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July 11, 2024

Consolidated Financial Results for the Nine Months Ended May 31, 2024 (Under Japanese GAAP)

Company name: TRANSACTION CO., Ltd.
Listing: Tokyo Stock Exchange
Securities code: 7818
URL: http://www.trans-action.co.jp.e.zy.hp.transer.com/
Representative: Satoshi Ishikawa, Chairman and Representative Director
Inquiries: Yoshinari Kitayama, Director
Telephone: +81-3-6861-5577

Scheduled date to file quarterly securities report: July 12, 2024
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: None
Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the nine months ended May 31, 2024 (from September 1, 2023 to May 31, 2024)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
May 31, 2024	18,902	7.8	3,984	7.8	4,167	9.6	2,751	9.1
May 31, 2023	17,532	29.6	3,695	49.6	3,800	54.7	2,522	55.3

Note: Comprehensive income For the nine months ended May 31, 2024: ¥2,788 million [16.4%]
For the nine months ended May 31, 2023: ¥2,395 million [18.9%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
May 31, 2024	94.45	–
May 31, 2023	86.64	–

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
May 31, 2024	21,503	18,005	83.7
August 31, 2023	20,599	16,236	78.8

Reference: Equity
As of May 31, 2024: ¥18,005 million
As of August 31, 2023: ¥16,236 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended August 31, 2023	–	0.00	–	35.00	35.00
Fiscal year ending August 31, 2024	–	0.00	–		
Fiscal year ending August 31, 2024 (Forecast)				37.00	37.00

Note: Revisions to the forecasts of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending August 31, 2024 (from September 1, 2023 to August 31, 2024)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending August 31, 2024	25,160	9.6	5,220	12.1	5,329	11.3	3,501	5.9	120.20

Notes: 1. Revisions to the consolidated earnings forecasts most recently announced: None

2. At the Board of Directors meeting held on July 11, 2024, the Company passed a resolution concerning the purchase of treasury shares. “Basic earnings per share” in the consolidated earnings forecasts, however, do not consider the effect of the purchase of treasury shares. For details on this purchase of treasury shares, please refer to “Subsequent events” in “(3) Notes to Quarterly Consolidated Financial Statements” in “2. Quarterly Consolidated Financial Statements and Major Note.”

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of special accounting treatments for the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of May 31, 2024	29,375,400 shares
As of August 31, 2023	29,375,400 shares

(ii) Number of treasury shares at the end of the period

As of May 31, 2024	246,865 shares
As of August 31, 2023	246,865 shares

(iii) Average number of shares outstanding during the period

Nine months ended May 31, 2024	29,128,535 shares
Nine months ended May 31, 2023	29,118,161 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The financial forecast and other forward-looking statements in this material are based on information currently available to the Company and certain preconditions considered to be reasonable. Actual performance, etc. may vary depending on various factors. For the preconditions on which the earnings forecast is based and notes, etc. for using the earnings forecast, please refer to “(3) Explanation of consolidated earnings forecasts and other forward-looking statements” in “1. Qualitative Information on Quarterly Financial Results” on page 6 of the Quarterly Financial Results (attached file).

[Attached Material]

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of operating results

During the first nine months ended May 31, 2024, the Japanese economy showed signs of recovery mainly due to improvements in the employment and income environment and recovery of inbound demand. However, future uncertainty continued to persist due to such factors as the situations concerning Russia/Ukraine and the Middle East, rising prices due to the weak yen and other factors, as well as repercussions of negative interest rate policy termination on financial and capital markets.

In this environment, the TRANSACTION Group (the "Group") reviewed the priorities of the five key strategies designated in the 4th medium-term management plan, and during the period under review, with a focus on "strengthened e-commerce," the Group promoted "finished goods demand arising from the promotion of SDGs," "finished goods demand arising from reopening," "tangible goods consumption derived from intangible goods consumption," and "strengthened domestic in-house manufacturing." While striving to identify changes in the social environment and trends among consumers in a timely and appropriate manner, the Group promoted such key strategies by working on the introduction of new products, the development of client entities, the strengthening of relationships, and the preparation for operation of the second factory. In addition, the Group continued to implement various self-driven initiatives to minimize the impact of yen depreciation during the period under review. However, the extent of yen depreciation vastly exceeded expectations, placing additional burden on costs, and the Group had no other alternative but to implement a fourth price increase on products effective from orders in January 2024.

