

Non-consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2018 <under Japanese GAAP>

October 27, 2017

Company name: PALTAC CORPORATION
(URL: <http://www.paltac.co.jp/>)
Listing: Tokyo Stock Exchange (Code number: 8283)
Representative: Representative Director, President
Kiyotaka Kimura
Contact: Executive Officer, 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 13, 2017
Scheduled date to commence dividend payments: December 4, 2017
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: Yes (for institutional investors, analysts, etc.)

(Figures are rounded down to the nearest million yen)

1. Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2018 (From April 1, 2017 to September 30, 2017)

(1) Operating Results (cumulative) (% indicates year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Six months ended September 30, 2017	494,838	4.2	12,450	16.4	13,645	14.4	9,355	15.1
September 30, 2016	475,080	11.7	10,695	26.9	11,923	26.8	8,128	30.6

	Earnings per share	Diluted earnings per share
	(¥)	(¥)
Six months ended September 30, 2017	147.22	—
September 30, 2016	127.92	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	(¥ million)	(¥ million)	%	(¥)
As of September 30, 2017	393,685	176,012	44.7	2,769.79
March 31, 2017	361,363	166,921	46.2	2,626.72

Reference: Equity As of September 30, 2017: ¥176,012 million As of March 31, 2017: ¥166,921 million

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(¥)	(¥)	(¥)	(¥)	(¥)
Fiscal year ended March 31, 2017	—	28.00	—	28.00	56.00
Fiscal year ending March 31, 2018	—	31.00			
Fiscal year ending March 31, 2018 (Forecast)			—	31.00	62.00

Note: Revision to the forecasts most recently announced: Yes

3. Forecast of Financial Results for the Fiscal Year Ending March 31, 2018

(From April 1, 2017 to March 31, 2018)

(% indicates year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit		Earnings per share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Fiscal year	960,000	4.1	21,500	12.4	24,000	11.2	16,000	9.5	251.78

Note: Revision to the forecast most recently announced: Yes

* 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, 2017	63,553,485 shares
As of March 31, 2017	63,553,485 shares

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

As of September 30, 2017	6,058 shares
As of March 31, 2017	5,958 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, 2017	63,547,493 shares
For the six months ended September 30, 2016	63,547,627 shares

* Explanation regarding execution of quarterly review procedures

This quarterly financial results report is not subject to the quarterly review procedures.

* 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, 2017 (3) Forecasts and Other Projections” on page 4 and 5 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.

* 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

Contents

1.	Qualitative Information for the Six Months Ended September 30, 2017	2
(1)	Operating Results	2
(2)	Financial Position.....	3
(3)	Forecasts and Other Projections.....	4
2.	Quarterly Financial Statements and Notes to Quarterly Financial Statements.....	6
(1)	Quarterly Balance Sheets	6
(2)	Quarterly Statements of Income.....	8
(3)	Quarterly Statements of Cash Flows.....	9
(4)	Notes to Quarterly Financial Statements.....	10
	(Notes on premise of going concern)	10
	(Notes on significant changes in the amount of shareholders' equity).....	10
3.	Supplementary Information.....	10
(1)	Sales Status	10

1. Qualitative Information for the Six Months Ended September 30, 2017

(1) Operating Results

In the six months ended September 30, 2017, the Japanese economy continued to follow a moderate recovery track, on the back of continuous improvements in the income environment and the employment environment, reflecting such positive developments as the effects of various measures instituted by the Japanese government.

In the market of cosmetics and daily necessities and the market of over-the-counter (OTC) pharmaceuticals, the market environment was steady mainly due to a pick-up in personal consumption on the back of improved consumption sentiment.

Under these circumstances, PALTAC CORPORATION (the “Company”) undertook a variety of efforts, aiming to optimize and streamline the entire supply chain, in accordance with its position as an intermediate distributor providing a full lineup of health and beauty products essential for daily life under the corporate identity, “maximizing customer satisfaction and minimizing distribution costs.” In addition, the Company is working to strengthen its sales systems to support effective product lines and sales activities for retailers, and to strengthen its safe-and-secure, high-quality, low-cost distribution capabilities. Aiming for more than just a system that provides stable supply under normal conditions, the Company is making efforts to ensure a low-cost and stable supply of products to retailers, and by extension to its customers, even in an emergency through the “non-stop logistics” system.

