



Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

SDG-Related Initiatives in
Our Business Activities

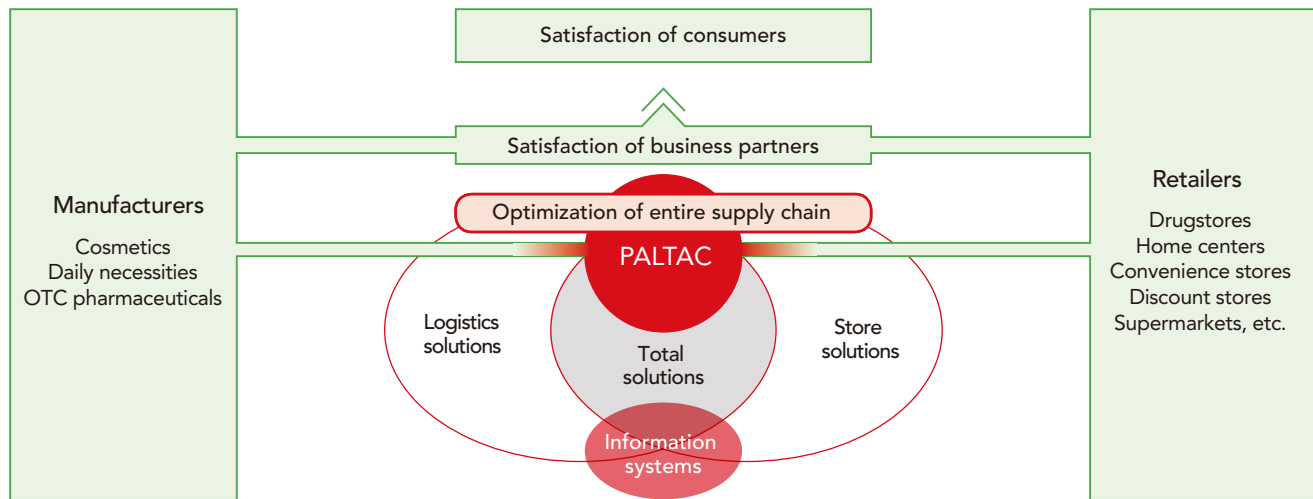


Business Overview

In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, the Group's consolidated subsidiary PALTAC has built a position as Japan's No. 1 wholesaler delivering daily necessities in the field of beauty and health. Currently, PALTAC procures approximately 50,000 types of products from approximately 1,000 companies, and has established a nationwide sales network comprising almost all the main retailers (approximately 400 companies), focused on drugstores, in an effort to optimize and increase the efficiency of its supply chains as a whole.

<p>Number of items handled</p> <p>Total shipments 3.5 billion per year</p>	<p>Business partners</p> <p>Retailers: 400 Manufacturers: 1,000</p>	<p>Number of state-of-the-art large-scale distribution centers</p> <p>16 nationwide</p>
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Value Chain



Logistics Solutions

PALTAC operates 16 "RDC" large-scale distribution centers nationwide, which boast a shipping accuracy of 99.999%. We have achieved increased efficiency in distribution across the supply chain, from production to distribution and delivery to stores, through exhaustive rationalization including introduction of a unit load system* for mechanized loading and unloading.

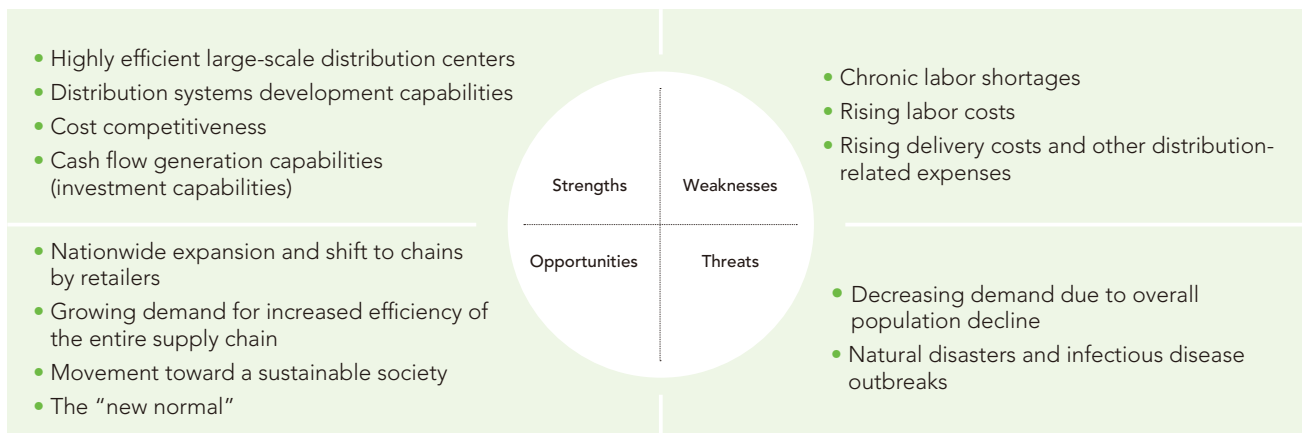
* Unit load system: A system to increase the efficiency of transportation, storage, and other operations. It aggregates individual cargo items into fixed units using pallets, containers, and other distribution tools.