■ Unique business model

The Group's unique business model is based on the ability to plan and propose products in a short period of time based on unprecedented ideas, such as "things that are convenient to have," "things that anticipate trends," and "necessary things that are not in the market (or are lacking)," the ability to produce and procure products in bulk at low cost and in plain form through overseas suppliers and hold them in Japan, and the ability to add high-quality added-value to these plain products through printing and processing, and offer them at low prices and with short delivery times regardless of the quantity. In addition, by improving the efficiency of the entire process through e-commerce, we differentiate ourselves from our competitors and develop our business. By providing this unique business model through the "MARKLESS Connect*" system, which was developed aiming to strengthen the e-commerce business, to client companies, the waste of their order receiving and placing operations is eliminated and the efficiency of business processes is increased. This results in effective growth in the business performance of both the Group and its client entities.

* This is a system that allows us to complete transactions, such as checking the inventory status of our products (stock quantity, out-of-stock items, and next delivery date), order receipt and placement, design submission, and payment, by linking them to e-commerce sites operated by the client entities, thereby improving efficiency without human intervention.

■ E-commerce business

In accordance with the key strategy of "strengthened e-commerce," we reinforced initiatives to increase sales of B2B and D2C* sites, with the target of having those sales account for at least 30% of consolidated net sales in the fiscal year ending August 31, 2025. The e-commerce platform built by the Group automates a series of interactions, such as confirming real-time inventory information and receiving and placing orders, thereby reducing human involvement. Not only has this system increased sales, productivity, and efficiency for the Group, but it has also been equally effective for our client entities. In the third quarter under review, we continued to focus on hybrid marketing activities that fuse the in-person sales approach with e-commerce. In particular, net sales of "MARKLESS Connect," which drives sales of the main B2B site "MARKLESS STYLE," have increased significantly due to synergies with partner companies up through the first half of the fiscal year. In the main D2C site "HANSOKU-STYLE," the number of members increased and the repeat rate improved through measures such as expanding the number of registered finished goods and improving the usability of the

site. In addition, we have been seeking to raise awareness with respect to “Original Goods Press,” which produces goods for sale and OEM products catering to the entertainment and “Oshikatsu” (various activities to support favorite idols, actors, anime characters, etc.) market, and also with respect to “Original.com,” which produces original goods for sale for companies and stores, by showcasing the distinctive appeal of the respective websites through initiatives that have included redoubling efforts to issue news releases. In terms of original brand sites, the “Calulu ONLINE STORE,” which handles pet wear and related finished goods, and the “gowell” site, which handles travel-related finished goods, continued to make effective use of social media to assist the approach to customer segments that had not been fully catered to in the past.

As a result, e-commerce sales increased 880 million yen, or 26.8% year on year, and the sales composition ratio expanded 3.3 percentage points year on year to 22.1%.

* An abbreviation for “Direct to Consumer,” a business model in which a manufacturer plans and manufactures its own commodities and sells them directly to end customers without intermediaries such as wholesalers and stores.

Eco-products

The eco-products include reusable products made from organic cotton, recycled materials, biomass plastics, and natural materials, as well as upcycled finished goods that have been transformed into more valuable goods, by adding value such as ideas and design to wasted resources. These products contribute to the reduction and control of CO_2 emissions by focusing on materials, and have been highly evaluated and supported by client entities that are aware of their efforts to achieve the SDGs.

In Eco-products, under the key strategy of “finished goods demand arising from the promotion of SDGs,” we strived to expand the product category of environmentally-friendly products. In addition to a continued strong performance for eco bags and other mainstay products, we also saw stationery products made from recycled PET and recycled ABS being adopted as numerous novelty items at exhibitions, seminars and other events. As these products are “plain products” that combine high versatility and excellent design, they are used as novelties for sales promotions and as items for product sales at events. In addition to sales to end users and distributors, etc., sales through e-commerce also increased. In addition, the Group’s efforts to promote fair trade were highly evaluated, and the Group received the award for “Excellence in the Social Movement Category” for the First Fairtrade Japan Awards in 2023. Again this fiscal year, we continued to engage in activities to promote fair trade by participating in the “Fairtrade Million Action Campaign 2024.” The “MOTTERU,” which is being developed for the retail market, received the Good Design Award for the fourth time in 2023, and it was selected for the third consecutive year as an endorsed product of the “Let’s choose! 3R Campaign 2023” sponsored by the Ministry of the Environment.

