

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

January 31, 2018

Company name: PALTAC CORPORATION
(URL: <http://www.paltac.co.jp/>)
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Scheduled date to submit the Quarterly Securities Report: February 13, 2018
Scheduled date to commence dividend payments: —
Preparation of supplementary material on quarterly financial results: No
Holding of quarterly financial results presentation meeting: No

(Figures are rounded off to the nearest million yen)

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

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

	Net sales		Operating profit		Ordinary profit		Profit	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Nine months ended December 31, 2017	738,390	4.2	18,826	18.6	20,638	16.8	14,100	17.5
December 31, 2016	708,324	8.6	15,870	25.0	17,672	23.8	11,995	27.9

	Earnings per share	Diluted earnings per share
	(¥)	(¥)
Nine months ended December 31, 2017	221.89	—
December 31, 2016	188.77	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	(¥ million)	(¥ million)	%	(¥)
As of December 31, 2017	406,989	180,143	44.3	2,834.78
March 31, 2017	361,363	166,921	46.2	2,626.72

Reference: Equity As of December 31, 2017: ¥180,143 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: No

3. Forecasts 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 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 December 31, 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 December 31, 2017	6,058 shares
As of March 31, 2017	5,958 shares

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

For the nine months ended December 31, 2017	63,547,470 shares
For the nine months ended December 31, 2016	63,547,616 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 of “(3) Forecasts and Other Projections” on page 3 of the attached material to the 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

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1. Qualitative Information for the Nine Months Ended December 31, 2017

(1) Operating Results

In the nine months ended December 31, 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 completed the expansion of “RDC Okinawa” (located in Uruma-shi, Okinawa), aiming to enhance shipping capacity, and started dispatches in November 2017. Regarding the replacement of “RDC Niigata” (located in Mitsuke-shi, Niigata), which is planned to start dispatches in autumn 2018, 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 nine months ended December 31, 2017 were ¥738,390 million (up 4.2% year on year), operating income was ¥18,826 million (up 18.6%), ordinary income was ¥20,638 million (up 16.8%), and profit was ¥14,100 million (up 17.5%).

(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 third quarter were ¥406,989 million, an increase of ¥45,625 million from the end of the previous fiscal year. This was primarily the result of increases in cash and deposits of ¥1,920 million, in notes and accounts receivable-trade of ¥16,583 million, in merchandise and finished goods of ¥14,228 million and land of ¥3,451 million.

(Liabilities)

Total liabilities as of the end of the third quarter were ¥226,846 million, an increase of ¥32,403 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts payable-trade of ¥23,065 million and in short-term loans payable of ¥18,000 million and a decrease in long-term loans payable of ¥4,511 million.

(Net assets)

Total net assets as of the end of the third quarter were ¥180,143 million, an increase of ¥13,221 million from the end of the previous fiscal year. This was primarily the result of increases in retained earnings of ¥10,351 million and in valuation difference on available-for-sale securities of ¥2,877 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the third quarter were ¥20,434 million, an increase of ¥1,920 million from the end of the previous fiscal year.

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

(Cash flows from operating activities)

Net cash provided by operating activities was ¥6,829 million (down ¥1,889 million year on year). Main factors were ¥20,563 million of profit before income taxes, ¥3,576 million of depreciation and amortization, ¥16,583 million of increase in notes and accounts receivable-trade, ¥14,228 million of increase in inventories, ¥23,702 million of increase in notes and accounts payable-trade and ¥7,082 million of income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities was ¥13,996 million (up ¥8,443 million year on year). Main factor was ¥14,632 million of purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥9,087 million (compared with net cash of ¥316 million used in the same period of the previous fiscal year). Main factors were ¥18,000 million of net increase in short-term loans payable, ¥6,103 million of repayments of long-term loans payable and ¥3,747 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, 2018, which was announced on October 27, 2017.

2. Quarterly Financial Statements and Notes to Quarterly Financial Statements

(1) Quarterly Balance Sheets

	(Millions of yen)	
	As of March 31, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	18,513	20,434
Notes and accounts receivable-trade	170,294	186,878
Merchandise and finished goods	40,351	54,579
Other	16,742	17,452
Allowance for doubtful accounts	(77)	(85)
Total current assets	245,825	279,259
Non-current assets		
Property, plant and equipment		
Land	42,443	45,894
Other	50,022	54,680
Total property, plant and equipment	92,466	100,575
Intangible assets	895	893
Investments and other assets		
Investments and other assets	22,181	26,266
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	22,176	26,260
Total non-current assets	115,538	127,729
Total assets	361,363	406,989
Liabilities		
Current liabilities		
Notes and accounts payable-trade	134,152	157,218
Short-term loans payable	3,000	21,000
Current portion of long-term loans payable	8,132	7,540
Income taxes payable	4,231	2,553
Provision for bonuses	2,026	771
Provision for sales returns	192	192
Other	20,157	17,916
Total current liabilities	171,892	207,192
Non-current liabilities		
Long-term loans payable	15,444	10,933
Provision for retirement benefits	2,183	2,322
Other	4,922	6,398
Total non-current liabilities	22,549	19,653
Total liabilities	194,442	226,846

