

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

January 29, 2020

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(URL: <http://www.paltac.co.jp/>)
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Scheduled date to submit the Quarterly Securities Report: February 12, 2020
Scheduled date to commence dividend payments: —
Preparation of supplementary material on quarterly financial results: Yes
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, 2020 (From April 1, 2019 to December 31, 2019)

(1) Operating Results (cumulative) (% increase (decrease) figures indicate year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Nine months ended December 31, 2019	798,396	2.4	19,409	(5.2)	21,448	(6.5)	14,974	(5.3)
December 31, 2018	779,591	5.6	20,484	8.8	22,942	11.2	15,811	12.1

	Earnings per share	Diluted earnings per share
	(¥)	(¥)
Nine months ended December 31, 2019	235.64	—
December 31, 2018	248.81	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	(¥ million)	(¥ million)	%	(¥)
As of December 31, 2019	429,473	208,314	48.5	3,278.10
March 31, 2019	393,603	197,237	50.1	3,103.80

Reference: Equity As of December 31, 2019: ¥208,314 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) figures indicate 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 December 31, 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 December 31, 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 nine months ended December 31, 2019	63,547,216 shares
For the nine months ended December 31, 2018	63,547,260 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, 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

Contents

1.	Qualitative Information for the Nine Months Ended December 31, 2019	2
(1)	Operating Results	2
(2)	Financial Position.....	3
(3)	Forecasts and Other Projections.....	3
2.	Quarterly Financial Statements and Notes to Quarterly Financial Statements.....	4
(1)	Quarterly Balance Sheets	4
(2)	Quarterly Statements of Income.....	6
(3)	Quarterly Statements of Cash Flows.....	7
(4)	Notes to Quarterly Financial Statements.....	8
	(Notes on premise of going concern)	8
	(Notes on significant changes in the amount of shareholders' equity).....	8
3.	Supplementary Information.....	8
(1)	Sales Status	8

1. Qualitative Information for the Nine Months Ended December 31, 2019

(1) Operating Results

In the nine months ended December 31, 2019, although the employment and income environment in the Japan continued to improve, the future outlook for the Japanese economy remained unclear mainly due to the consumption tax hike's impact on consumer sentiment and overseas economic trends, including trade issues between the U.S. and China.

In the market of cosmetics and daily necessities and the market of over-the-counter (OTC) pharmaceuticals, sales remained strong for value-added products catering to the diversifying consumer needs that have resulted from women advancing in society and other trends. However, the overall results were affected by various factors such as repeated natural disasters including typhoons and heavy rains, weak sales of seasonal products due to weather related factors, changes to the business environment related to inbound demand, the rush in demand ahead of the consumption tax hike, and the lull caused by the recoil effect that followed.

Moreover, 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 began operations at "RDC Saitama" (located in Kitakatsushika-gun, Saitama) 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. The Company has also 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.

As a result of the above, net sales for the nine months ended December 31, 2019 were ¥798,396 million (up 2.4% year on year), operating profit was ¥19,409 million (down 5.2%), ordinary profit was ¥21,448 million (down 6.5%), and profit was ¥14,974 million (down 5.3%).

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 ¥429,473 million, an increase of ¥35,869 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts receivable-trade of ¥9,724 million, in merchandise and finished goods of ¥12,501 million, in buildings of ¥6,431 million and in land of ¥3,902 million.

(Liabilities)

Total liabilities as of the end of the third quarter were ¥221,159 million, an increase of ¥24,793 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts payable-trade of ¥23,841 million and in short-term loans payable of ¥7,000 million and decreases in income taxes payable of ¥2,863 million and in provision for bonuses of ¥907 million.

(Net assets)

Total net assets as of the end of the third quarter were ¥208,314 million, an increase of ¥11,076 million from the end of the previous fiscal year. This was primarily the result of increases in retained earnings of ¥10,589 million and in valuation difference on available-for-sale securities of ¥483 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the third quarter were ¥18,414 million, an increase of ¥55 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 ¥15,715 million (up ¥12,801 million year on year). Main factors were ¥21,755 million of profit before income taxes, ¥9,724 million of increase in notes and accounts receivable-trade, ¥12,501 million of increase in inventories, ¥24,398 million of increase in notes and accounts payable-trade, and ¥8,918 million of income taxes paid.

(Cash flow from investing activities)

Net cash used in investing activities was ¥13,565 million (up ¥4,407 million year on year). Main factors were ¥15,408 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 ¥2,094 million (compared with net cash of ¥3,235 million provided by the same period of the previous fiscal year). Main factors were ¥7,000 million of net increase in short-term loans payable, ¥4,587 million of repayments of long-term loans payable and ¥4,383 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 December 31, 2019
Assets		
Current assets		
Cash and deposits	18,359	18,414
Notes and accounts receivable-trade	186,451	196,175
Merchandise and finished goods	43,286	55,788
Other	16,034	17,529
Allowance for doubtful accounts	(84)	(88)
Total current assets	264,047	287,819
Non-current assets		
Property, plant and equipment		
Buildings	40,963	47,394
Land	46,417	50,319
Other	17,815	19,321
Total property, plant and equipment	105,195	117,034
Intangible assets	1,029	961
Investments and other assets		
Investments and other assets	23,336	23,662
Allowance for doubtful accounts	(5)	(4)
Total investments and other assets	23,331	23,657
Total non-current assets	129,556	141,653
Total assets	393,603	429,473
Liabilities		
Current liabilities		
Notes and accounts payable-trade	151,806	175,647
Short-term loans payable	2,500	9,500
Income taxes payable	5,103	2,239
Provision for bonuses	1,713	806
Provision for sales returns	181	198
Other	24,299	24,253
Total current liabilities	185,604	212,646
Non-current liabilities		
Provision for retirement benefits	2,451	2,524
Other	8,310	5,988
Total non-current liabilities	10,761	8,513
Total liabilities	196,366	221,159

