

Non-consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2019 <under Japanese GAAP>

October 26, 2018

Company name: PALTAC CORPORATION
(URL: <http://www.paltac.co.jp/>)
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Scheduled date to submit the Quarterly Securities Report: November 12, 2018
Scheduled date to commence dividend payments: December 3, 2018
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, 2019 (From April 1, 2018 to September 30, 2018)

(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, 2018	521,804	5.4	13,750	10.4	15,019	10.1	10,251	9.6
September 30, 2017	494,838	4.2	12,450	16.4	13,645	14.4	9,355	15.1

	Earnings per share	Diluted earnings per share
Six months ended	(¥)	(¥)
September 30, 2018	161.32	–
September 30, 2017	147.22	–

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(¥ million)	(¥ million)	%	(¥)
September 30, 2018	407,922	193,513	47.4	3,045.18
March 31, 2018	387,399	183,435	47.4	2,886.59

Reference: Equity As of September 30, 2018: ¥193,513 million As of March 31, 2018: ¥183,435 million

Note: From the beginning of the first quarter under review, the Company has applied the “Partial Amendment to Accounting Standards for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. The figures as of March 31, 2018 have been adjusted retrospectively to apply these accounting standards.

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(¥)	(¥)	(¥)	(¥)	(¥)
Fiscal year ended March 31, 2018	–	31.00	–	33.00	64.00
Fiscal year ending March 31, 2019	–	34.00			
Fiscal year ending March 31, 2019 (Forecast)			–	34.00	68.00

Note: Revision to the forecasts most recently announced: Yes

3. Forecasts of Financial Results for the Fiscal Year Ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

(% indicates year-on-year change)

Fiscal year	Net sales		Operating profit		Ordinary profit		Profit		Earnings per share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
	1,010,000	4.5	25,500	10.8	28,500	11.8	19,000	8.9	298.99

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: Yes
- 3) Changes in accounting estimates: Yes
- 4) Restatements: No

Note: For more information, please refer to the section "2. Summary Information (Notes) (1) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements" on page 6 of the attached material to this quarterly financial results report.

(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, 2018	63,553,485 shares
As of March 31, 2018	63,553,485 shares

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

As of September 30, 2018	6,237 shares
As of March 31, 2018	6,158 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, 2018	63,547,266 shares
For the six months ended September 30, 2017	63,547,493 shares

* Explanation regarding execution of quarterly review procedures

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, 2018 (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

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1. Qualitative Information for the Six Months Ended September 30, 2018

(1) Operating Results

In the six months ended September 30, 2018, despite the natural disasters that have occurred in Japan and concern regarding the impact of trade friction caused by the U.S. protectionist trade policies, the Japanese economy continued to follow a moderate recovery track, on the back of progress made on 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, despite the presence of favorable factors, such as market penetration of value-added products that match changes to the social environment like women advancing in society, the overall results were affected by the effect of very hot weather as well as the unplanned closures of retail stores and a temporary decline in inbound tourists accompanying the succession of natural disasters that have occurred from summer onwards.

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.” 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, keenly aware of the labor shortage caused by the decline in the working population, the Company launched a new three-year medium-term management plan with the vision of “One trillion yen Link with the future: The logistics innovation through aggressive investment.” The Company strives to increase corporate value through sustained business growth.

In addition, as part of the medium-term management plan’s initiatives, the Company has been taking measures to strengthen its operating base according to this plan. In August 2018, the Company started dispatches from “RDC Niigata” (located in Mitsuke-shi, Niigata) with the aim of rapidly improving productivity and increasing shipping capacity in the Shinetsu area. The Company also completed the expansion of “RDC Yokohama” (located in Zama-shi, Kanagawa), which is being carried out with the goal of increasing shipping capacity and improving productivity in the Kanto area.

As a result of the above, net sales for the six months ended September 30, 2018 were ¥521,804 million (up 5.4% year on year), operating profit was ¥13,750 million (up 10.4%), ordinary profit was ¥15,019 million (up 10.1%), and profit was ¥10,251 million (up 9.6%).

