

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

July 26, 2019

Company name: PALTAC CORPORATION
(URL: <http://www.paltac.co.jp/>)
Listing: Tokyo Stock Exchange (Code number: 8283)
Representative: Representative Director, President
Seiichi Kasutani
Contact: Managing Executive Officer, General Manager of Management Planning Division
Masaharu Shimada
Tel: +81-6-4793-1090 (from overseas) E-mail: ir@paltac.co.jp
Scheduled date to submit the Quarterly Securities Report: August 9, 2019
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 Three Months of the Fiscal Year Ending March 31, 2020 (From April 1, 2019 to June 30, 2019)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Three months ended June 30, 2019	262,633	0.8	6,259	(9.5)	6,964	(8.5)	4,780	(8.8)
June 30, 2018	260,511	7.3	6,912	17.5	7,609	17.0	5,239	17.4

	Earnings per share	Diluted earnings per share
	(¥)	(¥)
Three months ended June 30, 2019	75.23	–
June 30, 2018	82.46	–

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(¥ million)	(¥ million)	%	(¥)
June 30, 2019	411,137	198,803	48.4	3,128.43
March 31, 2019	393,603	197,237	50.1	3,103.80

Reference: Equity As of June 30, 2019: ¥198,803 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	–	/	/	/	/
Fiscal year ending March 31, 2020 (Forecast)	/	35.00	–	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)	%	(¥)
Six months	540,000	3.5	14,000	1.8	15,300	1.9	10,500	2.4	165.23
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 forecasts 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: 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 June 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 June 30, 2019	6,237 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 three months ended June 30, 2019	63,547,248 shares
For the three months ended June 30, 2018	63,547,283 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 Three Months Ended June 30, 2019 (3) Forecasts and Other Projections” on page 4 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 Three Months Ended June 30, 2019.....	2
(1)	Operating Results	2
(2)	Financial Position	3
(3)	Forecasts and Other Projections	4
2.	Quarterly Financial Statements and Notes to Quarterly Financial Statements.....	5
(1)	Quarterly Balance Sheets	5
(2)	Quarterly Statements of Income	7
(3)	Quarterly Statements of Cash Flows	8
(4)	Notes to Quarterly Financial Statements	9
	(Notes on premise of going concern)	9
	(Notes on significant changes in the amount of shareholders' equity).....	9
	(Important Subsequent Event).....	9
3.	Supplementary Information.....	10
(1)	Sales Status.....	10

1. Qualitative Information for the Three Months Ended June 30, 2019

(1) Operating Results

In the three months ended June 30, 2019, while 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 showed growth although temporarily in a lull, 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, although sales of value-added products that match changes to the social environment like women advancing in society remained strong, the market environment was affected by seasonal merchandise, which was weaker due to weather related factors, and the inbound business environment, in which consumption patterns are changing. Also, 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 has been taking measures to strengthen its operating base according to plan. 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.

As a result of the above, net sales for the three months ended June 30, 2019 were ¥262,633 million (up 0.8% year on year), operating profit was ¥6,259 million (down 9.5%), ordinary profit was ¥6,964 million (down 8.5%), and profit was ¥4,780 million (down 8.8%).

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 first quarter were ¥411,137 million, an increase of ¥17,534 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts receivable-trade of ¥12,361 million, merchandise and finished goods of ¥3,580 million and land of ¥2,331 million.

(Liabilities)

Total liabilities as of the end of the first quarter were ¥212,334 million, an increase of ¥15,968 million from the end of the previous fiscal year. This was primarily the result of increases in notes and accounts payable-trade of ¥3,858 million and in short-term loans payable of ¥15,000 million and a decrease in income taxes payable of ¥2,755 million.

(Net assets)

Net assets as of the end of the first quarter were ¥198,803 million, an increase of ¥1,565 million from the end of the previous fiscal year. This was primarily the result of an increase in retained earnings of ¥2,620 million and a decrease in valuation difference on available-for-sale securities of ¥1,035 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the first quarter were ¥18,912 million, an increase of ¥553 million from the end of the previous fiscal year.

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

(Cash flows from operating activities)

Net cash used in operating activities was ¥8,161 million (down ¥1,535 million year on year). Main factors were ¥6,943 million of profit before income taxes, ¥1,186 million of depreciation and amortization, ¥12,361 million of increase in notes and accounts receivable-trade, ¥3,580 million of increase in inventories, ¥4,320 million of increase in notes and accounts payable-trade and ¥4,679 million of income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities was ¥2,325 million (down ¥791 million year on year). Main factor was ¥2,346 million of purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥11,040 million (up ¥1,986 million year on year). Main factors were ¥15,000 million of net increase in short-term loans payable, ¥1,761 million of repayments of long-term loans payable and ¥2,157 million of cash dividends paid.

