

3

Realizing Value Creation

26 Retail

30 Global

32 Logistics



Value Creation Area

Retail

Creating new value “Visualizing” distribution process

As the declining birth rate and aging population proceed, people's values diversify, in order to activate the market, it is essential to have a marketing that focus more on consumer-centric marketing, for instance, one to one marketing. In addition, in the face of decline in the working population, it is also essential to streamline the entire supply chain.

We have provided daily necessities in order to contribute to “Creating people's rich and comfortable daily lives”. In addition, we have provided a wide range of solutions, such as improving the efficiency of store management and delivery to address various distribution issues.

From now on, we will further promote the use of data and expand the handling of new products that can meet the diverse consumer needs. Also, by using digital technologies, we will improve the capability to provide value of our existing solutions. We will integrate information gained through the provision of our existing solutions and visualize distribution processes, and we will provide the best solution for solving the issues.



» Awareness of environment

Opportunities

- Growing needs for improving the efficiency of in-store management due to the labor shortage
- Increasing value of information assets in the supply chain due to the growing importance of data utilization
- Expanding personalized consumption due to the diversification of consumer needs

Risk

- Increasing complexity of in-store management due to diversification of values
- Falling consumer spending due to the escalation of product prices
- Shrinking domestic market and falling labor force due to declining population

» Our strengths



Systems designed to create a “virtuous cycle” of sales promoting

Realizing high-quality sales promotion planning through the capability to promptly implement promotion in the storefront by using digital technology and highly accurate effectiveness verification by using in-store information



“Know-how on improving” productivity long-accumulated

“Visualizing” issues by quantitatively capturing in-store information, using digital technology Pursuing the elimination of “unreasonable, wasteful act and unevenness” factors by repeating hypothesis and verification with a wide range of point of view



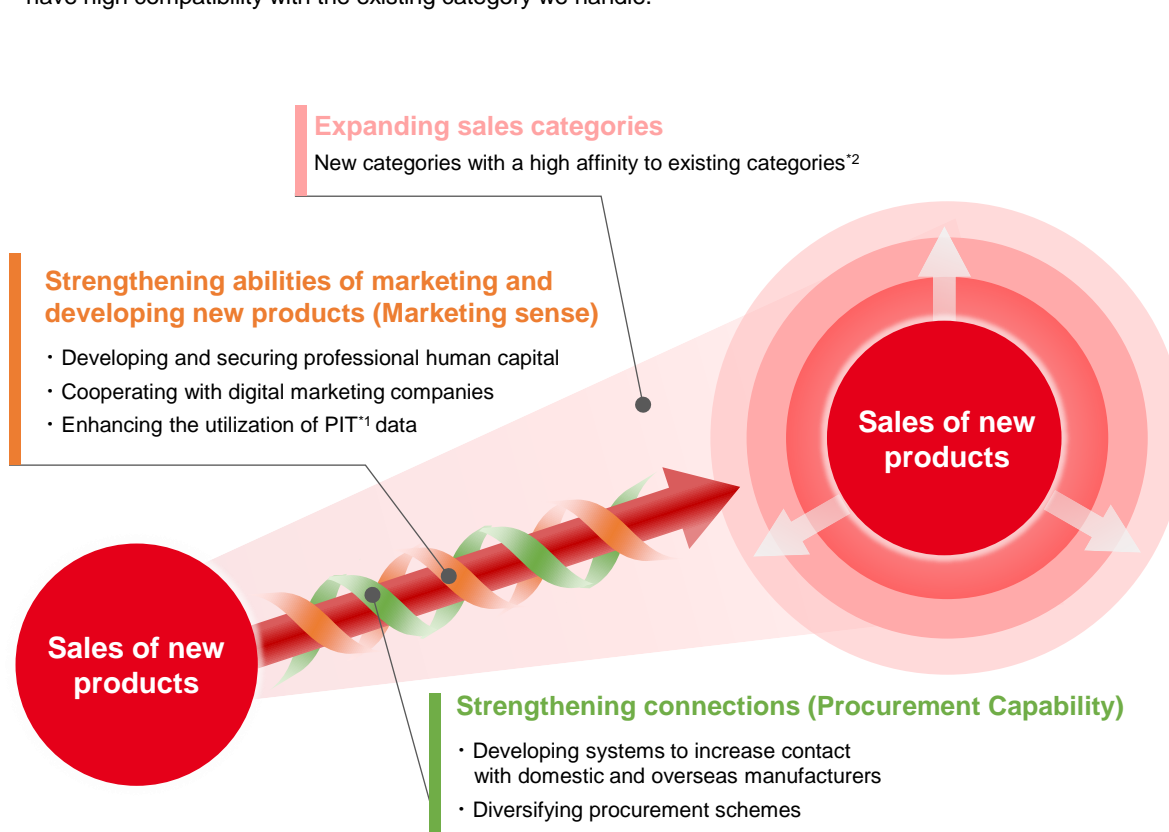
“Connection” with retailers and manufacturers