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

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

(2) Financial Position

1) Assets, liabilities and net assets

(Assets)

Total assets as of the end of the second quarter were ¥407,922 million, an increase of ¥20,522 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts receivable-trade of ¥15,662 million and in buildings of ¥3,829 million.

(Liabilities)

Total liabilities as of the end of the second quarter were ¥214,409 million, an increase of ¥10,444 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts payable-trade of ¥9,283 million and in short-term loans payable of ¥3,200 million and a decrease in long-term loans payable of ¥2,564 million.

(Net assets)

Net assets as of the end of the second quarter were ¥193,513 million, an increase of ¥10,077 million from the end of the previous fiscal year. This was primarily the result of increases in retained earnings of ¥8,154 million and in valuation difference on available-for-sale securities of ¥1,897 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the second quarter were ¥17,576 million, a decrease of ¥4,071 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 ¥4,208 million (up ¥2,532 million year on year). Main factors were ¥14,882 million of profit before income taxes, ¥15,662 million of increase in notes and accounts receivable-trade, ¥9,900 million of increase in notes and accounts payable-trade, and ¥4,215 million of income taxes paid.

(Cash flow from investing activities)

Net cash used in investing activities was ¥6,528 million (down ¥3,749 million year on year). Main factor was ¥6,508 million of purchase of property, plant and equipment.

(Cash flow from financing activities)

Net cash used in financing activities was ¥1,751 million (compared with net cash of ¥8,061 million provided by the same period of the previous fiscal year). Main factors were ¥3,200 million of net increase in short-term loans payable, ¥1,000 million of proceeds from long-term loans payable, ¥3,800 million of repayments of long-term loans payable and ¥2,098 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, 2019” on October 26, 2018.

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, 2019

	Net sales	Operating profit	Ordinary profit	Profit	Earnings per share
	(¥ million)	(¥ million)	(¥ million)	(¥ million)	(¥)
Previous forecast (A)	512,000	12,800	14,000	9,500	149.49
Actual results (B)	521,804	13,750	15,019	10,251	161.32
Variance (B-A)	9,804	950	1,019	751	
Change (%)	1.9	7.4	7.3	7.9	
Reference: Results for the first six months of the fiscal year ended March 31, 2018	494,838	12,450	13,645	9,355	147.22

2) Revision of the financial result forecast for the fiscal year ending March 31, 2019

	Net sales	Operating profit	Ordinary profit	Profit	Earnings per share
	(¥ million)	(¥ million)	(¥ million)	(¥ million)	(¥)
Previous forecast (A)	1,000,000	24,500	27,500	18,500	291.12
Revised forecast (B)	1,010,000	25,500	28,500	19,000	298.99
Variance (B-A)	10,000	1,000	1,000	500	
Change (%)	1.0	4.1	3.6	2.7	
Reference: Results for the fiscal year ended March 31, 2018	966,684	23,006	25,498	17,453	274.65

(Reason)

In the six months ended September 30, 2018, net sales surpassed those announced previously thanks to market penetration of value-added products that match changes to the social environment like women advancing in society and enhancing alliances with retailers and manufacturers, despite the effect of very hot weather as well as the unplanned closures of retail stores and a temporary decline in inbound tourists accompanying the succession of natural disasters that have occurred from summer onwards. Also, operating profit, ordinary profit and profit surpassed those announced previously mainly due to the success of improving productivity while maintaining high quality under the medium-term management plan, which reduced selling, general and administrative expenses ratio compared with the initial plan. In consideration of those six months' results, the Company has upwardly revised its full-year financial result forecast as stated above.

