

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

January 30, 2019

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(URL: <http://www.paltac.co.jp/>)
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Scheduled date to submit the Quarterly Securities Report: February 13, 2019
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 down to the nearest million yen)

1. Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2019 (From April 1, 2018 to December 31, 2018)

(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, 2018	779,591	5.6	20,484	8.8	22,942	11.2	15,811	12.1
December 31, 2017	738,390	4.2	18,826	18.6	20,638	16.8	14,100	17.5

	Earnings per share	Diluted earnings per share
	(¥)	(¥)
Nine months ended December 31, 2018	248.81	—
December 31, 2017	221.89	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	(¥ million)	(¥ million)	%	(¥)
As of December 31, 2018	418,641	193,468	46.2	3,044.49
March 31, 2018	387,399	183,435	47.4	2,886.59

Reference: Equity As of December 31, 2018: ¥193,468 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: No

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)

	Net sales		Operating profit		Ordinary profit		Profit		Earnings per share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Fiscal year	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: 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: 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 4 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 December 31, 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 December 31, 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 nine months ended December 31, 2018	63,547,260 shares
For the nine months ended December 31, 2017	63,547,470 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 Nine Months Ended December 31, 2018 (3) Forecasts and Other Projections” on page 3 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 Nine Months Ended December 31, 2018

(1) Operating Results

In the nine months ended December 31, 2018, although the future outlook remains unclear mainly due to uncertainties in overseas economies including the impact of trade friction between the U.S. and China, 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 strong corporate earnings and 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 mostly steady mainly due to favorable factors, such as the strong sales of value-added products that match changes to the social environment like women advancing in society, despite the negative effect for sales, including natural disasters, very hot weather, and the delay in the dropping of wintertime temperatures.

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, the Company has been taking measures to strengthen its operating base according to plan. In August 2018, the Company started dispatches from “RDC Niigata” (located in Mitsuke-shi, Niigata) as part of the medium-term management plan’s initiatives, with the aim of rapidly improving productivity and increasing shipping capacity in the Shinetsu area. The Company is also steadily proceeding with construction of “(provisional name) RDC Sugito” (located in Kitakatsushika-gun, Saitama; scheduled to begin operation in 2020) in order to carry out a new next-generation distribution system and increase shipping capacity in the Tokyo Metropolitan District.

As a result of the above, net sales for the nine months ended December 31, 2018 were ¥779,591 million (up 5.6% year on year), operating profit was ¥20,484 million (up 8.8%), ordinary profit was ¥22,942 million (up 11.2%), and profit was ¥15,811 million (up 12.1%).

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 third quarter were ¥418,641 million, an increase of ¥31,241 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts receivable-trade of ¥17,445 million and in merchandise and finished goods of ¥10,817 million.

(Liabilities)

Total liabilities as of the end of the third quarter were ¥225,172 million, an increase of ¥21,208 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts payable-trade of ¥16,284 million and in short-term loans payable of ¥12,200 million and decreases in long-term loans payable of ¥3,977 million and in income taxes payable of ¥1,704 million.

(Net assets)

Total net assets as of the end of the third quarter were ¥193,468 million, an increase of ¥10,033 million from the end of the previous fiscal year. This was primarily the result of an increase in retained earnings of ¥11,553 million and a decrease in valuation difference on available-for-sale securities of ¥1,535 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the third quarter were ¥18,639 million, a decrease of ¥3,008 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 flow from operating activities)

Net cash provided by operating activities was ¥2,913 million (down ¥3,915 million year on year). Main factors were ¥22,953 million of profit before income taxes, ¥17,445 million of increase in notes and accounts receivable-trade, ¥10,831 million of increase in inventories, ¥16,901 million of increase in notes and accounts payable-trade, and ¥8,012 million of income taxes paid.

(Cash flow from investing activities)

Net cash used in investing activities was ¥9,158 million (down ¥4,837 million year on year). Main factor was ¥9,710 million of purchase of property, plant and equipment.

(Cash flow from financing activities)

Net cash provided by financing activities was ¥3,235 million (down ¥5,851 million year on year). Main factors were ¥12,200 million of net increase in short-term loans payable, ¥1,000 million of proceeds from long-term loans payable, ¥5,615 million of repayments of long-term loans payable and ¥4,257 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, 2019, which was announced on October 26, 2018.

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 nine months ended December 31, 2018, operating profit increased by ¥510 million and ordinary profit and profit before income taxes each increased by ¥511 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 December 31, 2018
Assets		
Current assets		
Cash and deposits	21,648	18,639
Notes and accounts receivable-trade	179,322	196,768
Merchandise and finished goods	43,897	54,715
Other	15,761	18,025
Allowance for doubtful accounts	(81)	(89)
Total current assets	260,548	288,059
Non-current assets		
Property, plant and equipment		
Land	45,699	46,417
Other	54,073	59,623
Total property, plant and equipment	99,773	106,040
Intangible assets	883	814
Investments and other assets		
Investments and other assets	26,200	23,732
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	26,194	23,726
Total non-current assets	126,851	130,582
Total assets	387,399	418,641
Liabilities		
Current liabilities		
Notes and accounts payable-trade	146,761	163,045
Short-term loans payable	9,000	21,200
Current portion of long-term loans payable	7,040	6,402
Income taxes payable	4,631	2,927
Provision for bonuses	2,035	766
Provision for sales returns	186	210
Other	17,693	17,961
Total current liabilities	187,348	212,513
Non-current liabilities		
Long-term loans payable	9,248	5,271
Provision for retirement benefits	2,341	2,434
Other	5,025	4,953
Total non-current liabilities	16,615	12,659
Total liabilities	203,964	225,172

