Non-consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2021 <under Japanese GAAP>

July 29, 2020

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(URL: http://www.paltac.co.jp/)
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Scheduled date to submit the Quarterly Securities Report: August 11, 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 Three Months of the Fiscal Year Ending March 31, 2021 (From April 1, 2020 to June 30, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit	
Three months ended	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
June 30, 2020	260,099	(1.0)	6,089	(2.7)	6,726	(3.4)	4,655	(2.6)
June 30, 2019	262,633	0.8	6,259	(9.5)	6,964	(8.5)	4,780	(8.8)

	Earnings per share	Diluted earnings per share
Three months ended	(¥)	(¥)
June 30, 2020	73.27	–
June 30, 2019	75.23	–

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(¥ million)	(¥ million)	%	(¥)
June 30, 2020	423,924	222,478	52.5	3,501.00
March 31, 2020	418,756	218,297	52.1	3,435.20

Reference: Equity As of June 30, 2020: ¥222,478 million As of March 31, 2020: ¥218,297 million

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(¥)	(¥)	(¥)	(¥)	(¥)
Fiscal year ended March 31, 2020	–	35.00	–	35.00	70.00
Fiscal year ending March 31, 2021	–				
Fiscal year ending March 31, 2021 (Forecast)		36.00	–	36.00	72.00

Note: Revision to the forecasts most recently announced: Yes

3. Forecasts of Financial Results for the Fiscal Year Ending March 31, 2021 (From April 1, 2020 to March 31, 2021)

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

	Net sales		Operating profit		Ordinary profit		Profit		Earnings per share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Fiscal year	1,047,000	0.1	25,000	1.2	27,500	0.7	19,000	(25.2)	298.99

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, 2020	63,553,485 shares
As of March 31, 2020	63,553,485 shares

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

As of June 30, 2020	6,287 shares
As of March 31, 2020	6,287 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, 2020	63,547,198 shares
For the three months ended June 30, 2019	63,547,248 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, 2020 (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.

* How to access the presentation (Presentation Material for this quarterly financial results)

Presentation (Presentation Material for this financial results) is posted on the Company's website (http://www.paltac.co.jp/tomorrow/index.html).

* 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 Three Months Ended June 30, 2020

(1) Operating Results

In the three months ended June 30, 2020, due to the global spread of the novel coronavirus disease (COVID-19), the Japanese economy has deteriorated sharply as business activities have diminished due to requests for business closure and voluntary refraining from going outside associated with the Japanese Government's declaration of a state of emergency. The termination of the spread of COVID-19 is not yet in sight and the future outlook remains extremely unclear although business activities are gradually resuming after the lifting of the state of emergency.

In the market of cosmetics and daily necessities and the market of over-the-counter (OTC) pharmaceuticals, while demand for sanitary related products such as face masks, hand soap and disinfectant has increased with the improvement of hygiene awareness, demand for cosmetics such as makeup products and hairdressing has declined as people work from home to ensure physical distance, and going out for leisure has not yet completely resumed after the lifting of the state of emergency. In addition, inbound demand almost disappeared as the number of visitors to Japan has decreased to several thousands, and domestic sales were deployed only for domestic demand.

Under these circumstances, PALTAC CORPORATION (the "Company") believes that protecting the safety of its employees is the key to business continuity, and is therefore striving to maintain the working environment and to thoroughly manage hygiene, and is continuing to supply daily necessities, which is the Company's social mission.

Moreover, with further increasing social needs for improvement of productivity of the entire logistics due to the spread of COVID-19, the Company is actively promoting initiatives, aiming to optimize and streamline the entire supply chain in the final year of the medium-term management plan.

The investment in the new logistics model was almost completed by the previous fiscal year, and the Company is working to accumulate expertise for efficient operation of RDCs in the fiscal year under review. At the same time, we are proceeding with efforts lead by the specialized departments established in October 2019, to increase the "cost-efficiency" through mutual cooperation between companies, and to "create selling systems" aimed at improving the success rate of business negotiation contents by focusing on retail stores where products are handed to consumers, and improving the quality of business negotiations by utilizing and feeding back the information collected at retail stores.

As a result of the above, net sales for the three months ended June 30, 2020 were ¥260,099 million (down 1.0% year on year), operating profit was ¥6,089 million (down 2.7%), ordinary profit was ¥6,726 million (down 3.4%), and profit was ¥4,655 million (down 2.6%).

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 first quarter were ¥423,924 million, an increase of ¥5,167 million from the end of the previous fiscal year. This was primarily the result of increases in cash and deposits of ¥2,955 million, notes and accounts receivable-trade of ¥1,354 million and merchandise and finished goods of ¥696 million.

(Liabilities)

Total liabilities as of the end of the first quarter were ¥201,445 million, an increase of ¥986 million from the end of the previous fiscal year. This was primarily the result of an increase in short-term loans payable of ¥8,000 million and decreases in notes and accounts payable-trade of ¥3,616 million and in income taxes payable of ¥2,735 million.

