



Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

Through distribution, we contribute to the prosperity of our business partners and plentiful, comfortable lives for people.

Seiichi Kasutani

Representative Director, President, COO
PALTAC CORPORATION



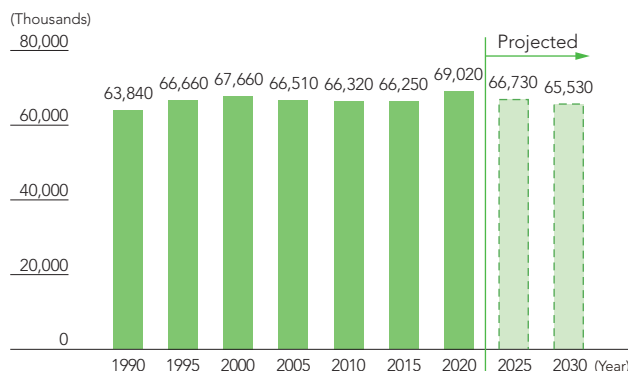
PALTAC has built a position as Japan's number-one wholesaler delivering daily necessities in the business fields of "Beauty and Health". Currently, PALTAC procures approximately 50,000 types of products from approximately 1,000 companies, and has established a nationwide sales network comprising almost all the main retailers (approximately 400 companies), focused on drugstores, in an effort to optimize and increase the efficiency of the entire supply chain.

To support everyday lifestyles where the uninterrupted availability of reasonably priced products that enrich daily life can be taken for granted, we consider it PALTAC's mission to deliver products stably and efficiently to retailers during emergencies as well as in normal times.

► SWOT Analysis

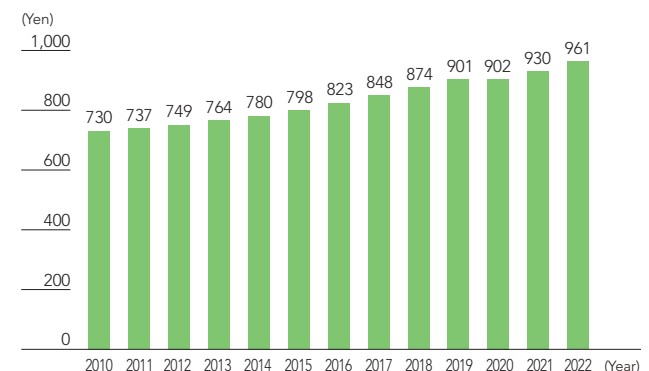
<ul style="list-style-type: none"> Highly efficient large-scale distribution centers Information systems development capabilities Cost competitiveness Cash flow generation capabilities (investment capabilities) 	<ul style="list-style-type: none"> Chronic labor shortages Rising labor costs Rising delivery costs and other distribution-related expenses
<ul style="list-style-type: none"> Nationwide expansion and shift to chains by retailers Growing demand for increased efficiency of the entire supply chain Movement toward a sustainable society The "new normal" 	<ul style="list-style-type: none"> Decreasing demand due to overall population decline Natural disasters and infectious disease outbreaks

► Data for Changes in Labor Force



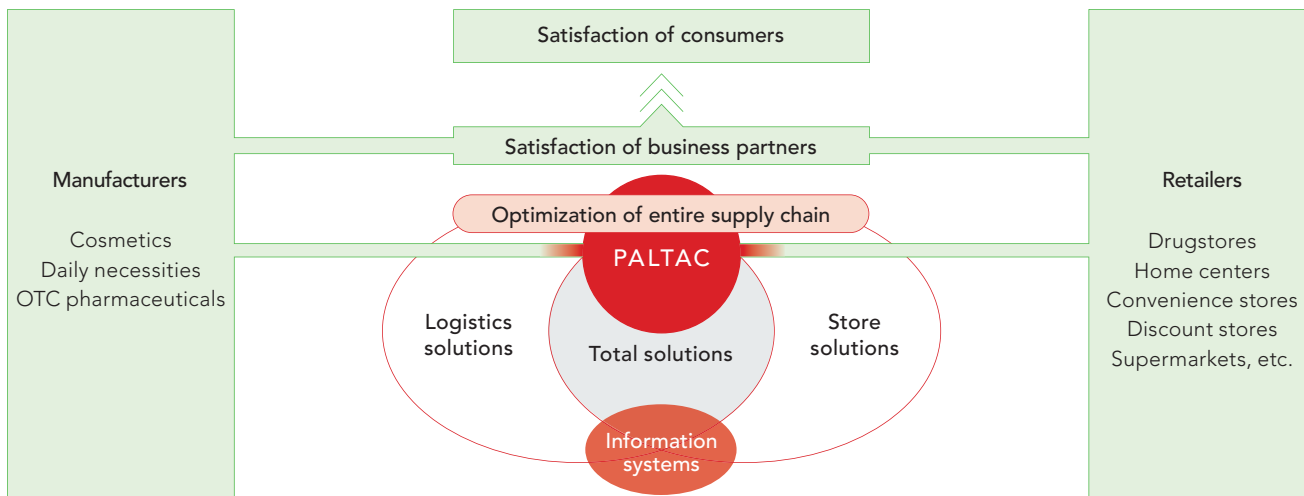
Source: Materials from the Statistics Bureau, Ministry of Internal Affairs and Communications, and from the Japan Institute for Labour Policy and Training