Procuring attractive products by the connection of more than 1,000 manufacturers Providing wide range of products to consumers through connection with nationwide retailers

Key strategies.1 Improving profitability of existing business

Enhancing the handling of new products which can add color to people's daily lives through enhancing our marketing sense and purchasing abilities

By accessing various formats, such as social media, consumers can now easily collect information on what they wish to obtain. Consequently, recent consumption trends have changed dramatically, including “viral consumption”, where explosive demand is born, and “personalized consumption”, where consumers choose products that suit their individual lifestyles and preferences. We will expand the handling of new products to swiftly address these changing consumption trends. We will strengthen “marketing sense” and functions by developing and securing specialized human capital to undertake accurate analysis of market and formulate marketing strategy, collaborating with digital marketing companies that use social media to analyze consumer behavior and utilizing data on in-store information gathered in the PIT system. Also, we will strengthen the capability of procurement by creating a system to newly “connect” with domestic and global manufacturers. In the progress of our work, we will try to achieve new profit through the provision of “adding color to people's daily lives” products, by expanding handling categories that have high compatibility with the existing category we handle.

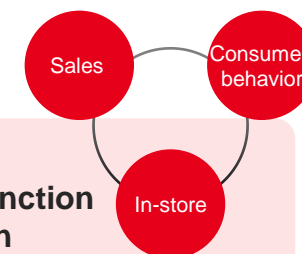


¹ PIT: The in-store information sharing platform developed by our company

² Existing categories: Cosmetics, daily necessities, OTC drugs, health and hygiene products

Strengthening the marketing function using three types of information

We will strengthen the marketing function through the use of three types of information: “sales”, “consumer behavior” and “in-store”. Additional to the improvement of analysis of sales information through POS/ID-POS analysis, we will strengthen analysis of consumer behavior information through social media in collaboration with digital marketing companies. To collect in-store information, we use in-store information sharing platform, called “PIT system” which we developed in-house. The PIT system enables real-time confirmation of in-store information (for instance, product display status, and availability of promotional items), which is making it possible to analyze sales in a high quality based on each store development status. By making use of these three information, we will strengthen the marketing function that could catch consumers diversifying needs and will expand the new product we handle.