For the fiscal year under review, the final year of the Company’s medium-term management plan that has the vision of “Initiative to be an intermediate distributor essential to society,” with the aim of achieving the targets set out in the plan, the Company will focus efforts on “enhanced information systems” in order to contribute to sophisticated information provision, a key strategy, and “develop human resources” who can pursue sophisticating and streamlining operations. By doing so, the Company “further boosted productivity” not only in-house, but also across the entire supply chain by cooperating with retailers and manufacturers, and accelerated efforts to “strengthen functions” performed by the Company as an intermediate distributor handling sales, distribution and other operations on the basis of its commitment to safety and security. By carrying out these initiatives, the Company strives to increase corporate value through sustained business growth.

Furthermore, the Company established “FDC Hiroshima” (located in Saeki-ku, Hiroshima) for the purpose of improving logistics efficiency in the Chugoku area and started dispatches in May 2017. The Company also proceeded as planned with the expansion of “RDC Okinawa” (located in Uruma-shi, Okinawa), aiming to enhance shipping capacity, and is intending to start dispatches in November 2017. Regarding the replacement of “RDC Niigata” (located in Mitsuke-shi, Niigata) currently in progress, the Company, keenly aware of the labor shortage, is moving forward with capital investment to strengthen the operating base for the purpose of operating new workflow designs that will enable distributive processing to be performed by fewer people.

As a result of the above, net sales for the six months ended September 30, 2017 were ¥494,838 million (up 4.2% year on year), operating profit was ¥12,450 million (up 16.4%), ordinary profit was ¥13,645 million (up 14.4%), and profit was ¥9,355 million (up 15.1%).

(Notes) 1. RDCs (Regional Distribution Centers) are large-scale logistics centers.

2. FDCs (Front Distribution Centers) are logistics centers where frequently ordered case products are held. They support the RDCs.

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 ¥393,685 million, an increase of ¥32,322 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts receivable-trade of ¥18,524 million, in merchandise and finished goods of ¥3,990 million, in buildings of ¥1,570 million and in land of ¥3,427 million.

(Liabilities)

Total liabilities as of the end of the second quarter were ¥217,673 million, an increase of ¥23,230 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts payable-trade of ¥13,408 million and in short-term loans payable of ¥13,000 million and a decrease in long-term loans payable of ¥2,826 million.

(Net assets)

Net assets as of the end of the second quarter were ¥176,012 million, an increase of ¥9,091 million from the end of the previous fiscal year. This was primarily the result of increases in retained earnings of ¥7,576 million and in valuation difference on available-for-sale securities of ¥1,516 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the second quarter were ¥17,972 million, a decrease of ¥540 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 flow from operating activities)

Net cash provided by operating activities was ¥1,675 million (down ¥5,336 million year on year). Main factors were ¥13,644 million of profit before income taxes, ¥2,355 million of depreciation and amortization, ¥18,524 million of increase in notes and accounts receivable-trade, ¥3,990 million of increase in inventories, ¥14,045 million of increase in notes and accounts payable-trade, and ¥3,705 million of income taxes paid.

(Cash flow from investing activities)

Net cash used in investing activities was ¥10,277 million (up ¥5,644 million year on year). Main factor was ¥11,016 million of purchase of property, plant and equipment.

(Cash flow from financing activities)

Net cash provided by financing activities was ¥8,061 million (down ¥1,347 million year on year). Main factors were ¥13,000 million of net increase in short-term loans payable, ¥1,000 million of proceeds from long-term loans payable, ¥4,118 million of repayments of long-term loans payable and ¥1,779 million of cash dividends paid.

(3) Forecasts and Other Projections

The Company announced “Notice of Difference between Financial Result Forecast and Actual Financial Results for the First Six Months, Revision of the Financial Result Forecast for the Fiscal Year, and Revision of Second Quarter (interim) Dividend and Year-End Dividend Forecast for the Fiscal Year Ending March 31, 2018” on October 27, 2017.

The summary of the notice is as follows.

1) Difference between financial result forecast and actual financial results for the first six months of the fiscal year ending March 31, 2018

	Net sales	Operating profit	Ordinary profit	Profit	Earnings per share
	(¥ million)	(¥ million)	(¥ million)	(¥ million)	(¥)
Previous forecast (A)	490,000	11,000	12,000	8,200	129.04
Actual results (B)	494,838	12,450	13,645	9,355	147.22
Variance (B-A)	4,838	1,450	1,645	1,155	
Change (%)	1.0	13.2	13.7	14.1	
Reference: Results for the first six months of the fiscal year ended March 31, 2017	475,080	10,695	11,923	8,128	127.92

2) Revision of the financial result forecast for the fiscal year ending March 31, 2018

