

Non-consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2020 <under Japanese GAAP>

October 29, 2019

Company name: PALTAC CORPORATION
(URL: <http://www.paltac.co.jp/>)
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Scheduled date to submit the Quarterly Securities Report: November 12, 2019
Scheduled date to commence dividend payments: December 2, 2019
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, 2020 (From April 1, 2019 to September 30, 2019)

(1) Operating Results (cumulative)

(% indicate year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Six months ended September 30, 2019	544,986	4.4	13,794	0.3	15,126	0.7	10,399	1.4
September 30, 2018	521,804	5.4	13,750	10.4	15,019	10.1	10,251	9.6

	Earnings per share	Diluted earnings per share
	(¥)	(¥)
Six months ended September 30, 2019	163.65	—
September 30, 2018	161.32	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	(¥ million)	(¥ million)	%	(¥)
As of September 30, 2019	425,276	204,962	48.2	3,225.35
March 31, 2019	393,603	197,237	50.1	3,103.80

Reference: Equity As of September 30, 2019: ¥204,962 million As of March 31, 2019: ¥197,237 million

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(¥)	(¥)	(¥)	(¥)	(¥)
Fiscal year ended March 31, 2019	—	34.00	—	34.00	68.00
Fiscal year ending March 31, 2020	—	35.00			
Fiscal year ending March 31, 2020 (Forecast)			—	35.00	70.00

Note: Revision to the forecasts most recently announced: No

3. Forecasts of Financial Results for the Fiscal Year Ending March 31, 2020

(From April 1, 2019 to March 31, 2020)

(% increase/(decrease) indicates year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit		Earnings per share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Fiscal year	1,050,000	3.4	25,000	(1.6)	27,500	(3.6)	25,500	29.0	401.28

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: 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, 2019	63,553,485 shares
As of March 31, 2019	63,553,485 shares

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

As of September 30, 2019	6,287 shares
As of March 31, 2019	6,237 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, 2019	63,547,225 shares
For the six months ended September 30, 2018	63,547,266 shares

* 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, 2019 (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 Six Months Ended September 30, 2019

(1) Operating Results

In the six months ended September 30, 2019, while the future outlook remains unclear mainly due to expanding tensions surrounding trade issues, particularly between the U.S. and China, the Japanese economy, although temporarily in a lull, is continuing to follow a moderate recovery track, on the back of improvements in the income environment and the employment environment and firm corporate earnings.

In the market of cosmetics and daily necessities and the market of over-the-counter (OTC) pharmaceuticals, the rush in demand ahead of the consumption tax hike was seen and sales of value-added products that match changes to the social environment like women advancing in society remained strong, despite impacts from weak sales of seasonal products due to weather related factors and changes to the business environment related to inbound demand. On the other hand, labor shortage, which is hindering growth of the industry overall, has an increasing impact in various aspects of business, with rising personnel expenses and logistics costs.

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. The Company is making efforts to ensure a low-cost and stable supply of products to retailers, and by extension to its customers, through a system that provides “stable supply” not only under normal conditions but also in an emergency.

For the fiscal year under review, the second year of the medium-term management plan with the vision of “One trillion yen Link with the future: The logistics innovation through aggressive investment,” the Company is addressing issues in logistics such as the labor shortage caused by the decline in the working population and strives to increase corporate value through sustained business growth.

In addition, the Company is steadily proceeding with construction of “RDC Saitama” (located in Kitakatsushika-gun, Saitama; scheduled to begin operation in November 2019) as part of the medium-term management plan, with the aim of increasing shipping capacity in the Tokyo Metropolitan District and rapidly improving productivity by carrying out a new distribution model that utilizes AI, robots and other cutting-edge technology. In conjunction with this, the Company has been taking measures to strengthen its operating base according to plan, which includes the decision to sell “RDC Tokyo” (located in Urayasu-shi, Chiba) for the purpose of building an optimal delivery system in the Tokyo Metropolitan District and, by effectively utilizing business resources, increasing the efficiency of assets to coincide with the start of operations at RDC Saitama.

As a result of the above, net sales for the six months ended September 30, 2019 were ¥544,986 million (up 4.4% year on year), operating profit was ¥13,794 million (up 0.3%), ordinary profit was ¥15,126 million (up 0.7%), and profit was ¥10,399 million (up 1.4%).

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 ¥425,276 million, an increase of ¥31,672 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts receivable-trade of ¥29,911 million and in land of ¥2,229 million.

(Liabilities)

Total liabilities as of the end of the second quarter were ¥220,314 million, an increase of ¥23,948 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts payable-trade of ¥14,530 million and in short-term loans payable of ¥10,000 million.

(Net assets)

Net assets as of the end of the second quarter were ¥204,962 million, an increase of ¥7,724 million from the end of the previous fiscal year. This was primarily the result of an increase in retained earnings of ¥8,239 million and a decrease in valuation difference on available-for-sale securities of ¥511 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the second quarter were ¥18,345 million, a decrease of ¥13 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 used in operating activities was ¥2,254 million (compared with net cash of ¥4,208 million provided by the same period of the previous fiscal year). Main factors were ¥15,100 million of profit before income taxes, ¥2,379 million of depreciation and amortization, ¥29,911 million of increase in notes and accounts receivable-trade, ¥15,088 million of increase in notes and accounts payable-trade and ¥4,679 million of income taxes paid.

(Cash flow from investing activities)

Net cash used in investing activities was ¥2,342 million (down ¥4,185 million year on year). Main factor were ¥3,755 million of purchase of property, plant and equipment and ¥1,442 million of proceeds from sales of property, plant and equipment

(Cash flow from financing activities)

Net cash provided by financing activities was ¥4,583 million (compared with net cash of ¥1,751 million used in the same period of the previous fiscal year). Main factors were ¥10,000 million of net increase in short-term loans payable, ¥3,174 million of repayments of long-term loans payable and ¥2,160 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, 2020, which was announced on July 26, 2019.