(Net assets)

Net assets as of the end of the first quarter were ¥222,478 million, an increase of ¥4,181 million from the end of the previous fiscal year. This was primarily the result of increases in retained earnings of ¥2,431 million and in valuation difference on available-for-sale securities of ¥1,751 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the first quarter were ¥25,530 million, an increase of ¥2,955 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 ¥679 million (down ¥7,481 million year on year). Main factors were ¥6,752 million of profit before income taxes, ¥1,410 million of depreciation and amortization, ¥1,354 million of increase in notes and accounts receivable-trade, ¥3,024 million of decrease in notes and accounts payable-trade and ¥4,623 million of income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities was ¥817 million (down ¥1,507 million year on year). Main factors were ¥1,205 million of purchase of property, plant and equipment and ¥396 million of proceeds from sales of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥4,452 million (down ¥6,587 million year on year). Main factors were ¥8,000 million of net increase in short-term loans payable, ¥1,288 million of repayments of long-term loans payable and ¥2,220 million of cash dividends paid.

(3) Forecasts and Other Projections

The Company hereby announces as follows the forecast of financial results and forecast of cash dividend for the fiscal year ending March 31, 2021, which were undetermined when its non-consolidated financial results reports (in Japanese) for the fiscal year ended March 31, 2020 were published on May 12, 2020. In addition, the Company announces as follows the revisions to its numerical targets in medium-term management plan announced in May 8, 2018.

The notice is as follows

1) Forecast of Financial Results

(i) Forecast of non-consolidated financial results for the fiscal year ending March 31, 2021

	Net sales	Operating profit	Ordinary profit	Profit	Earnings per share
	(¥ million)	(¥ million)	(¥ million)	(¥ million)	(¥)
Previous Forecast (A)	-	-	-	-	-
Revised Forecast (B)	1,047,000	25,000	27,500	19,000	298.99
Variance (B-A)	-	-	-	-	
Change (%)	-	-	-	-	
(For Reference) Results for the fiscal year ended March 31,2020	1,046,412	24,708	27,316	25,412	399.90

(ii) Reasons for the announcement

The forecast of financial results for the fiscal year ending March 31, 2021 was undetermined because it was difficult to rationally calculate the impact of spread of COVID-19. However, the Company has calculated the financial results forecast based on the currently available information.

With regard to the business conditions surrounding the Company, inbound spending almost disappeared due to a significant fall in foreign visitors to Japan, and domestic sales were deployed only for domestic demand. While demand for sanitary related products such as face masks, hand soap and disinfectant has increased with the improvement of hygiene awareness, demand for cosmetics such as makeup products and hairdressing has declined with behavior change as voluntary refraining from going outside and working from home.

The Company believes impact of the spread of the COVID-19 on its business performance is limited since the Company handles a wide array of essential items in daily life. On the other hand, the Company expects a recovery of the inbound spending is unlikely throughout the fiscal year ending March, 2021 because of its recognition that somewhat more time will be required for a recovery in foreign visitors to Japan which sank to several thousands. This financial results forecast has been made on the assumption that the wide social restrictions such as another declaration of a state of emergency will not be implemented, although it remains difficulty to predict when the outbreak of COVID-19 will end.

2) Forecast of Cash Dividend

(i) Forecast of cash dividend

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Previous forecast	-	-	-	-	-
Revised forecast	-	¥36.00	-	¥36.00	¥72.00
(For Reference) Results for the fiscal year ended March 31, 2020	-	¥35.00	-	¥35.00	¥70.00

(ii) Reasons for the announcement

The forecast of cash dividend for the fiscal year ending March, 2021 was undetermined because it was difficult to rationally calculate its earnings forecasts. However, based on the above mentioned forecast of financial results and its basic policy on profit distribution and dividends, the Company has forecasted annual cash dividend to ¥72 per share (interim dividend of ¥36 and year-end dividend of ¥36).

3) Revised Numerical Targets of the Medium-Term Management Plan

(i) Numerical targets of the medium-term management plan

	Net sales	Operating profit	Ordinary profit	SG&A expenses ratio
For the fiscal year ending March 31, 2021	(¥ million)	(¥ million)	(¥ million)	(%)
Previous Targets (A)	1,070,000	27,500	30,000	5.19
Revised Targets (B)	1,047,000	25,000	27,500	5.44
Variance (B-A)	(23,000)	(2,500)	(2,500)	0.25

(ii) Reasons for the announcement

Please see to “Forecast of Financial Results” as described in above 1) on page 4.