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	143,742	154,331
Treasury shares	(8)	(9)
Total shareholders' equity	187,429	198,019
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	9,803	10,287
Deferred gains or losses on hedges	4	7
Total valuation and translation adjustments	9,807	10,294
Total net assets	197,237	208,314
Total liabilities and net assets	393,603	429,473

(2) Quarterly Statements of Income

	(Millions of yen)	
	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	779,591	798,396
Cost of sales	718,609	736,663
Gross profit	60,982	61,733
Selling, general and administrative expenses	40,497	42,323
Operating profit	20,484	19,409
Non-operating income		
Dividend income	275	278
Research fee income	1,340	1,360
Real estate rent	105	99
Other	860	409
Total non-operating income	2,582	2,148
Non-operating expenses		
Interest expenses	92	69
Rent cost of real estate	29	27
Other	2	12
Total non-operating expenses	124	109
Ordinary profit	22,942	21,448
Extraordinary income		
Gain on sales of investment securities	135	343
Insurance income	133	—
Total extraordinary income	269	343
Extraordinary losses		
Loss on sales of non-current assets	8	—
Loss on retirement of non-current assets	47	5
Impairment loss	—	18
Loss on disaster	195	—
Other	6	12
Total extraordinary losses	257	35
Profit before income taxes	22,953	21,755
Income taxes-current	6,485	6,263
Income taxes-deferred	657	518
Total income taxes	7,142	6,781
Profit	15,811	14,974

(3) Quarterly Statements of Cash Flows

	(Millions of yen)	
	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Cash flows from operating activities		
Profit before income taxes	22,953	21,755
Depreciation and amortization	3,314	3,658
Impairment loss	—	18
Increase (decrease) in allowance for doubtful accounts	7	4
Increase (decrease) in provision for bonuses	(1,296)	(907)
Increase (decrease) in provision for sales returns	24	17
Increase (decrease) in provision for retirement benefits	186	91
Interest and dividend income	(275)	(279)
Interest expenses	92	69
Loss (gain) on sales of investment securities	(135)	(337)
Decrease (increase) in notes and accounts receivable-trade	(17,445)	(9,724)
Decrease (increase) in inventories	(10,831)	(12,501)
Increase (decrease) in notes and accounts payable-trade	16,901	24,398
Decrease (increase) in consumption taxes refund receivable	(405)	(260)
Increase (decrease) in accrued consumption taxes	(349)	(285)
Other, net	(2,031)	(1,297)
Subtotal	10,736	24,419
Interest and dividend income received	275	279
Interest expenses paid	(85)	(64)
Income taxes paid	(8,012)	(8,918)
Net cash provided by (used in) operating activities	2,913	15,715
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,710)	(15,408)
Proceeds from sales of property, plant and equipment	560	1,442
Purchase of intangible assets	(117)	(157)
Purchase of investment securities	(95)	(192)
Proceeds from sales of investment securities	186	805
Other, net	18	(54)
Net cash provided by (used in) investing activities	(9,158)	(13,565)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	12,200	7,000
Proceeds from long-term loans payable	1,000	—
Repayments of long-term loans payable	(5,615)	(4,587)
Repayments of lease obligations	(91)	(123)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(4,257)	(4,383)
Net cash provided by (used in) financing activities	3,235	(2,094)
Net increase (decrease) in cash and cash equivalents	(3,008)	55
Cash and cash equivalents at beginning of period	21,648	18,359
Cash and cash equivalents at end of period	18,639	18,414

(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, 2019 by product category are as follows:

Product classification	Nine months ended December 31, 2019	Year-on-year change (%)
	Amount (Millions of yen)	
Cosmetics	204,754	100.7
Daily necessities	346,778	103.1
OTC pharmaceuticals	106,792	99.7
Health and sanitary related products	127,533	105.6
Others	12,538	104.8
Total	798,396	102.4

Note: Above figures are exclusive of consumption taxes.

2) Sales results for the nine months ended December 31, 2019 by customer category are as follows:

Customer category		Nine months ended December 31, 2019	Year-on-year change (%)
		Amount (Millions of yen)	
Drug	Drugstores (Pharmacies)	505,038	103.3
HC	Home centers (DIY stores)	73,825	100.1
CVS	Convenience stores	57,888	100.6
DS	Discount stores	58,357	110.1
SM	Supermarkets	39,060	92.4
GMS	General merchandising stores	29,061	101.0
Others	Export and others	35,165	99.7
Total		798,396	102.4

Note: Above figures are exclusive of consumption taxes.