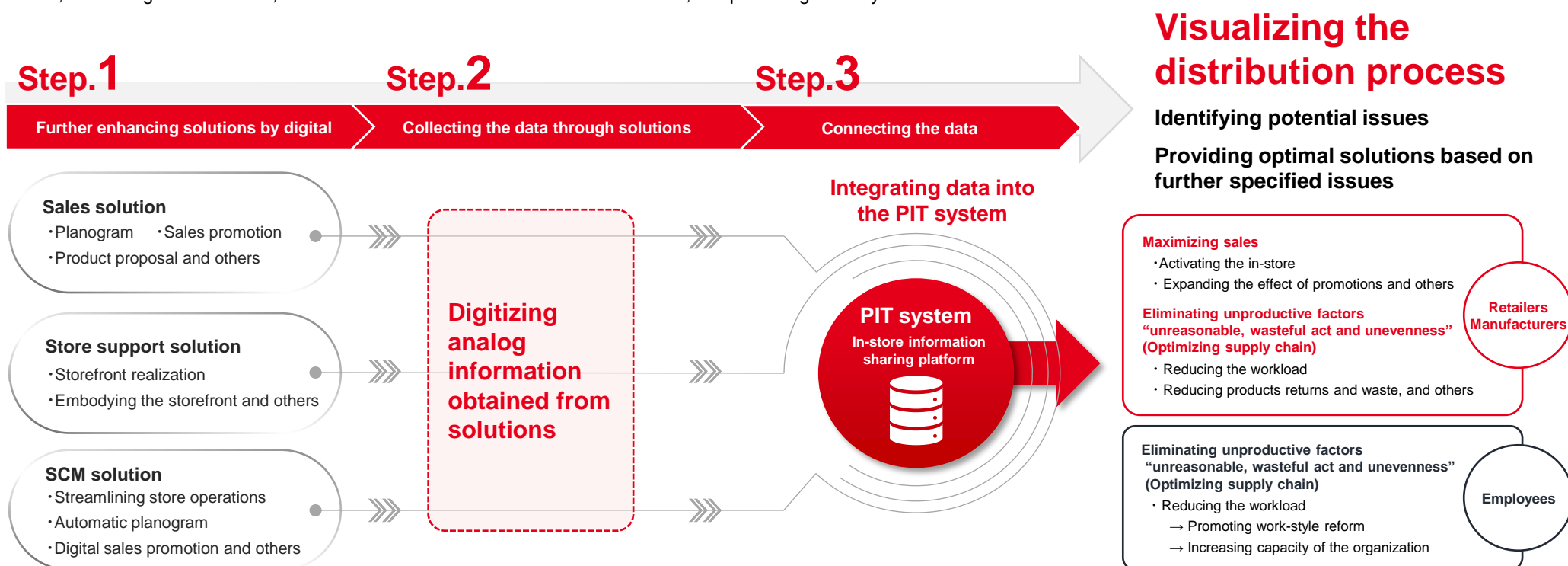


Key strategies.2 Taking on the challenge to create new value

Maximizing in-store sales and eliminating unproductive factors “unreasonable, wasteful act and unevenness” through digitalization of supply chain information and optimal solutions

Currently, the distribution industry faces a complex business environment, including shrinking market due to the falling domestic population, declining working population, diversifying values and rising operating costs, including logistics costs. We have been contributing to the development of the distribution industry by providing solutions based on “Sales function”, “Store support function” and “SCM function” and pursuing optimization and streamlining of the entire supply chain. However, in order to achieve further development in such a complex environment, it is necessary to transform the entire supply chain system.

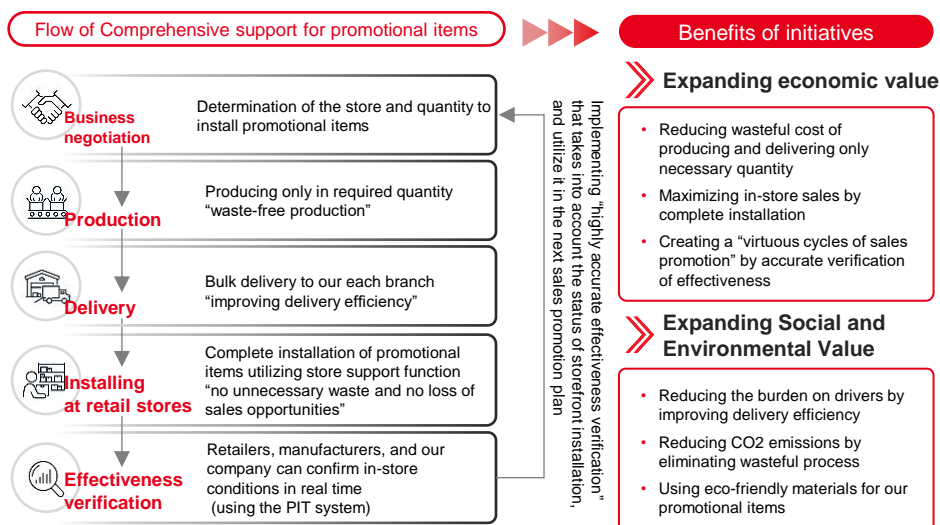
As a first step, we will work on digitalizing various information that exists throughout the supply chain and connecting them. We, as an intermediate distributor, will construct a system that enables to excavate the potential issues and provide optimal solutions by connecting various information from manufacturers to retailers with data and visualizing the distribution process. Specifically, we will strengthen the solution capabilities of each function by actively utilizing digital technology. Also, we will accumulate the analog information which collected through each solution we provided as data and integrate them into “PIT system”. We will contribute to further optimization and streamlining of the entire supply chain, such as maximizing sales in the retail store, eliminating “unreasonable, wasteful act and unevenness” factors in distribution, and promoting work style reforms.