* The above financial results forecast, cash dividend forecast and revised numerical targets of the mid-term management plan have been made by using the 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, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	22,575	25,530
Notes and accounts receivable-trade	197,229	198,583
Merchandise and finished goods	43,398	44,095
Other	16,787	16,241
Allowance for doubtful accounts	(7)	(7)
Total current assets	279,982	284,443
Non-current assets		
Property, plant and equipment		
Buildings	45,963	45,326
Land	47,401	47,054
Other	21,614	20,882
Total property, plant and equipment	114,979	113,263
Intangible assets	911	857
Investments and other assets		
Investments and other assets	22,888	25,365
Allowance for doubtful accounts	(4)	(4)
Total investments and other assets	22,883	25,360
Total non-current assets	138,774	139,481
Total assets	418,756	423,924
Liabilities		
Current liabilities		
Notes and accounts payable-trade	159,694	156,077
Short-term loans payable	–	8,000
Income taxes payable	5,046	2,310
Provision for bonuses	1,601	2,400
Provision for sales returns	178	225
Other	24,412	22,349
Total current liabilities	190,932	191,364
Non-current liabilities		
Provision for retirement benefits	2,548	2,571
Other	6,977	7,509
Total non-current liabilities	9,526	10,081
Total liabilities	200,459	201,445

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	164,770	167,201
Treasury shares	(9)	(9)
Total shareholders' equity	208,457	210,889
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	9,831	11,583
Deferred gains or losses on hedges	8	6
Total valuation and translation adjustments	9,839	11,589
Total net assets	218,297	222,478
Total liabilities and net assets	418,756	423,924

(2) Quarterly Statements of Income

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Net sales	262,633	260,099
Cost of sales	242,582	239,986
Gross profit	20,051	20,113
Selling, general and administrative expenses	13,791	14,023
Operating profit	6,259	6,089
Non-operating income		
Dividend income	118	112
Research fee income	459	438
Real estate rent	35	31
Other	123	77
Total non-operating income	737	660
Non-operating expenses		
Interest expenses	22	12
Rent cost of real estate	9	8
Other	0	2
Total non-operating expenses	32	23
Ordinary profit	6,964	6,726
Extraordinary income		
Gain on sales of non-current assets	–	9
Gain on sales of investment securities	2	22
Total extraordinary income	2	31
Extraordinary losses		
Loss on retirement of non-current assets	0	4
Impairment loss	18	–
Loss on sales of investment securities	3	–
Total extraordinary losses	22	4
Profit before income taxes	6,943	6,752
Income taxes-current	2,136	2,105
Income taxes-deferred	27	(8)
Total income taxes	2,163	2,096
Profit	4,780	4,655

(3) Quarterly Statements of Cash Flows

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Cash flows from operating activities		
Profit before income taxes	6,943	6,752
Depreciation and amortization	1,186	1,410
Impairment loss	18	–
Increase (decrease) in allowance for doubtful accounts	6	(0)
Increase (decrease) in provision for bonuses	802	799
Increase (decrease) in provision for sales returns	36	47
Increase (decrease) in provision for retirement benefits	27	42
Interest and dividend income	(118)	(112)
Interest expenses	22	12
Loss (gain) on sales of investment securities	1	(22)
Decrease (increase) in notes and accounts receivable-trade	(12,361)	(1,354)
Decrease (increase) in inventories	(3,580)	(696)
Increase (decrease) in notes and accounts payable-trade	4,320	(3,024)
Increase (decrease) in accrued consumption taxes	525	911
Other, net	(1,414)	(924)
Subtotal	(3,581)	3,842
Interest and dividend income received	118	112
Interest expenses paid	(19)	(10)
Income taxes paid	(4,679)	(4,623)
Net cash provided by (used in) operating activities	(8,161)	(679)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,346)	(1,205)
Proceeds from sales of property, plant and equipment	10	396
Purchase of intangible assets	(50)	(28)
Purchase of investment securities	(35)	(32)
Proceeds from sales of investment securities	125	64
Other, net	(27)	(12)
Net cash provided by (used in) investing activities	(2,325)	(817)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	15,000	8,000
Repayments of long-term loans payable	(1,761)	(1,288)
Repayments of lease obligations	(41)	(38)
Cash dividends paid	(2,157)	(2,220)
Net cash provided by (used in) financing activities	11,040	4,452
Net increase (decrease) in cash and cash equivalents	553	2,955
Cash and cash equivalents at beginning of period	18,359	22,575
Cash and cash equivalents at end of period	18,912	25,530

(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 three months ended June 30, 2020 by product category are as follows:

Product classification	Three months ended June 30, 2020	Year-on-year change increase/(decrease) (%)
	Amount (Millions of yen)	
Cosmetics	56,830	(14.6)
Daily necessities	124,623	6.6
OTC pharmaceuticals	29,044	(14.9)
Health and sanitary related products	45,875	10.9
Others	3,725	1.3
Total	260,099	(1.0)

Notes: Above figures are exclusive of consumption taxes.

2) Sales results for the three months ended June 30, 2020 by customer category are as follows:

Customer category		Three months ended June 30, 2020	Year-on-year change increase/(decrease) (%)
		Amount (Millions of yen)	
Drug	Drugstores (Pharmacies)	163,464	(1.3)
HC	Home centers (DIY stores)	27,813	9.4
CVS	Convenience stores	17,364	(9.2)
DS	Discount stores	17,364	(6.5)
SM	Supermarkets	13,347	2.2
GMS	General merchandising stores	8,440	(11.5)
Others	Export and others	12,305	8.5
Total		260,099	(1.0)

Notes: Above figures are exclusive of consumption taxes.