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	128,232	139,785
Treasury shares	(8)	(8)
Total shareholders' equity	171,920	183,473
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	11,534	9,999
Deferred gains or losses on hedges	(19)	(3)
Total valuation and translation adjustments	11,514	9,995
Total net assets	183,435	193,468
Total liabilities and net assets	387,399	418,641

(2) Quarterly Statements of Income

	(Millions of yen)	
	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	738,390	779,591
Cost of sales	680,253	718,609
Gross profit	58,137	60,982
Selling, general and administrative expenses	39,310	40,497
Operating profit	18,826	20,484
Non-operating income		
Dividend income	236	275
Research fee income	1,331	1,340
Real estate rent	102	105
Subsidy income	43	538
Other	239	322
Total non-operating income	1,954	2,582
Non-operating expenses		
Interest expenses	104	92
Rent cost of real estate	29	29
Other	8	2
Total non-operating expenses	142	124
Ordinary profit	20,638	22,942
Extraordinary income		
Gain on sales of non-current assets	0	—
Gain on sales of investment securities	8	135
Insurance income	—	133
Total extraordinary income	8	269
Extraordinary losses		
Loss on sales of non-current assets	4	8
Loss on retirement of non-current assets	78	47
Loss on disaster	—	195
Other	0	6
Total extraordinary losses	83	257
Profit before income taxes	20,563	22,953
Income taxes-current	5,704	6,485
Income taxes-deferred	759	657
Total income taxes	6,463	7,142
Profit	14,100	15,811

(3) Quarterly Statements of Cash Flows

	(Millions of yen)	
	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Cash flows from operating activities		
Profit before income taxes	20,563	22,953
Depreciation and amortization	3,576	3,314
Increase (decrease) in allowance for doubtful accounts	8	7
Increase (decrease) in provision for bonuses	(1,255)	(1,269)
Increase (decrease) in provision for sales returns	0	24
Increase (decrease) in provision for retirement benefits	340	186
Interest and dividend income	(236)	(275)
Interest expenses	104	92
Loss (gain) on sales of investment securities	(8)	(135)
Decrease (increase) in notes and accounts receivable-trade	(16,583)	(17,445)
Decrease (increase) in inventories	(14,228)	(10,831)
Increase (decrease) in notes and accounts payable-trade	23,702	16,901
Decrease (increase) in consumption taxes refund receivable	(270)	(405)
Increase (decrease) in accrued consumption taxes	(1,215)	(349)
Other, net	(727)	(2,031)
Subtotal	13,770	10,736
Interest and dividend income received	236	275
Interest expenses paid	(94)	(85)
Income taxes paid	(7,082)	(8,012)
Net cash provided by (used in) operating activities	6,829	2,913
Cash flows from investing activities		
Purchase of property, plant and equipment	(14,632)	(9,710)
Proceeds from sales of property, plant and equipment	1,079	560
Purchase of intangible assets	(198)	(117)
Purchase of investment securities	(111)	(95)
Proceeds from sales of investment securities	170	186
Other, net	(304)	18
Net cash provided by (used in) investing activities	(13,996)	(9,158)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	18,000	12,200
Proceeds from long-term loans payable	1,000	1,000
Repayments of long-term loans payable	(6,103)	(5,615)
Repayments of lease obligations	(61)	(91)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(3,747)	(4,257)
Net cash provided by (used in) financing activities	9,087	3,235
Net increase (decrease) in cash and cash equivalents	1,920	(3,008)
Cash and cash equivalents at beginning of period	18,513	21,648
Cash and cash equivalents at end of period	20,434	18,639

(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 nine months ended December 31, 2018 by product category are as follows:

Product classification	Nine months ended December 31, 2018	Year-on-year change (%)
	Amount (Millions of yen)	
Cosmetics	203,411	106.1
Daily necessities	336,364	105.9
OTC pharmaceuticals	107,126	102.4
Health and sanitary related products	120,721	106.3
Others	11,968	110.8
Total	779,591	105.6

Note: Above figures are exclusive of consumption taxes.

2) Sales results for the nine months ended December 31, 2018 by customer category are as follows:

Customer category		Nine months ended December 31, 2018	Year-on-year change (%)
		Amount (Millions of yen)	
Drug	Drugstores (Pharmacies)	488,968	105.4
HC	Home centers (DIY stores)	73,776	100.9
CVS	Convenience stores	57,559	105.2
DS	Discount stores	52,990	120.4
SM	Supermarkets	42,255	97.1
GMS	General merchandising stores	28,779	102.6
Others	Export and others	35,261	113.1
Total		779,591	105.6

Note: Above figures are exclusive of consumption taxes.