Key strategies.2 Taking on the challenge to create new value

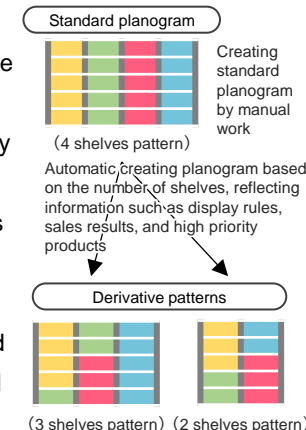
“Comprehensive support for promotional items” that connects sales promotion processes with data

“Comprehensive support for promotional items” is a service in which we are responsible for the planning, production, packaging, delivery and installation of sales promotion items (sales floor fixtures for sales promotion), and subsequent measurement of their effectiveness in collaboration with our store support function and SCM function, and the sales floor promotion function of our subsidiary HABA CREATION Co., Ltd. In our industry, there is a lot of wasteful process in the distribution not only of products, but also of promotional items, causing sales opportunity loss and environmental burden. By providing “Comprehensive support for promotional items”, we make it possible to reduce waste in distribution of promotional items, through collaboration with retailers and manufacturers from the production planning step of promotional items. We produce promotional items with quantity that meets the sales promotion plan, and deliver efficiently, and completely install and accurately verify effectiveness by using “PIT system” which enables real-time confirmation of in-store conditions. This initiative has already proved successful with several customers, with promotional activities, helping to increase sales and improve social and environmental value.



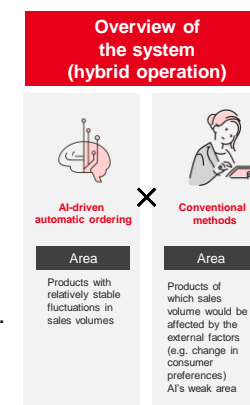
“Automatic planogram creation system” Reducing the workload through digitalization

We have developed an automatic planogram creation system in collaboration with CYBERLINKS Co., LTD., with the aim of improving the efficiency of proposal activities of planogram. “Planogram” is an important operation that may affect sales of retail stores. This is quite burden operation for retailers, manufacturers, and wholesalers because it requires consideration of various factors. We will aim to reduce about 60% of our working hours (18,000 hours per year). We will improve the resources generated by this solution will be used to strengthen the creation of an attractive “sales floor” as well as enhance the work-life balance of employees.



“AI-driven automated ordering system” Reducing food waste

We also provide store management solutions developed by our IT department. As the reduction of food waste is becoming an issue with retailers, we have started a service aimed at reducing food waste through an AI-driven demand forecasting and automated ordering system. It provides a hybrid operation system that considers the strengths and weaknesses of AI-driven automatic ordering, allowing the use of conventional ordering methods in areas where AI is less effective. We achieved a 10% reduction in the food waste as a result of PoC. From now on, we will try to improve the accuracy of the AI-driven automatic ordering, and by being used by many retailers, we will contribute to the efficiency of the ordering operations and the reduction of food waste.



Value Creation Area

Global

Developing a global distribution network Adding color to the world and people

In Japan, a growing number of manufacturers and retailers are becoming more eager to expand overseas in anticipation of a shrinking market due to a declining population and of significant economic development in emerging countries. However, there are many challenges involved in expanding overseas business, such as securing products, establishing sales channels, and developing effective local marketing strategies. Overcoming these challenges and implementing successful overseas strategies are key factors in the future growth of domestic companies.

We have the trading expertise and connections with local distributors that have been accumulated over 50 years' trading. From 2022, we have established local subsidiaries in emerging countries and have been taking on the challenge of overseas wholesale business by leveraging our distribution functions developed in Japan. Specifically, we will strengthen our capabilities to gather useful information and sell products in local markets by using our local subsidiaries.

Going forward, through these initiatives, we will first contribute to our customers for overcoming the challenges of expanding their overseas business. We will also take on the challenge of developing a global network by leveraging our bases in each country as the hubs. In this way, we will seamlessly connect products that enrich people's daily lives, including not only Japanese products but also products from overseas, to people around the world.



» Awareness of environment

Opportunities

- Expansion of promising overseas markets
- Expansion of domestic retailers and manufacturers into overseas markets
- Growing needs for market information in other countries

Risk

- Decline in competitiveness of Japanese products due to increased competition against overseas products
- Shrinkage of the domestic economy due to declining population
- A decline in domestic competitiveness due to delays in pioneering the procurement channels of overseas products

» Our strengths



Connections with domestic retailers and manufacturers

Business relationships with numerous domestic retailers and manufacturers cultivated in the domestic business
Numerous opportunities to provide our solutions



Trading know-how

Distributing Japanese products worldwide through our sales network, using local distributors and sales know-how gained for more than 50 years of trading