(Millions of yen)

	As of March 31, 2017	As of December 31, 2017
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	114,528	124,879
Treasury shares	(7)	(7)
Total shareholders' equity	158,217	168,568
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	8,692	11,570
Deferred gains or losses on hedges	11	4
Total valuation and translation adjustments	8,704	11,575
Total net assets	166,921	180,143
Total liabilities and net assets	361,363	406,989

(2) Quarterly Statements of Income

	(Millions of yen)	
	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	708,324	738,390
Cost of sales	653,611	680,253
Gross profit	54,712	58,137
Selling, general and administrative expenses	38,842	39,310
Operating profit	15,870	18,826
Non-operating income		
Dividend income	228	236
Research fee income	1,279	1,331
Real estate rent	103	102
Other	403	283
Total non-operating income	2,014	1,954
Non-operating expenses		
Interest expenses	154	104
Rent cost of real estate	35	29
Other	21	8
Total non-operating expenses	212	142
Ordinary profit	17,672	20,638
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	5	8
Total extraordinary income	5	8
Extraordinary losses		
Loss on sales of non-current assets	0	4
Loss on retirement of non-current assets	22	78
Impairment loss	116	—
Other	16	0
Total extraordinary losses	155	83
Profit before income taxes	17,522	20,563
Income taxes-current	4,932	5,704
Income taxes-deferred	594	759
Total income taxes	5,526	6,463
Profit	11,995	14,100

(3) Quarterly Statements of Cash Flows

	(Millions of yen)	
	Nine months ended December 31 2016	Nine months ended December 31, 2017
Cash flows from operating activities		
Profit before income taxes	17,522	20,563
Depreciation and amortization	3,670	3,576
Impairment loss	116	—
Increase (decrease) in allowance for doubtful accounts	(200)	8
Increase (decrease) in provision for bonuses	(1,252)	(1,255)
Increase (decrease) in provision for sales returns	(6)	0
Increase (decrease) in provision for retirement benefits	291	340
Interest and dividend income	(228)	(236)
Interest expenses	154	104
Loss (gain) on sales of investment securities	8	(8)
Decrease (increase) in notes and accounts receivable-trade	(12,760)	(16,583)
Decrease (increase) in inventories	(12,676)	(14,228)
Increase (decrease) in notes and accounts payable-trade	18,130	23,702
Decrease (increase) in consumption taxes refund receivable	1,580	(270)
Increase (decrease) in accrued consumption taxes	453	(1,215)
Other, net	310	(727)
Subtotal	15,112	13,770
Interest and dividend income received	228	236
Interest expenses paid	(145)	(94)
Income taxes paid	(6,476)	(7,082)
Net cash provided by (used in) operating activities	8,718	6,829
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,805)	(14,632)
Proceeds from sales of property, plant and equipment	411	1,079
Purchase of intangible assets	(92)	(198)
Purchase of investment securities	(122)	(111)
Proceeds from sales of investment securities	147	170
Other, net	(90)	(304)
Net cash provided by (used in) investing activities	(5,552)	(13,996)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(5,000)	18,000
Proceeds from long-term loans payable	14,000	1,000
Repayments of long-term loans payable	(5,819)	(6,103)
Repayments of lease obligations	(70)	(61)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(3,426)	(3,747)
Net cash provided by (used in) financing activities	(316)	9,087
Net increase (decrease) in cash and cash equivalents	2,849	1,920
Cash and cash equivalents at beginning of period	18,082	18,513
Cash and cash equivalents at end of period	20,932	20,434

(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 nine months ended December 31, 2017 by product category are as follows:

Product classification	Nine months ended December 31, 2017	Year-on-year change (%)
	Amount (Millions of yen)	
Cosmetics	191,757	106.9
Daily necessities	317,545	103.5
OTC pharmaceuticals	104,666	102.5
Health and sanitary related products	113,616	103.6
Others	10,806	104.6
Total	738,390	104.2

Note: Above figures are exclusive of consumption taxes.

2) Sales results for the nine months ended December 31, 2017 by customer category are as follows:

Customer category		Nine months ended December 31, 2017	Year-on-year change (%)
		Amount (Millions of yen)	
Drug	Drugstores (Pharmacies)	463,857	105.4
HC	Home centers (DIY stores)	73,086	103.9
CVS	Convenience stores	54,705	102.1
SM	Supermarkets	43,500	99.4
DS	Discount stores	44,013	108.3
GMS	General merchandising stores	28,048	82.7
Others	Export and others	31,179	119.3
Total		738,390	104.2

Note: Above figures are exclusive of consumption taxes.