As a result, sales of Eco-products increased by 413 million yen, or 5.4% year on year.

Lifestyle products

Under the key strategies of “finished goods demand arising from reopening” and “tangible goods consumption derived from intangible goods consumption,” the Group expanded its product and service menu for industries performing well and industries where demand for sales promotions is expected to grow, and conducted efficient and effective marketing activities that fuse the in-person sales approach with e-commerce. Sales to the entertainment industry, which is driving sales expansion of Lifestyle products grew. In addition to strong sales for the game and animation industry, demand for items in product sales increased due to sales through e-commerce and at venues of in-person events in the 2.5D, sporting events and music industries. Moreover, in seeking to meet demand for a more diverse range of premium-quality goods for sale in the entertainment and “Oshikatsu” sector, we have been introducing new product categories and providing products with vivid full-color printing by introducing new equipment at our factories in Japan. In addition, to raise awareness, we showcased numerous picture-style towels and acrylic products at exhibitions, thereby receiving positive feedback from client entities. In sales promotions, we secured business involving large campaigns as a result of our having stepped up our sales activities in part by carrying out well-timed planning proposals amid a scenario where signs of recovering demand are beginning to emerge, although this varies across different industries

and enterprises. In pet wear and related finished goods, we worked to expand sales channels and develop new products that can be sold year-round. In travel-related finished goods, sales significantly increased over the previous year. We renewed products made in collaboration with popular characters to meet inbound demand. In addition, in response to the recovery in demand for international travel, we concluded licensing agreements with several fashion brands and enhanced our lineup of new products, such as suitcases, suitcase belts and passport cases. In addition to expanding sales channels, we focused on acquiring sales space at major specialty stores and home centers.

As a result, sales of Lifestyle products increased by 944 million yen, or 10.9% year on year.

Wellness products

There was a certain level of demand for sanitary products such as masks. Sales decreased by 9 million yen, or 1.0% year on year.

On the production side, the Company worked to secure multiple production bases, flexibly switch between production sites in response to exchange rate fluctuations and surging raw material prices, and optimize distribution channels in order to achieve a stable and continuous supply and strengthen price competitiveness. We also increased the frequency of visits to overseas suppliers' factories to improve product quality and reduce product loss. In addition, we strived to maintain and improve profit margins by developing new overseas and domestic suppliers to further strengthen our price competitiveness. At our factories in Japan, the introduction of new equipment and the increase in the number of personnel to handle production led to an increase in the in-house production ratio, resulting in higher productivity. At the second factory completed in June, we proceeded with preparations, which entailed installing state-of-the-art printing machinery aligned with needs for entertainment and "Oshikatsu" demand, making final adjustments to the factory layout for greater productivity, securing personnel for factory operations, and addressing other matters.

As a result, in the nine months ended May 31, 2024, net sales increased to 18,902 million yen (up by 1,369 million yen, or 7.8% year on year), and operating profit increased to 3,984 million yen (up by 288 million yen, or 7.8% year on year) owing to securing gross profit by an increase in net sales, and well-planned expenditure of selling, general and administrative expenses. Ordinary profit increased to 4,167 million yen (up by 366 million yen, or 9.6% year on year) due to the recording of foreign exchange gains from the redemption of a portion of U.S. dollar-denominated bonds held as a financial measure to reduce the impact of exchange rate fluctuations. Profit attributable to owners of parent also increased to 2,751 million yen (up by 228 million yen, or 9.1% year on year).

Actual sales by sales channel and product classification for the nine months ended May 31, 2024 were as follows.