► Data for changes in Minimum Wage



Source: Materials from the Ministry of Health, Labour and Welfare

► 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 entire supply chain, from production to distribution and delivery to stores, through exhaustive rationalization including introduction of a unit load system¹ for mechanized and automated loading and unloading.

1. 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 more than just deliver products. Expert staff provide comprehensive analysis of retailers’ store locations, 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.

Business Environment and Review of the Fiscal Year Ended March 31, 2022

Amid the repeated ebb and flow of the COVID-19 pandemic, demand for products such as cosmetics and energy drinks temporarily showed signs of recovery as the movement of people became more active, but fell short of a full-fledged recovery. In addition, although consumption of hygiene-related products such as face masks and disinfectants has become a habit because of increased awareness of hygiene, demand for these products was weak compared with the previous fiscal year, when there was a rapid surge. Sales of seasonal winter products such as disposable body warmers were strong, due in part to a prolonged stretch of winter-like weather with low temperatures.

In the fiscal year ended March 31, 2022, PALTAC focused on upgrading retail solution² functions to better meet the wide-ranging needs of retailers, as well as the active use of those functions through cooperation and collaboration. In an environment where conventional merchandising approaches are no longer effective, PALTAC utilized real-time store information and the industry’s largest distribution information database to provide fresh information such as analysis of good-selling products, and worked to enhance product proposals by beginning transactions with new manufacturers in product lines it had not previously carried, and by handling new, environmentally friendly products. PALTAC is taking on a variety of new initiatives to establish a framework for product sales in response to the “new normal.”

2. Retail solution: Solving a wide range of issues in distribution, such as merchandising and productivity improvement, starting with retail stores, where products are sold.



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 flexibly respond to society’s needs to achieve sustainable growth.

Progress of Initiatives

<p>Addressing unprecedented changes in the business environment</p> <p>Strengthening Retail Solution Capabilities</p>	<ul style="list-style-type: none"> • Increased in favorable cases of “Schemes of sales expansion” by strengthening store support function using digital • Made a steady progress in SCM initiatives and deepened relationships with customers by having their experience effects of improvement • Strengthened the procurement of new products to meet consumer needs in the New Normal • Continued to support the expansion of e-commerce businesses of retailers , who were performing well in the COVID-19 pandemic • Started “comprehensive support for promotional items,” through linking with the various functions of the retail solution
<p>Pursuing “security and safety” and “high efficiency”</p> <p>Strengthening Logistics Solution Capabilities</p>	<ul style="list-style-type: none"> • Strengthened improvement of warehouse operations as a whole amid the impact of deteriorating market conditions, such as decrease in the volume of shipments per unit. Continuously improved productivity of warehouse operations • Improved delivery efficiency by promoting improvements from various perspectives amid a driver shortage and rise in delivery cost per unit • Proceed the preparation for operation of “Tochigi Distribution Center” aim of expanding the high-efficiency distribution network • Took up new challenge of “Collectively-managed logistics both non-foods products” with the aim of optimizing and streamlining the entire supply chain beyond existing business domains
<p>Ensuring provision of added corporate value</p> <p>Enhancing IT Systems and Promoting Digitalization</p>	<ul style="list-style-type: none"> • Renovation of our IT enterprise systems progressed as planned, and those systems are planned to be implemented progressively from the fiscal year ending March 31, 2023 • Established the “Information Management Committee” and a system to strengthen information security through the PDCA cycle • Established the “DX Promotion Department” and a system to accelerate DX promotion through internal and external collaboration and cooperation • Started “VAN service”: PALTAC who is involved in distribution undertakes a comprehensive support encompassing “sales activity” and “logistic operation” through to “data exchange” and we will aim to reduce costs in entire supply chain
<p>Source of sustainable growth</p> <p>Developing Talent and organization</p>	<ul style="list-style-type: none"> • Continued proactive hiring of professionals with consideration to form a diverse organization • Revised personnel system to utilize diverse perspectives and skills (establishment of new professional course) • Announced Health Management Declaration to promote the physical and mental health of employees, who are the source of PALTAC’s growth. Started company-wide initiatives (Certified Health and Productivity Management Outstanding Organizations 2022)