(3) Forecasts and Other Projections

The Company announced “Notice Concerning Transfer of Fixed Asset and Revision of the Financial Result Forecast for the Fiscal Year March 31, 2020” on July 26, 2019.

The summary of the notice is as follows.

Revision of the financial result forecast for the fiscal year ending March 31, 2020

	Net sales	Operating profit	Ordinary profit	Profit	Earnings per share
	(¥ million)	(¥ million)	(¥ million)	(¥ million)	(¥)
Previous forecast (A)	1,050,000	25,000	27,500	19,000	298.99
Revised forecast (B)	1,050,000	25,000	27,500	25,500	401.28
Variance (B-A)	-	-	-	6,500	
Change (%)	-	-	-	34.2	
Reference: Results for the fiscal year ended March 31, 2019	1,015,253	25,399	28,528	19,767	311.07

(Reason)

The Company’s Board of Directors meeting held on July 26, 2019 has passed a resolution to transfer fixed assets. With this transfer, the Company expects to record ¥9,400 million “Gain on sales of non-current assets” as an “Extraordinary income” and ¥100 million “Loss on retirement of non-current assets” as an “Extraordinary losses” in the fourth quarter of the fiscal year ending March 31, 2019. Consequently, the Company has revised its forecast of non-consolidated financial results for the fiscal year ending March 31, 2020.

* 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. Quarterly Financial Statements and Notes to Quarterly Financial Statements**(1) Quarterly Balance Sheets**

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	18,359	18,912
Notes and accounts receivable-trade	186,451	198,812
Merchandise and finished goods	43,286	46,867
Other	16,034	16,556
Allowance for doubtful accounts	(84)	(90)
Total current assets	264,047	281,056
Non-current assets		
Property, plant and equipment		
Land	46,417	48,748
Other	58,778	58,623
Total property, plant and equipment	105,195	107,371
Intangible assets	1,029	1,009
Investments and other assets		
Investments and other assets	23,336	21,704
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	23,331	21,699
Total non-current assets	129,556	130,081
Total assets	393,603	411,137
Liabilities		
Current liabilities		
Notes and accounts payable-trade	151,806	155,664
Short-term loans payable	2,500	17,500
Current portion of long-term loans payable	5,950	5,477
Income taxes payable	5,103	2,348
Provision for bonuses	1,713	2,516
Provision for sales returns	181	217
Other	18,349	19,600
Total current liabilities	185,604	203,324
Non-current liabilities		
Provision for retirement benefits	2,451	2,473
Other	8,310	6,536
Total non-current liabilities	10,761	9,010
Total liabilities	196,366	212,334

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	143,742	146,362
Treasury shares	(8)	(8)
Total shareholders' equity	187,429	190,049
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	9,803	8,767
Deferred gains or losses on hedges	4	(14)
Total valuation and translation adjustments	9,807	8,753
Total net assets	197,237	198,803
Total liabilities and net assets	393,603	411,137

(2) Quarterly Statements of Income

	(Millions of yen)	
	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	260,511	262,633
Cost of sales	240,144	242,582
Gross profit	20,367	20,051
Selling, general and administrative expenses	13,455	13,791
Operating profit	6,912	6,259
Non-operating income		
Dividend income	121	118
Research fee income	452	459
Real estate rent	34	35
Other	128	123
Total non-operating income	738	737
Non-operating expenses		
Interest expenses	30	22
Rent cost of real estate	10	9
Other	0	0
Total non-operating expenses	41	32
Ordinary profit	7,609	6,964
Extraordinary income		
Gain on sales of investment securities	3	2
Total extraordinary income	3	2
Extraordinary losses		
Loss on retirement of non-current assets	10	0
Impairment loss	-	18
Loss on sales of investment securities	-	3
Total extraordinary losses	10	22
Profit before income taxes	7,602	6,943
Income taxes-current	2,370	2,136
Income taxes-deferred	(7)	27
Total income taxes	2,362	2,163
Profit	5,239	4,780