3) Payment of second quarter (interim) dividend and revision of year-end dividend forecast for the fiscal year ending March 31, 2019

a) Detail of second quarter (interim) dividend

	Details of resolution	Previous forecast (Announced on May 8, 2018)	Result for the fiscal year ended March 31, 2018
Record date	September 30, 2018	September 30, 2018	September 30, 2017
Dividend per share	¥34.00	¥33.00	¥31.00
Total dividend amount	¥2,160 million	—	¥1,969 million
Effective date	December 3, 2018	—	December 4, 2017
Source of dividend	Retained earnings	—	Retained earnings

b) Revision of dividend forecast

	Dividend per share		
	Second quarter	Year-end	Total
Previous forecast	¥33.00	¥33.00	¥66.00
Revised forecast		¥34.00	¥68.00
Results for the fiscal year ending March 31, 2019	¥34.00		
Results for the fiscal year ended March 31, 2018	¥31.00	¥33.00	¥64.00

(Reason)

Following the favorable financial results in the six months ended September 30, 2018 and the upward revision of financial result forecast for the fiscal year ending March, 2019 announced today, based on the dividend policy, the Company has decided to upwardly revise the interim dividend to ¥34 per share, up ¥1 from the previous forecast. The Company also decided on a revision of the year-end dividend forecast to ¥34 per share, up ¥1 from the previous forecast in the fiscal year ending March 31, 2019. Therefore, a total full-year dividend payout for the fiscal year ending March 31, 2019 is forecasted to be an increase of ¥2 per share from the previous forecast and of ¥4 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. Summary Information (Notes)

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

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Change in depreciation method of property, plant and equipment

The Company has changed the depreciation method for property, plant and equipment from the declining balance method to the straight-line method since the beginning of the first quarter under review.

In the formulation of the project of construction of the new RDCs, the Company reviewed the use of property, plant and equipment. As the result, the Company expects stable operations of property, plant and equipment for the long term and determined that adopting the use of the straight-line method to allocate depreciation expense evenly over the useful lives of such property, plant and equipment would more appropriately reflect its actual condition.

As the result of the above, compared to the previous method, for the six months ended September 30, 2018, operating profit increased by ¥287 million and ordinary profit and profit before income taxes each increased by ¥287 million.

(Supplementary information)

Application of “Partial Amendment to Accounting Standards for Tax Effect Accounting”

From the beginning of the first quarter under review, the Company has applied the “Partial Amendment to Accounting Standards for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. As a result of this partial amendment, deferred tax assets are now listed under investment and other assets and deferred tax liabilities are listed under non-current liabilities.

3. Quarterly Financial Statements and Notes to Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	21,648	17,576
Notes and accounts receivable-trade	179,322	194,985
Merchandise and finished goods	43,897	45,003
Other	15,761	16,292
Allowance for doubtful accounts	(81)	(88)
Total current assets	260,548	273,769
Non-current assets		
Property, plant and equipment		
Buildings	38,613	42,442
Land	45,699	46,558
Other	15,460	15,538
Total property, plant and equipment	99,773	104,539
Intangible assets	883	846
Investments and other assets		
Investments and other assets	26,200	28,772
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	26,194	28,767
Total non-current assets	126,851	134,152
Total assets	387,399	407,922
Liabilities		
Current liabilities		
Notes and accounts payable-trade	146,761	156,045
Short-term loans payable	9,000	12,200
Current portion of long-term loans payable	7,040	6,804
Income taxes payable	4,631	4,836
Provision for bonuses	2,035	1,540
Provision for sales returns	186	162
Other	17,693	17,663
Total current liabilities	187,348	199,251
Non-current liabilities		
Long-term loans payable	9,248	6,684
Provision for retirement benefits	2,341	2,417
Other	5,025	6,056
Total non-current liabilities	16,615	15,157
Total liabilities	203,964	214,409

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
<hr/>		
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	128,232	136,386
Treasury shares	(8)	(8)
Total shareholders' equity	<u>171,920</u>	<u>180,074</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	11,534	13,431
Deferred gains or losses on hedges	(19)	7
Total valuation and translation adjustments	<u>11,514</u>	<u>13,438</u>
Total net assets	<u>183,435</u>	<u>193,513</u>
Total liabilities and net assets	<u>387,399</u>	<u>407,922</u>