Perception of Issues and Future Direction

The role of intermediary distributors is expected to become increasingly important in dealing with diverse and complex issues, including the serious labor shortage, amid economic turmoil caused by rising raw material and energy prices, in addition to the COVID-19 pandemic, which still has no end in sight.

In these circumstances, PALTAC, as an intermediary distribution platform provider, will raise the level of its retail solutions and logistics solutions to help enable plentiful, comfortable lifestyles for people.

In the fiscal year ending March 31, 2023, PALTAC will continue to response flexibly to changes in society such as the trend of the COVID-19 pandemic and provide stable supplies of daily necessities. In addition, PALTAC will steadily carry out initiatives for optimization and efficiency throughout the supply chain, including actively tackling digital transformation. In February 2023, it plans to establish a new logistics center aimed at creating an efficient nationwide logistics network.

Highlight

Taking on the Challenge of Collectively-managed Logistics both Non-foods and Foods Products

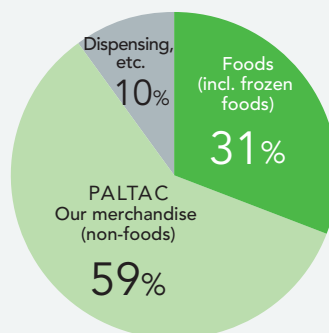
Through cooperation with YAKUODO Co. Ltd., we are taking on the challenge of “Collectively-managed logistics” that handles both non-food (cosmetics, daily necessities, etc.) and foods products, which had been handled separately.

Drugstores, which account for about 60% of PALTAC’s sales, are expanding sales of foods due to rising consumer needs. Along with this trend, the needs of our customers for more efficient distribution are increasing, and we recognize that the challenge of collectively-managed logistics both non-foods and foods products are a great opportunity to contribute to solving social issues by utilizing our distribution know-how.

In addition to improving the efficiency of delivery through bulk logistics, PALTAC will take on the challenge of improving the efficiency of overall distribution beyond conventional domains by deploying the logistics know-how (category delivery,* etc.) that it has cultivated in non-foods products.

Through this initiative, we will help to resolve social issues, including addressing Japan’s driver shortage and reducing greenhouse gas emissions. We will also strive to gain knowledge about food distribution characteristics and efficient management know-how to strengthen our foundation to be able to handle expansion into new business domains.

Drugstore Market/Sales Composition by Product Category



Source: Ministry of Economy, Trade and Industry Current Survey of Commerce (April 2021 to March 2022)

Promoting initiatives through expansion of shipment capacity of RDC Miyagi

Yearly shipment capacity: ¥35 billion → ¥55 billion
 Investment amount: Approximately ¥4 billion
 Full-scale operation in September 2024

Targeted logistics

**Southern Tohoku region/
Room-temperature foods**

Change in Logistics

Current

YAKUODO non-foods centers
(Contracted and managed by PALTAC)

YAKUODO foods centers
(Contracted and managed by other foods wholesalers)

Delivering by each category

Non-foods only

Foods only

YAKUODO store

Number of Receiving: **Twice**

After the change

YAKUODO non-foods + foods centers
(Contracted and managed by PALTAC)

Collectively-managed logistics for both non-foods + foods products

Delivering by each category

Reducing the number of trucks by **20 to 30%**

YAKUODO store

Number of Receiving: **Once**

Expected Benefits

Reduction of the burden of store operations

- Decrease in the number of receiving (twice ⇒ once)
- Improvement of efficiency of display operations through category delivery

Reduction of delivery costs and promotion of white logistics Movement

- 20-30% reduction in the amount of labor and number of trucks needed for delivery

Reduction of environmental burden

Reduction in CO₂ emissions by reducing the number of trucks

* Category delivery: Classifying and delivering products by category to adapt to layouts on the sales floor of retail store. Reduction of operational burden in store due to reducing the walking distance during product display.