(3) Quarterly Statements of Cash Flows

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Cash flows from operating activities		
Profit before income taxes	7,602	6,943
Depreciation and amortization	1,044	1,186
Impairment loss	–	18
Increase (decrease) in allowance for doubtful accounts	8	6
Increase (decrease) in provision for bonuses	610	802
Increase (decrease) in provision for sales returns	41	36
Increase (decrease) in provision for retirement benefits	67	27
Interest and dividend income	(122)	(118)
Interest expenses	30	22
Loss (gain) on sales of investment securities	(3)	1
Decrease (increase) in notes and accounts receivable-trade	(17,168)	(12,361)
Decrease (increase) in inventories	(564)	(3,580)
Increase (decrease) in notes and accounts payable-trade	3,532	4,320
Increase (decrease) in accrued consumption taxes	261	525
Other, net	(916)	(1,414)
Subtotal	(5,575)	(3,581)
Interest and dividend income received	122	118
Interest expenses paid	(27)	(19)
Income taxes paid	(4,215)	(4,679)
Net cash provided by (used in) operating activities	(9,696)	(8,161)
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,069)	(2,346)
Proceeds from sales of property, plant and equipment	50	10
Purchase of intangible assets	(44)	(50)
Purchase of investment securities	(37)	(35)
Proceeds from sales of investment securities	5	125
Other, net	(21)	(27)
Net cash provided by (used in) investing activities	(3,116)	(2,325)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	12,000	15,000
Proceeds from long-term loans payable	1,000	–
Repayments of long-term loans payable	(1,835)	(1,761)
Repayments of lease obligations	(17)	(41)
Purchase of treasury shares	(0)	–
Cash dividends paid	(2,093)	(2,157)
Net cash provided by (used in) financing activities	9,053	11,040
Net increase (decrease) in cash and cash equivalents	(3,759)	553
Cash and cash equivalents at beginning of period	21,648	18,359
Cash and cash equivalents at end of period	17,888	18,912

(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

(Important Subsequent Event)

“Transfer of fixed asset”

The Company's Board of Directors meeting held on July 26, 2019 has passed a resolution to transfer fixed Assets.

1) Reason for the transfer

As one means of increasing corporate value by effectively using its business resources and enhancing assets efficiency, the Company has made a decision to transfer fixed asset.

2) Asset designated for transfer

Description and location	Transfer price	Book value	Gain on transfer	Current status
RDC Tokyo Land :24,960.00m ² Buildings :28,046.98m ² (12-15,etc, Chidori, Urayasu-shi, Chiba)	*a	*a	9,400 million yen	Logistics center

(Notes)

- a. At the request of the transfer recipient, the Company refrains from disclosing the transfer price and book value, though there are reflected fair market price through the competitive bidding.
- b. The gain on transfer calculated by subtracting the asset's book value and transfer costs from the transfer price.
- c. Additionally, the Company expects to record ¥100 million “Loss on retirement of non-current assets” for the fiscal year ending March 31, 2020.

3) Description of transfer recipient

The transfer recipient is a single Japanese corporation, but additional information isn't be disclosed at the behest of the transfer recipient. The Company and the transfer recipient don't have any special items in terms of capital relationship, personnel relationship and related parties. On the other hand, as for transactional relationship, the Company ordered the construction of distribution center to the transfer recipient .

4) Transfer schedule

Resolution at Board of Directors meeting	July 26, 2019
Contract signing	July 29, 2019
Transfer date	March 31, 2020 (subject to change)

5) Effect of the transfer on the Company's financial position, business results, and cash flows

The Company expects to record ¥9,400 million "Gain on sales of non-current assets" as an "Extraordinary income" and ¥100 million "Loss on retirement of non-current assets" as an "Extraordinary losses" in the fourth quarter of fiscal year ending March 31, 2020.

3. Supplementary Information

(1) Sales Status

(Sales results)

1) Sales results for the three months ended June 30, 2019 by product category are as follows:

Product classification	Three months ended June 30, 2019	Year-on-year change (%)
	Amount (Millions of yen)	
Cosmetics	66,552	97.8
Daily necessities	116,890	101.2
OTC pharmaceuticals	34,129	97.8
Health and sanitary related products	41,384	107.2
Others	3,676	104.8
Total	262,633	100.8

Notes: Above figures are exclusive of consumption taxes.

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

Customer category		Three months ended June 30, 2019	Year-on-year change (%)
		Amount (Millions of yen)	
Drug	Drugstores (Pharmacies)	165,567	100.7
HC	Home centers (DIY stores)	25,428	96.1
CVS	Convenience stores	18,563	104.2
DS	Discount stores	19,129	117.6
SM	Supermarkets	13,061	91.8
GMS	General merchandising stores	9,539	101.8
Others	Export and others	11,343	95.3
Total		262,633	100.8

Notes: Above figures are exclusive of consumption taxes.