<Actual sales by sales channel>

(Millions of yen)

Sales channel	Net sales		Change	
	Nine months ended May 31, 2023	Nine months ended May 31, 2024	Change (Amount)	Change (%)
Targeting end-user companies	8,274	8,698	423	5.1
Targeting wholesalers	5,967	6,033	66	1.1
E-commerce	3,290	4,170	880	26.8
Total	17,532	18,902	1,369	7.8

<Actual sales by product classification>

(Millions of yen)

Product classification	Net sales		Change	
	Nine months ended May 31, 2023	Nine months ended May 31, 2024	Change (Amount)	Change (%)
Eco-products	7,724	8,138	413	5.4
Lifestyle products	8,628	9,573	944	10.9
Wellness products	961	951	(9)	(1.0)
Design and other	217	239	21	9.7
Total	17,532	18,902	1,369	7.8

Note: Design and other refers to those not falling under miscellaneous goods, including commissioned graphic, products and WEB design operations, as well as printing operations.

(2) Explanation of financial position

Status of assets, liabilities, and net assets

Current assets

Current assets at the end of the third quarter under review amounted to 14,774 million yen, a decrease of 415 million yen compared to the end of the previous fiscal year. This was due mainly to a decrease in cash and deposits by 855 million yen, a decrease in securities by 260 million yen, and an increase in finished goods by 666 million yen.

Non-current assets

Non-current assets at the end of the third quarter under review amounted to 6,728 million yen, an increase of 1,319 million yen compared to the end of the previous fiscal year. This was due mainly to an increase in investments and other assets by 988 million yen, an increase in property, plant and equipment by 290 million yen, and an increase in intangible assets by 40 million yen.

Current liabilities

Current liabilities at the end of the third quarter under review amounted to 2,420 million yen, a decrease of 1,005 million yen compared to the end of the previous fiscal year. This was due mainly to a decrease in income taxes payable by 574 million yen and a decrease in other by 339 million yen.

Non-current liabilities

Non-current liabilities at the end of the third quarter under review amounted to 1,077 million yen, an increase of 140 million yen compared to the end of the previous fiscal year. This was due mainly to an increase in long-term borrowings by 100 million yen.

Net assets

Net assets at the end of the third quarter under review amounted to 18,005 million yen, an increase of 1,769 million yen compared to the end of the previous fiscal year. This was due mainly to an increase in retained earnings by 1,731 million yen.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

The consolidated earnings forecasts for the fiscal year ending August 31, 2024 are unchanged from the forecasts announced on October 12, 2023.

The earnings forecasts are based on information available as of the date of disclosure of this report. Going forward, actual performance may vary from forecast figures depending on various factors.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of August 31, 2023	As of May 31, 2024
Assets		
Current assets		
Cash and deposits	6,006,583	5,151,259
Notes and accounts receivable - trade, and contract assets	2,734,278	3,005,146
Securities	859,361	599,239
Finished goods	4,746,607	5,413,352
Other	851,116	605,998
Allowance for doubtful accounts	(7,562)	(20)
Total current assets	15,190,385	14,774,977
Non-current assets		
Property, plant and equipment	1,114,551	1,405,314
Intangible assets		
Other	165,194	205,611
Total intangible assets	165,194	205,611
Investments and other assets		
Investment securities	2,880,031	3,891,714
Other	1,249,530	1,225,902
Allowance for doubtful accounts	(380)	–
Total investments and other assets	4,129,182	5,117,617
Total non-current assets	5,408,927	6,728,543
Total assets	20,599,312	21,503,520

(Thousands of yen)

	As of August 31, 2023	As of May 31, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	959,141	990,099
Current portion of long-term borrowings	332,513	335,532
Income taxes payable	1,087,987	513,499
Provision for bonuses	223,496	106,057
Provision for shareholder benefit program	7,337	–
Other	815,340	475,360
Total current liabilities	3,425,816	2,420,549
Non-current liabilities		
Long-term borrowings	431,138	531,689
Retirement benefit liability	314,745	318,659
Asset retirement obligations	37,221	37,227
Other	153,735	189,484
Total non-current liabilities	936,840	1,077,060
Total liabilities	4,362,657	3,497,609
Net assets		
Shareholders' equity		
Share capital	93,222	93,222
Capital surplus	3,305,428	3,305,428
Retained earnings	12,144,917	13,876,671
Treasury shares	(203,471)	(203,471)
Total shareholders' equity	15,340,096	17,071,850
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	540,891	610,129
Deferred gains or losses on hedges	127,851	54,923
Foreign currency translation adjustment	189,773	238,335
Remeasurements of defined benefit plans	38,041	30,671
Total accumulated other comprehensive income	896,558	934,060
Total net assets	16,236,655	18,005,911
Total liabilities and net assets	20,599,312	21,503,520

