		
Interest expenses	1,730	1,499
Foreign exchange losses	45,489	-
Other	78	57
Total non-operating expenses	47,298	1,557
Ordinary profit	2,456,096	3,800,773
Extraordinary income		
Gain on sale of non-current assets	-	52,367
Insurance claim income	15,943	-
Total extraordinary income	15,943	52,367
Extraordinary losses		
Loss on sale of non-current assets	-	33
Loss on retirement of non-current assets	693	0
Loss on abandonment of inventories	14,080	38,419
Total extraordinary losses	14,773	38,452
Profit before income taxes	2,457,266	3,814,688
Income taxes - current	770,404	1,292,296
Income taxes - deferred	62,553	(321)
Total income taxes	832,958	1,291,974
Profit	1,624,308	2,522,714
Profit attributable to owners of parent	1,624,308	2,522,714

(Quarterly Consolidated Statement of Comprehensive Income) (Cumulative)

(Thousands of yen)

	Nine months ended May 31, 2022	Nine months ended May 31, 2023
Profit	1,624,308	2,522,714
Other comprehensive income		
Valuation difference on available-for-sale securities	186,326	(7,932)
Deferred gains or losses on hedges	129,296	(116,052)
Foreign currency translation adjustment	75,210	3,557
Remeasurements of defined benefit plans, net of tax	(779)	(6,331)
Total other comprehensive income	390,053	(126,759)
Comprehensive income	2,014,361	2,395,954
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,014,361	2,395,954
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes to Quarterly Consolidated Financial Statements
(Notes regarding assumption of a going concern)

None.

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

None.

(Subsequent events)

None.