(2) Quarterly Statements of Income

	(Millions of yen)	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	494,838	521,804
Cost of sales	456,350	481,155
Gross profit	38,487	40,649
Selling, general and administrative expenses	26,037	26,898
Operating profit	12,450	13,750
Non-operating income		
Dividend income	148	178
Research fee income	881	881
Real estate rent	68	69
Other	191	226
Total non-operating income	1,289	1,356
Non-operating expenses		
Interest expenses	68	65
Rent cost of real estate	19	19
Other	6	1
Total non-operating expenses	94	87
Ordinary profit	13,645	15,019
Extraordinary income		
Gain on sales of investment securities	8	3
Total extraordinary income	8	3
Extraordinary losses		
Loss on retirement of non-current assets	9	12
Loss on disaster	-	127
Total extraordinary losses	9	139
Profit before income taxes	13,644	14,882
Income taxes-current	3,810	4,412
Income taxes-deferred	479	219
Total income taxes	4,289	4,631
Profit	9,355	10,251

(3) Quarterly Statements of Cash Flows

	(Millions of yen)	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	13,644	14,882
Depreciation and amortization	2,355	2,138
Increase (decrease) in allowance for doubtful accounts	8	6
Increase (decrease) in provision for bonuses	(482)	(495)
Increase (decrease) in provision for sales returns	(41)	(23)
Increase (decrease) in provision for retirement benefits	235	136
Interest and dividend income	(148)	(178)
Interest expenses	68	65
Loss (gain) on sales of investment securities	(8)	(3)
Loss on disaster	-	127
Decrease (increase) in notes and accounts receivable-trade	(18,524)	(15,662)
Decrease (increase) in inventories	(3,990)	(1,119)
Increase (decrease) in notes and accounts payable-trade	14,045	9,900
Increase (decrease) in accrued consumption taxes	(795)	80
Other, net	(1,070)	(1,547)
Subtotal	5,295	8,306
Interest and dividend income received	148	178
Interest expenses paid	(62)	(61)
Income taxes paid	(3,705)	(4,215)
Net cash provided by (used in) operating activities	1,675	4,208
Cash flows from investing activities		
Purchase of property, plant and equipment	(11,016)	(6,508)
Proceeds from sales of property, plant and equipment	1,069	50
Purchase of intangible assets	(125)	(83)
Purchase of investment securities	(71)	(57)
Proceeds from sales of investment securities	96	9
Other, net	(228)	62
Net cash provided by (used in) investing activities	(10,277)	(6,528)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	13,000	3,200
Proceeds from long-term loans payable	1,000	1,000
Repayments of long-term loans payable	(4,118)	(3,800)
Repayments of lease obligations	(40)	(52)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(1,779)	(2,098)
Net cash provided by (used in) financing activities	8,061	(1,751)
Net increase (decrease) in cash and cash equivalents	(540)	(4,071)
Cash and cash equivalents at beginning of period	18,513	21,648
Cash and cash equivalents at end of period	17,972	17,576

(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

4. Supplementary Information

(1) Sales Status

(Sales results)

1) Sales results for the six months ended September 30, 2018 by product category are as follows:

Product classification	Six months ended September 30, 2018	Year-on-year change (%)
	Amount (Millions of yen)	
Cosmetics	138,426	106.9
Daily necessities	225,773	105.4
OTC pharmaceuticals	71,391	101.6
Health and sanitary related products	79,125	106.3
Others	7,088	110.5
Total	521,804	105.4

Note: Above figures are exclusive of consumption taxes.

2) Sales results for the six months ended September 30, 2018 by customer category are as follows:

Customer category		Six months ended September 30, 2018	Year-on-year change (%)
		Amount (Millions of yen)	
Drug	Drugstores (Pharmacies)	328,295	105.4
HC	Home centers (DIY stores)	50,617	101.6
CVS	Convenience stores	37,822	105.6
DS	Discount stores	34,662	116.5
SM	Supermarkets	28,392	96.5
GMS	General merchandising stores	18,809	100.8
Others	Export and others	23,204	116.6
Total		521,804	105.4

Note: Above figures are exclusive of consumption taxes.