The latest overseas information from our local subsidiaries

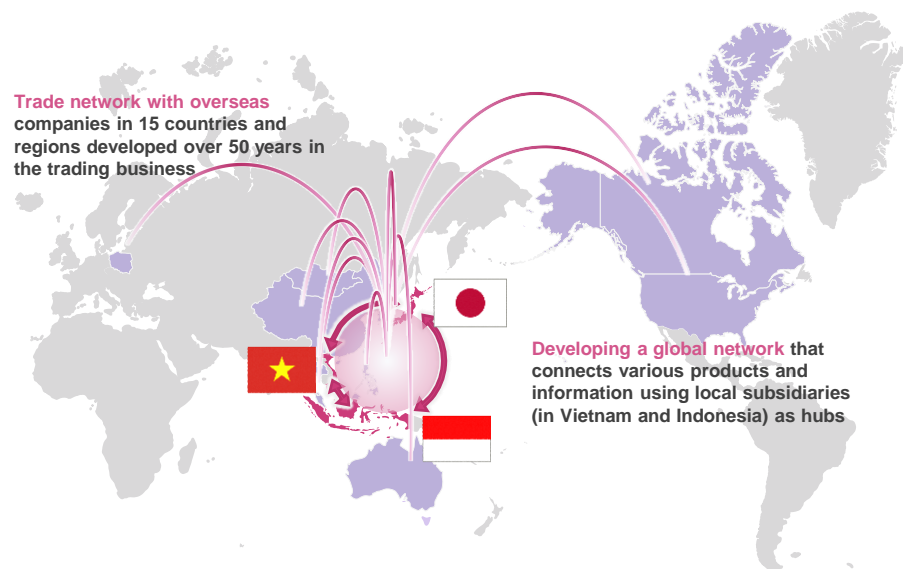
Gathering the latest local market information on the ASEAN economies, where future economic growth is expected

Key strategies.2 Taking on the challenge to create new value

Developing a global network in which product to meet diverse needs and high-quality information in enormous quantities is circulating

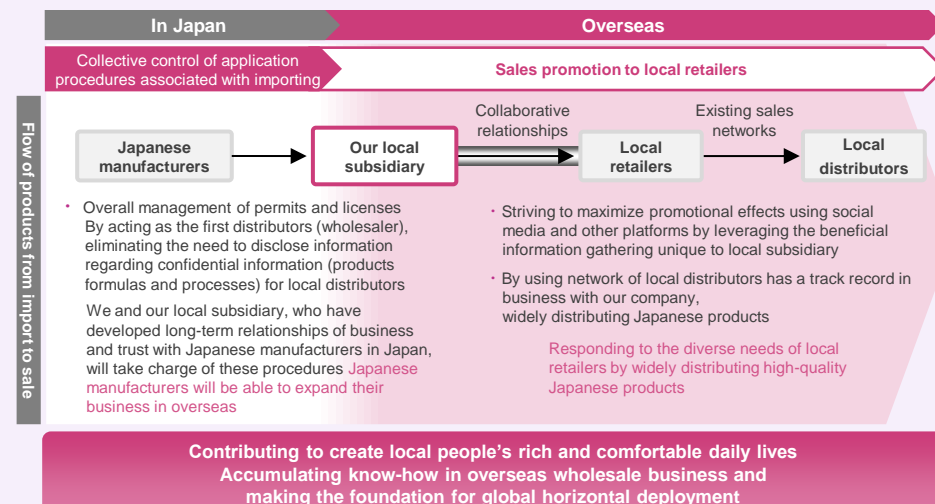
As a first step towards creating new value in our overseas business, we have established local subsidiaries in Vietnam and Indonesia, where significant economic growth is anticipated. We have been steadily acquiring know-how in the local subsidiary business by providing services that utilize the flexibility and information-gathering capabilities of a unique local subsidiary, including supporting the overseas business expansion of domestic manufacturers and proposing high-quality Japanese products that are suited to local needs. These services have been gained a favorable reputation.

In the future, we will undertake new initiatives aimed at expanding the scale of our local subsidiaries. We will not only propose the promotion of Japanese products, but also take on the challenge of developing local brands and expanding the cross-border distribution of them. In addition, we will consider M&A and alliances with leading local companies to expand our distribution network. Through these initiatives, we will take on the challenge of developing a global network that seamlessly connects attractive products and useful information by using our local subsidiaries as hubs. In developing the global network, we will also conduct research to establish new bases in neighboring countries with promising economic growth.



Local subsidiaries as the hub for overseas development

Vietnam and Indonesia, where we have established local subsidiaries, have young and growing populations and are expected to experience economic growth in the future. On the other hand, domestic manufacturers face many challenges, such as managing local applications for permits and licenses, marketing, and securing sales channels. To this end, our local subsidiaries will solve these challenges through wholesale business by using our distribution functions and trading know-how accumulated in Japan. Specifically, we support manufacturers entering the overseas market by having our local subsidiary handle the “application for permits and licenses” which involves dealing with confidential information (product ingredients, manufacturing methods, and others), needed when the Japanese products are imported into overseas. We also aim to widely distribute Japanese products by utilizing the sales network of reliable local distributors with whom we already have transactions. Additionally, we strive to maximize promotional effects using social media and other platforms by using the beneficial information gathering unique to our local subsidiary. Through these initiatives, we will contribute to creating rich and comfortable daily lives for local people by widely distributing high-quality Japanese products.