Store Solutions

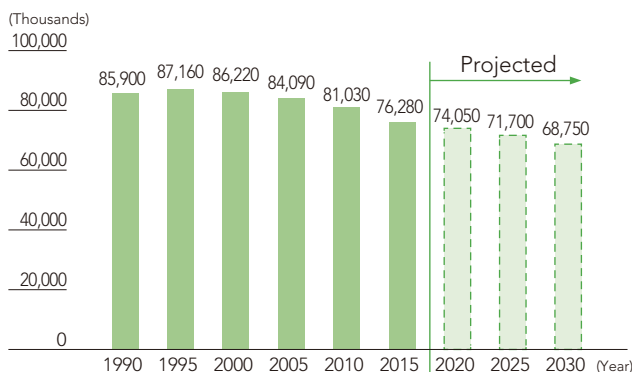
We do not just deliver products. Staff with expertise in each category provide comprehensive analysis of retailers' store location, POS information, etc., and help improve the productivity of sales floors through efficient and effective in-store merchandising, from product composition and shelf space allocation, to inventory management and handling of new and discontinued products.



SWOT Analysis

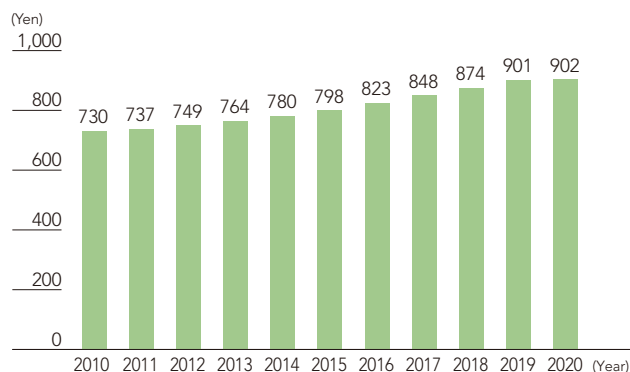


Working-age Population



Source: Statistics Bureau, Ministry of Internal Affairs and Communications materials

Minimum Wage



Source: Ministry of Health, Labour and Welfare materials

Business Environment and Review of the Fiscal Year Ended March 31, 2021

Demand for hygiene-related products such as masks, hand soap, and disinfectants increased in tandem with rising awareness of hygiene. However, demand for cosmetics such as make-up and haircare products is decreasing because the number of people going out for leisure or other reasons has been restrained. In addition, demand for products that were popular among foreign tourists visiting Japan – such as facial masks – remains very low because there are still no prospects for the number of foreign tourists in the country to return to previous levels. In the fiscal year ended March 31, 2021, PALTAC worked to acquire expertise in efficiently operating a new model of logistics center, and in the second half of the period achieved stable productivity per employee at double the previous level. In addition, PALTAC is emphasizing greater

cost benefits through cooperation with other companies and with retail outlets (where consumers purchase products) to enhance the delivery efficiency of items as ordered. PALTAC is also implementing initiatives to create marketing frameworks that improve the quality of sales negotiations. These frameworks utilize information from and provide feedback to retail outlets. In addition, the Supply Chain Management (SCM) Headquarters, a specialized department established in the previous fiscal year, is leading efforts, such as steadily accumulating successful examples, to improve the operating structure in anticipation of medium-to-long-term growth. Moreover, in response to the expansion of e-commerce in distribution, PALTAC established an e-commerce department in January 2021 to strengthen solutions specifically for e-commerce business.

Business Strategies

PALTAC VISION 2024 (FY2022/3 to FY2024/3)

“For a bright future: Moving forward with the supply chain”

Key Strategies

PALTAC has set out initiatives based on four key strategies in order to further improve intermediate distribution functions, accelerate coordination and collaboration with business partners and other stakeholders, and flexible respond to society's needs to achieve sustainable growth.

1 Addressing the unprecedented changes in the business environment Strengthening retail solution capabilities

The distribution industry, like others, has been impacted by changes during this “new normal,” which has made previous assumptions no longer viable. We will work to strengthen solution capabilities to respond to a wide range of issues across our distribution operations, including merchandising initiatives and improving productivity. A central task will be promoting coordination and collaboration between sales and other departments, such as the SCM Headquarters, the EC Business Division, and the Store Support Headquarters, which will focus on retail stores where products are sold.

2 Pursuing security and safety and high efficiency Strengthening logistics solution capabilities

We will continue to strengthen our highly efficient logistics system based on the “safety and security” that supports daily life. We carry out continuous improvement activities at existing distribution centers, expand shipping capacity with new centers based on the new model of logistics and solve delivery issues, such as through the promotion of the White Logistics Movement.