	Net sales	Operating profit	Ordinary profit	Profit	Earnings per share
	(¥ million)	(¥ million)	(¥ million)	(¥ million)	(¥)
Previous forecast (A)	960,000	20,500	23,000	15,500	243.91
Revised forecast (B)	960,000	21,500	24,000	16,000	251.78
Variance (B-A)	—	1,000	1,000	500	
Change (%)	—	4.9	4.3	3.2	
Reference: Results for the fiscal year ended March 31, 2017	922,095	19,129	21,573	14,605	229.84

(Reason)

In the six months ended September 30, 2017, net sales surpassed those announced previously thanks to front-loaded demand for the autumn-winter merchandise due to lower average temperatures nationwide during late August to September, 2017. Also, operating profit, ordinary profit and profit surpassed those announced previously mainly due to the success of ongoing cost saving efforts under the medium-term management plan, which reduced selling, general and administrative expenses compared with the initial plan. With respect to the forecast for non-consolidated results for fiscal year ending March, 2018, the Company, after considering the first-half results and future prospects, has not changed its full-year sales forecast announced on May 12, 2017. However, the Company has upwardly revised its full-year forecasts of operating profit, ordinary profit and profit because the success of cost saving efforts is expected to continuously contribute to reducing selling, general and administrative expenses in the second half of the fiscal year. In addition, taking into account the above revisions, the Company has upwardly revised its numerical targets of the three-year medium-term management plan for fiscal 2016 to fiscal 2018.

3) Payment of second quarter (interim) dividend and revision of year-end dividend forecast for the fiscal year ending March 31, 2018

a) Detail of second quarter (interim) dividend

	Details of resolution	Previous forecast (Announced on May 12, 2017)	Result for the fiscal year ended March 31, 2017
Record date	September 30, 2017	September 30, 2017	September 30, 2016
Dividend per share	¥31.00	¥30.00	¥28.00
Total dividend amount	¥1,969 million	—	¥1,779 million
Effective date	December 4, 2017	—	December 2, 2016
Source of dividend	Retained earnings	—	Retained earnings

b) Revision of dividend forecast

	Dividend per share		
	Second quarter	Year-end	Total
Previous forecast	¥30.00	¥30.00	¥60.00
Revised forecast	¥31.00	¥31.00	¥62.00
Results for the fiscal year ending March 31, 2018	¥31.00		
Results for the fiscal year ended March 31, 2017	¥28.00	¥28.00	¥56.00

(Reason)

Following the favorable financial results in the six months ended September 30, 2017 and the upward revision of financial result forecast for the fiscal year ending March, 2018 announced today, based on the dividend policy, the Company has decided to upwardly revise the interim dividend to ¥31 per share, up ¥1 from the previous forecast. The Company also decided on a revision of the year-end dividend forecast to ¥31 per share, up ¥1 from the previous forecast in the fiscal year ending March 31, 2018. Therefore, a total full-year dividend payout for the fiscal year ending March 31, 2018 is forecasted to be an increase of ¥2 per share from the previous forecast and of ¥6 per share from the previous fiscal year.

* The above financial result and dividend forecasts are based on information currently available to the Company. Due to various factors, actual results may differ from these forecasts.

2. Quarterly Financial Statements and Notes to Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Millions of yen)

	As of March 31, 2017	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	18,513	17,972
Notes and accounts receivable-trade	170,294	188,819
Merchandise and finished goods	40,351	44,341
Other	16,742	17,166
Allowance for doubtful accounts	(77)	(86)
Total current assets	245,825	268,214
Non-current assets		
Property, plant and equipment		
Buildings	38,057	39,627
Land	42,443	45,871
Other	11,965	14,631
Total property, plant and equipment	92,466	100,130
Intangible assets	895	891
Investments and other assets		
Investments and other assets	22,181	24,454
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	22,176	24,449
Total non-current assets	115,538	125,471
Total assets	361,363	393,685
Liabilities		
Current liabilities		
Notes and accounts payable-trade	134,152	147,560
Short-term loans payable	3,000	16,000
Current portion of long-term loans payable	8,132	7,840
Income taxes payable	4,231	4,205
Provision for bonuses	2,026	1,543
Provision for sales returns	192	150
Other	20,157	19,653
Total current liabilities	171,892	196,953
Non-current liabilities		
Long-term loans payable	15,444	12,618
Provision for retirement benefits	2,183	2,284
Other	4,922	5,816
Total non-current liabilities	22,549	20,719
Total liabilities	194,442	217,673

(Millions of yen)