Value Creation Area

Logistics

Creating a sustainable “usual daily lives” in the future

The environment surrounding domestic distribution is facing a dramatic change due to increased risk of difficulty in maintaining logistics arising from decline in working population and climate change and more. To realize a sustainable society, it is important to develop a “strong”, “flexible” and “highly efficient” logistics system by eliminating unreasonable, wasteful act and unevenness factors in distribution.

We have historically aimed to optimize and streamline the entire supply chain and have acquired the logistics bases and know-how for efficient intermediate distribution through the development of nationwide distribution network and distribution centers with state-of-the-art technology.

From now on, we will innovate on our strengths accumulated over the years and create a new logistics model with unprecedented productivity. In addition, by acquiring know-how in logistics areas where we have not yet entered, and by collaborating beyond the boundaries of industry and conventional practice, we will take on the challenge of creating a distribution network that will make the sustainable “usual daily lives” of “what is necessary, when it is necessary, to whom it is necessary” our daily lives in the future.

» Environment awareness

Opportunities

- Growing needs for highly- efficient logistics network
- Growing needs for standardization in logistics
- Growing logistics sharing market
- Behavioral changes in society to achieve sustainability (such as reduction of returned products)

Risk

- Significant reduction in transportation capacity due to driver shortage
- Difficulty in operation of distribution centers due to labor shortage
- Complexity of logistics operations due to diversified products
- Decline in profitability due to rising material and labor costs
- Supply chain disruptions due to severe natural disasters
- Strengthening regulations against fossil energy

» Our strengths



Know-how to create a system

Having created a system that promotes the optimization and streamlining of the entire supply chain through logistics design that focuses on the entire supply chain from the starting point of in-store operations, and through the in-house production of material handling equipment and software for efficient operation in the centers



Know-how to improve the system

Continuous improvement of system through visualization of processes by using data, and combination of accumulated analytical methods and measures of improvement



Development of highly efficient large-scale distribution centers throughout Japan

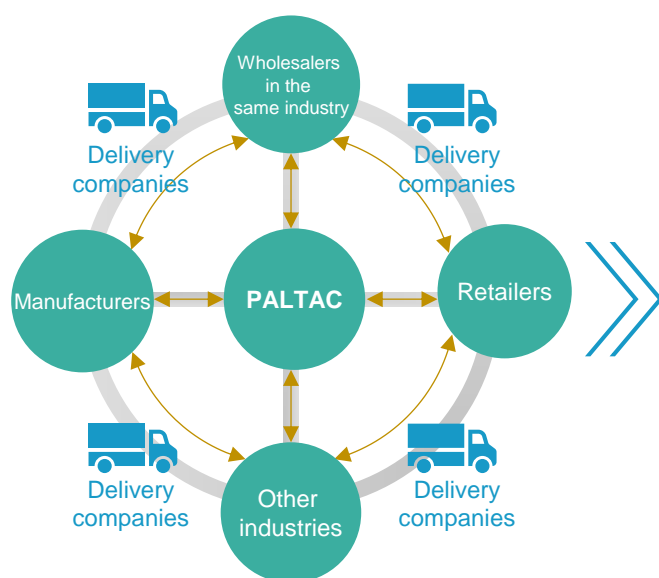
Providing high-quality distribution services throughout Japan by the nationwide distribution network centered on highly efficient, large-scale distribution centers

Key strategies.1 Improving profitability of existing business

Developing a delivery network that responds to driver shortage by promoting cooperation and various improvements

Regarding the “2024 problem in logistics”, the situation of shortage of truck drivers is getting worse. This is due to the limit for overtime work for truck drivers from April 2024, the environment for transporting products are becoming more difficult. At the same time, due to the increase in the over demands for transportation, logistics cost would rise and there are possibilities of facing the challenges that the society to which products “can not be delivered and carried” would not become reality in the near future.

About rethinking the delivery system, the important point would be to reduce the waiting time, improve the loading efficiency, shorten the driving time and modal shift. However, in the measures we could work on, there are already many efforts going on in each company, and we consider it important to higher the effect of these measures we are working on, by expanding the collaboration beyond the border of the industry and competition, including the reconsideration of the custom in this industry. In these situations, we will promote cooperation with others by using the know-how to design the structures and the know-how to improve the structures based on data, we have gained as an intermediate distributor and would like to create the logistics network that could solve the problem of lack of drivers through the multifaceted approach.