3 Ensuring provision of added corporate value Enhancing IT systems and promoting digitalization

Strengthening the IT systems that support PALTAC's value creation model is key to improving productivity and achieving faster response times. In addition to strengthening security to address increasing cyber risks, we will update our IT enterprise system and recruit and train digital talent as part of the shift from a defensive IT strategy to a proactive one to meet rapidly changing needs on the frontlines. We will continue to boost operational efficiency and increase the value we provide as part of our efforts to enhance systems in preparation of future digital transformation.

4 Sources of sustainable growth Talent and organizational development

While utilizing its diverse talent, PALTAC will promote understanding of its management philosophy to strengthen the organization and implement its business strategy. Regarding human resources, we will work to maximize the strengths of our employees by encouraging them to refine individual expertise in their respective workplace and helping them maintain the spirit of taking on challenges and persevering. In terms of our organization, we will create a system for coordination and collaboration between different departments using digital technology and other means to maximize the potential of our talent, thus building a platform to unlock the organization's comprehensive strengths.

Highlight



サプライチェーンイノベーション大賞
Supply chain Innovation Award
2021

Winner of Supply Chain Innovation Award 2021

Initiative to reduce waste through cooperation throughout the supply chain

PALTAC CORPORATION joined Sugi Pharmacy Co., Ltd. and Lion Corporation in an effort to optimize inventory levels and reduce product returns through an “open manufacturing, distribution, and sales platform.” In recognition of this initiative, PALTAC CORPORATION received the Supply Chain Innovation Award 2021. The award, conferred by the Council for Collaboration between the Manufacturing, Distribution, and Sales Sectors, for which the Ministry of Economy, Trade and Industry serves as secretariat, recognizes the achievement of Japanese companies that have led the industry with outstanding initiatives to optimize the entire supply chain through cooperation between the manufacturing, distribution, and sales sectors. We are committed to continuing to deploy creativity and inventiveness in cooperation with these sectors to eliminate waste throughout the supply chain and establish frameworks for creating new value.

Issue and Objective

Issue: Excess inventory and product returns
Objective: Optimize inventory levels to reduce product returns

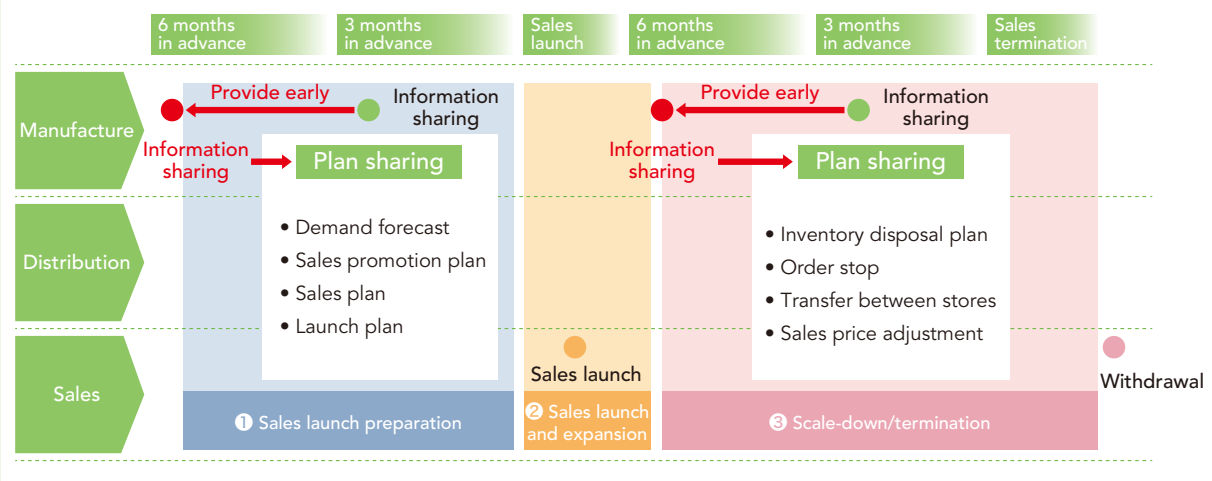
Specific Initiatives

Share information at an early stage on new, upgraded, or discontinued products, planned sales promotions, the amount of stock to be delivered to each store, etc., in order to develop and implement a systematic solutions model for store operations from sales launch to termination. This will lead to optimized inventory levels and reduced product returns while increasing sales.

Benefits

The three companies reached beyond their corporate frameworks to establish a system for coordination that focused on the frontline, speed, and openness. This resulted in a reduction in product returns through the optimization of inventory levels.

Sales expansion and return reduction through inventory optimization 3-in-1 solutions model for manufacturer, distributor, and retailer



PALTAC, which occupies an intermediate position in the distribution chain, will work to strengthen the functions specific to an intermediate operator and pursue activities such as the one above to enhance coordination and collaboration throughout the supply chain from manufacturers to retailers. After identifying issues such as unproductive operations in the distribution process, PALTAC will work with partners to resolve the issues with the aim of delivering new value. Through these initiatives, PALTAC will work to realize prosperity for our business partners, more fulfilling and comfortable lifestyles for people, and a sustainable society.