	As of March 31, 2017	As of September 30, 2017
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	114,528	122,104
Treasury shares	(7)	(7)
Total shareholders' equity	158,217	165,793
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	8,692	10,209
Deferred gains or losses on hedges	11	10
Total valuation and translation adjustments	8,704	10,219
Total net assets	166,921	176,012
Total liabilities and net assets	361,363	393,685

(2) Quarterly Statements of Income

	(Millions of yen)	
	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	475,080	494,838
Cost of sales	438,647	456,350
Gross profit	36,433	38,487
Selling, general and administrative expenses	25,737	26,037
Operating profit	10,695	12,450
Non-operating income		
Dividend income	142	148
Research fee income	846	881
Real estate rent	70	68
Other	315	191
Total non-operating income	1,375	1,289
Non-operating expenses		
Interest expenses	104	68
Rent cost of real estate	25	19
Other	16	6
Total non-operating expenses	146	94
Ordinary profit	11,923	13,645
Extraordinary income		
Gain on sales of non-current assets	0	—
Gain on sales of investment securities	0	8
Total extraordinary income	0	8
Extraordinary losses		
Loss on sales of non-current assets	0	—
Loss on retirement of non-current assets	14	9
Impairment loss	33	—
Other	8	—
Total extraordinary losses	55	9
Profit before income taxes	11,868	13,644
Income taxes-current	3,425	3,810
Income taxes-deferred	315	479
Total income taxes	3,740	4,289
Profit	8,128	9,355

(3) Quarterly Statements of Cash Flows

	(Millions of yen)	
	Six months ended September 30, 2016	Six months ended September 30, 2017
Cash flows from operating activities		
Profit before income taxes	11,868	13,644
Depreciation and amortization	2,421	2,355
Impairment loss	33	—
Increase (decrease) in allowance for doubtful accounts	(197)	8
Increase (decrease) in provision for bonuses	(464)	(482)
Increase (decrease) in provision for sales returns	(48)	(41)
Increase (decrease) in provision for retirement benefits	190	235
Interest and dividend income	(142)	(148)
Interest expenses	104	68
Loss (gain) on sales of investment securities	5	(8)
Decrease (increase) in notes and accounts receivable-trade	(13,508)	(18,524)
Decrease (increase) in inventories	(4,033)	(3,990)
Increase (decrease) in notes and accounts payable-trade	13,241	14,045
Decrease (increase) in consumption taxes refund receivable	1,580	—
Increase (decrease) in accrued consumption taxes	781	(795)
Other, net	(1,443)	(1,070)
Subtotal	10,389	5,295
Interest and dividend income received	142	148
Interest expenses paid	(98)	(62)
Income taxes paid	(3,421)	(3,705)
Net cash provided by (used in) operating activities	7,012	1,675
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,857)	(11,016)
Proceeds from sales of property, plant and equipment	411	1,069
Purchase of intangible assets	(68)	(125)
Purchase of investment securities	(76)	(71)
Proceeds from sales of investment securities	30	96
Other, net	(72)	(228)
Net cash provided by (used in) investing activities	(4,633)	(10,277)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,000	13,000
Proceeds from long-term loans payable	14,000	1,000
Repayments of long-term loans payable	(3,886)	(4,118)
Repayments of lease obligations	(51)	(40)
Purchase of treasury shares	—	(0)
Cash dividends paid	(1,654)	(1,779)
Net cash provided by (used in) financing activities	9,408	8,061
Net increase (decrease) in cash and cash equivalents	11,787	(540)
Cash and cash equivalents at beginning of period	18,082	18,513
Cash and cash equivalents at end of period	29,870	17,972

(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, 2017 by product category are as follows:

Product classification	Six months ended September 30, 2017	Year-on-year change (%)
	Amount (Millions of yen)	
Cosmetics	129,454	106.3
Daily necessities	214,198	103.4
OTC pharmaceuticals	70,299	103.5
Health and sanitary related products	74,470	103.4
Others	6,415	103.7
Total	494,838	104.2

Note: Above figures are exclusive of consumption taxes.

2) Sales results for the six months ended September 30, 2017 by customer category are as follows:

Customer category		Six months ended September 30, 2017	Year-on-year change (%)
		Amount (Millions of yen)	
Drug	Drugstores (Pharmacies)	311,502	105.8
HC	Home centers (DIY stores)	49,797	103.3
CVS	Convenience stores	35,800	104.0
SM	Supermarkets	29,416	99.3
DS	Discount stores	29,760	110.9
GMS	General merchandising stores	18,661	76.8
Others	Export and others	19,898	115.9
Total		494,838	104.2

Note: Above figures are exclusive of consumption taxes.