Point of improvement	Main initiatives
Reducing the driver's waiting time	<ul style="list-style-type: none"> Promoting the logistics EDI Warehouse dock reservation system Standardization of material handling
Improving delivery efficiency	<ul style="list-style-type: none"> Joint delivery Adjustment of delivery frequency Adjustment of order quantity Extension of delivery deadlines
Reduction of driver restraint time	<ul style="list-style-type: none"> Relay transportation
Modal shift	<ul style="list-style-type: none"> Promoting a modal shift

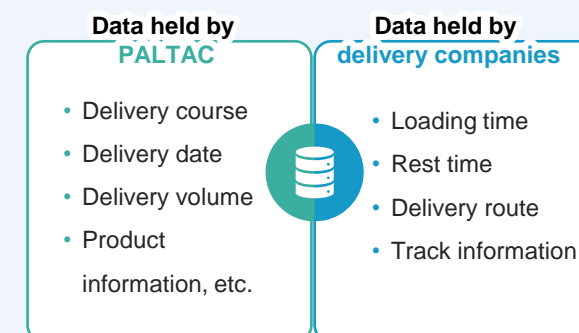
* EDI (Electronic Data Interchange): This is an electronic data system that exchanges information such as orders, deliveries, and invoices generated in business transactions between companies.

Improving delivery management capabilities

The important perspective in addressing the driver shortage is to improve the working environment for drivers. To promote delivery improvement through collaboration, we first developed a delivery management system in cooperation with delivery companies for the purpose of “visualizing delivery management”.

We will obtain and analyze the data we can not only obtain internally such as both delivery volume and course, but also obtain from information related to driver operations. To do so, we will expand the range of our measures by gaining the broad understanding of delivery issues.

Developing the delivery management system which integrates various delivery data

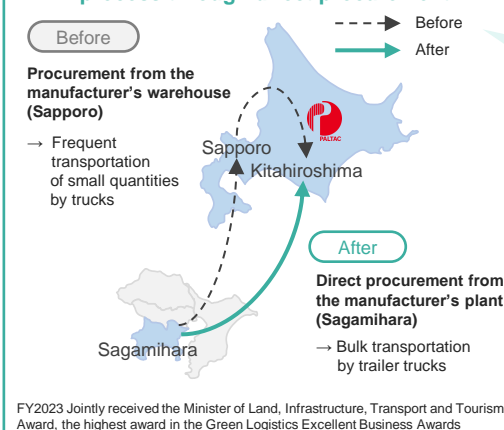


Key strategies.1 Improving profitability of existing business

Improvement by reviewing transportation processes

In the delivery from manufacturers to our company, compared to the delivery from our company to retailers, there tend to be large quantities of products and long-distance delivery. Based on these trends, we now are promoting the reduction of both the number of trucks and the transportation distance by rethinking the transportation process with manufacturers and delivery companies and controlling the amount and timing of orders by us.

Improvement of transportation process through direct procurement



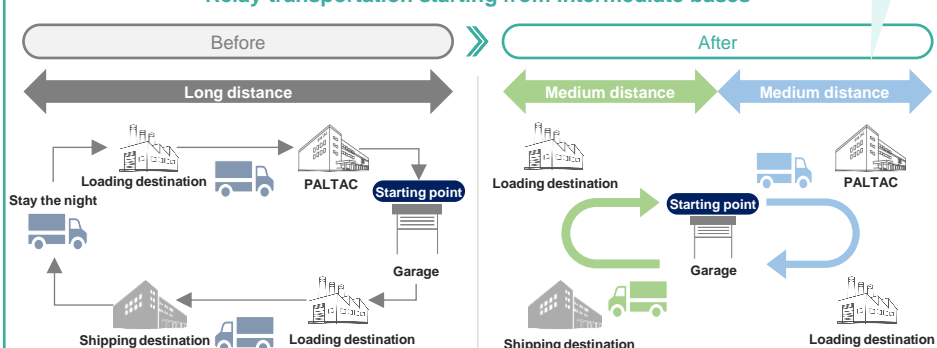
We will switch from low-volume, high-frequency truck transportation to direct purchase from of manufacturer's plants and to batch transportation by trailer through control of the use of the order coordination system (with the collaboration with Unilever Japan K.K. and Suzuyo & Co.,Ltd.)