(2) Quarterly Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income (Cumulative)

(Thousands of yen)

	Nine months ended May 31, 2023	Nine months ended May 31, 2024
Net sales	17,532,668	18,902,653
Cost of sales	10,664,487	11,542,979
Gross profit	6,868,180	7,359,674
Selling, general and administrative expenses		
Salaries and allowances	948,290	1,030,320
Provision for bonuses	97,677	90,868
Retirement benefit expenses	22,174	21,618
Provision of allowance for doubtful accounts	(603)	(7,598)
Other	2,105,474	2,240,344
Total selling, general and administrative expenses	3,173,014	3,375,553
Operating profit	3,695,166	3,984,120
Non-operating income		
Interest income	827	1,704
Interest on securities	52,767	122,422
Foreign exchange gains	49,724	69,098
Other	3,844	2,945
Total non-operating income	107,164	196,170
Non-operating expenses		
Interest expenses	1,499	2,343
Litigation expenses	–	10,798
Other	57	5
Total non-operating expenses	1,557	13,147
Ordinary profit	3,800,773	4,167,143
Extraordinary income		
Gain on sale of non-current assets	52,367	–
Total extraordinary income	52,367	–
Extraordinary losses		
Loss on sale of non-current assets	33	–
Loss on retirement of non-current assets	0	18
Loss on abandonment of inventories	38,419	–
Total extraordinary losses	38,452	18
Profit before income taxes	3,814,688	4,167,125
Income taxes - current	1,292,296	1,306,062
Income taxes - deferred	(321)	109,810
Total income taxes	1,291,974	1,415,872
Profit	2,522,714	2,751,252
Profit attributable to owners of parent	2,522,714	2,751,252

Quarterly Consolidated Statement of Comprehensive Income (Cumulative)

(Thousands of yen)

	Nine months ended May 31, 2023	Nine months ended May 31, 2024
Profit	2,522,714	2,751,252
Other comprehensive income		
Valuation difference on available-for-sale securities	(7,932)	69,238
Deferred gains or losses on hedges	(116,052)	(72,927)
Foreign currency translation adjustment	3,557	48,562
Remeasurements of defined benefit plans, net of tax	(6,331)	(7,370)
Total other comprehensive income	(126,759)	37,501
Comprehensive income	2,395,954	2,788,754
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,395,954	2,788,754
Comprehensive income attributable to non-controlling interests	–	–

(3) Notes to Quarterly Consolidated Financial Statements

Notes regarding assumption of a going concern

None.

Notes on significant changes in the amount of shareholders' equity

None.

Subsequent events

Purchase of treasury shares

At the meeting of the Board of Directors held on July 11, 2024, the Company passed a resolution for items concerning the purchase of treasury shares pursuant to Article 459, paragraph (1) of the Companies Act and Article 39 of the Company's Articles of incorporation.

1. Reason for the purchase of treasury shares

   The purchase of treasury shares will be conducted to enable the implementation of flexible capital policy to address changes in the business environment and to enhance returns to shareholders.

2. Details of items concerning the purchase

   (1) Class of shares to be purchased

   Common shares of the Company

   (2) Total number of shares to be purchased

   300,000 shares (maximum)
   (1.03% of the total number of issued shares (excluding treasury shares))

   (3) Total amount of shares to be purchased

   500,000,000 yen (maximum)

   (4) Period of the purchase

   From July 12, 2024 to December 26, 2024

   (5) Method of the purchase

   Market purchase on the Tokyo Stock Exchange (memorandum discretionary method whereby the day's orders are discretionarily handled pursuant to a memorandum with a securities firm)