2. Quarterly Financial Statements and Notes to Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	18,359	18,345
Notes and accounts receivable-trade	186,451	216,362
Merchandise and finished goods	43,286	42,852
Other	16,034	17,886
Allowance for doubtful accounts	(84)	(98)
Total current assets	264,047	295,347
Non-current assets		
Property, plant and equipment		
Land	46,417	48,646
Other	58,778	57,905
Total property, plant and equipment	105,195	106,552
Intangible assets	1,029	981
Investments and other assets		
Investments and other assets	23,336	22,399
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	23,331	22,394
Total non-current assets	129,556	129,928
Total assets	393,603	425,276
Liabilities		
Current liabilities		
Notes and accounts payable-trade	151,806	166,337
Short-term loans payable	2,500	12,500
Current portion of long-term loans payable	5,950	5,052
Income taxes payable	5,103	4,863
Provision for bonuses	1,713	1,477
Provision for sales returns	181	175
Other	18,349	21,418
Total current liabilities	185,604	211,825
Non-current liabilities		
Provision for retirement benefits	2,451	2,495
Other	8,310	5,993
Total non-current liabilities	10,761	8,489
Total liabilities	196,366	220,314

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	143,742	151,981
Treasury shares	(8)	(9)
Total shareholders' equity	187,429	195,668
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	9,803	9,291
Deferred gains or losses on hedges	4	1
Total valuation and translation adjustments	9,807	9,293
Total net assets	197,237	204,962
Total liabilities and net assets	393,603	425,276

(2) Quarterly Statements of Income

	(Millions of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	521,804	544,986
Cost of sales	481,155	503,181
Gross profit	40,649	41,804
Selling, general and administrative expenses	26,898	28,009
Operating profit	13,750	13,794
Non-operating income		
Dividend income	178	177
Research fee income	881	917
Real estate rent	69	67
Other	226	240
Total non-operating income	1,356	1,403
Non-operating expenses		
Interest expenses	65	48
Rent cost of real estate	19	18
Other	1	3
Total non-operating expenses	87	71
Ordinary profit	15,019	15,126
Extraordinary income		
Gain on sales of investment securities	3	2
Total extraordinary income	3	2
Extraordinary losses		
Loss on retirement of non-current assets	12	1
Impairment loss	–	18
Loss on sales of investment securities	–	6
Loss on valuation of golf club membership	–	2
Loss on disaster	127	–
Total extraordinary losses	139	28
Profit before income taxes	14,882	15,100
Income taxes-current	4,412	4,436
Income taxes-deferred	219	264
Total income taxes	4,631	4,700
Profit	10,251	10,399

(3) Quarterly Statements of Cash Flows

	(Millions of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Profit before income taxes	14,882	15,100
Depreciation and amortization	2,138	2,379
Impairment loss	—	18
Increase (decrease) in allowance for doubtful accounts	6	13
Increase (decrease) in provision for bonuses	(495)	(235)
Increase (decrease) in provision for sales returns	(23)	(5)
Increase (decrease) in provision for retirement benefits	136	55
Interest and dividend income	(178)	(177)
Interest expenses	65	48
Loss (gain) on sales of investment securities	(3)	4
Loss on disaster	127	—
Decrease (increase) in notes and accounts receivable-trade	(15,662)	(29,911)
Decrease (increase) in inventories	(1,119)	434
Increase (decrease) in notes and accounts payable-trade	9,900	15,088
Increase (decrease) in accrued consumption taxes	80	921
Other, net	(1,547)	(1,441)
Subtotal	8,306	2,292
Interest and dividend income received	178	177
Interest expenses paid	(61)	(45)
Income taxes paid	(4,215)	(4,679)
Net cash provided by (used in) operating activities	4,208	(2,254)
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,508)	(3,755)
Proceeds from sales of property, plant and equipment	50	1,442
Purchase of intangible assets	(83)	(101)
Purchase of investment securities	(57)	(54)
Proceeds from sales of investment securities	9	177
Other, net	62	(50)
Net cash provided by (used in) investing activities	(6,528)	(2,342)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,200	10,000
Proceeds from long-term loans payable	1,000	—
Repayments of long-term loans payable	(3,800)	(3,174)
Repayments of lease obligations	(52)	(81)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(2,098)	(2,160)
Net cash provided by (used in) financing activities	(1,751)	4,583
Net increase (decrease) in cash and cash equivalents	(4,071)	(13)
Cash and cash equivalents at beginning of period	21,648	18,359
Cash and cash equivalents at end of period	17,576	18,345

(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, 2019 by product category are as follows:

Product classification	Six months ended September 30, 2019	Year-on-year change (%)
	Amount (Millions of yen)	
Cosmetics	140,106	101.2
Daily necessities	239,779	106.2
OTC pharmaceuticals	72,204	101.1
Health and sanitary related products	85,338	107.9
Others	7,557	106.6
Total	544,986	104.4

Note: Above figures are exclusive of consumption taxes.

2) Sales results for the six months ended September 30, 2019 by customer category are as follows:

Customer category		Six months ended September 30, 2019	Year-on-year change (%)
		Amount (Millions of yen)	
Drug	Drugstores (Pharmacies)	343,371	104.6
HC	Home centers (DIY stores)	52,231	103.2
CVS	Convenience stores	38,253	101.1
DS	Discount stores	40,333	116.4
SM	Supermarkets	27,155	95.6
GMS	General merchandising stores	20,273	107.8
Others	Export and others	23,367	100.7
Total		544,986	104.4

Note: Above figures are exclusive of consumption taxes.