For more details, please refer to the release document¹

We have shifted from the long-distance transportation using chartered truck, to relay transportation originating from intermediate bases due to the control in lot order, order date and delivery hours. (with the collaboration with Unilever Japan K.K., Lion Corporation and Suzuyo & Co., Ltd.)

For more details, please refer to the release document²

Relay transportation starting from intermediate bases



¹ On December 19th, 2023 "Jointly awarded the highest honor, the Minister of Land, Infrastructure, Transport and Tourism Award, at the Green Logistics Excellent Business Operator Awards"

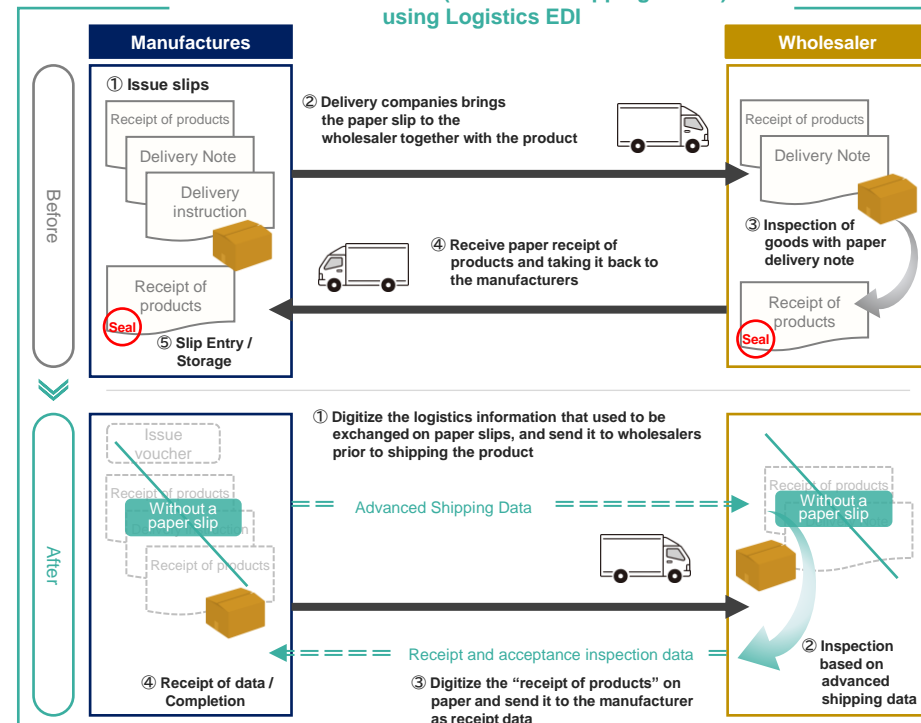
² On December 23rd, 2022 "Jointly awarded the highest honor, the Minister of Land, Infrastructure, Transport and Tourism Award, at the Green Logistics Excellent Business Operator Awards" Our Japanese website "IR news" : <https://www.paltac.co.jp/tomorrow/news.html>

Improving productivity through the "connection" of data

In this field, there are still many paper-based daily operations. A wealth of opportunities exists for productivity improvement through digitization. In cooperation with the EDI service provider PLANET,INC., manufacturers and other wholesalers in the same industry, we promote the scheme of sharing Advanced Shipping Notice (ASN) from manufacturers using the EDI system. In this way, we aim to simplify the inspection process when receiving products, and to digitize paper slips. Moreover, we are working to make this scheme an industry standard. By receiving data on shipping information from the manufacturer before receiving the products, it is possible to generate a wide range of benefits, including reducing waiting time for drivers by simplifying the inspection process, and reducing the printing, storage, receipting and entry of paper slips by digitizing them.

For more details, please refer to the release document³

Introduction of ASN (Advanced Shipping Notice) using Logistics EDI



Our Japanese website "IR news" : <https://www.paltac.co.jp/tomorrow/news.html>

Key Strategies.2 Taking on the challenge to create new value

Developing the industry-leading logistics model with unprecedented productivity

We have continued to develop a highly efficient nationwide distribution network with the aim of optimizing and streamlining the entire supply chain to meet environmental changes and achieve sustainable growth. In intermediate distribution, piece-picking plays a particularly important role. We have realized faster and more accurate piece-picking by continuously improving the SPIEC model, which was first introduced at RDC Kinki in 1998. In addition, looking ahead of decreasing in the working population, in the new distribution center after 2018, we have introduced the SPAID model with the productivity of twice that of the SPIEC model, which we developed by combining our existing logistics know-how with digital technologies such as robotics and AI.

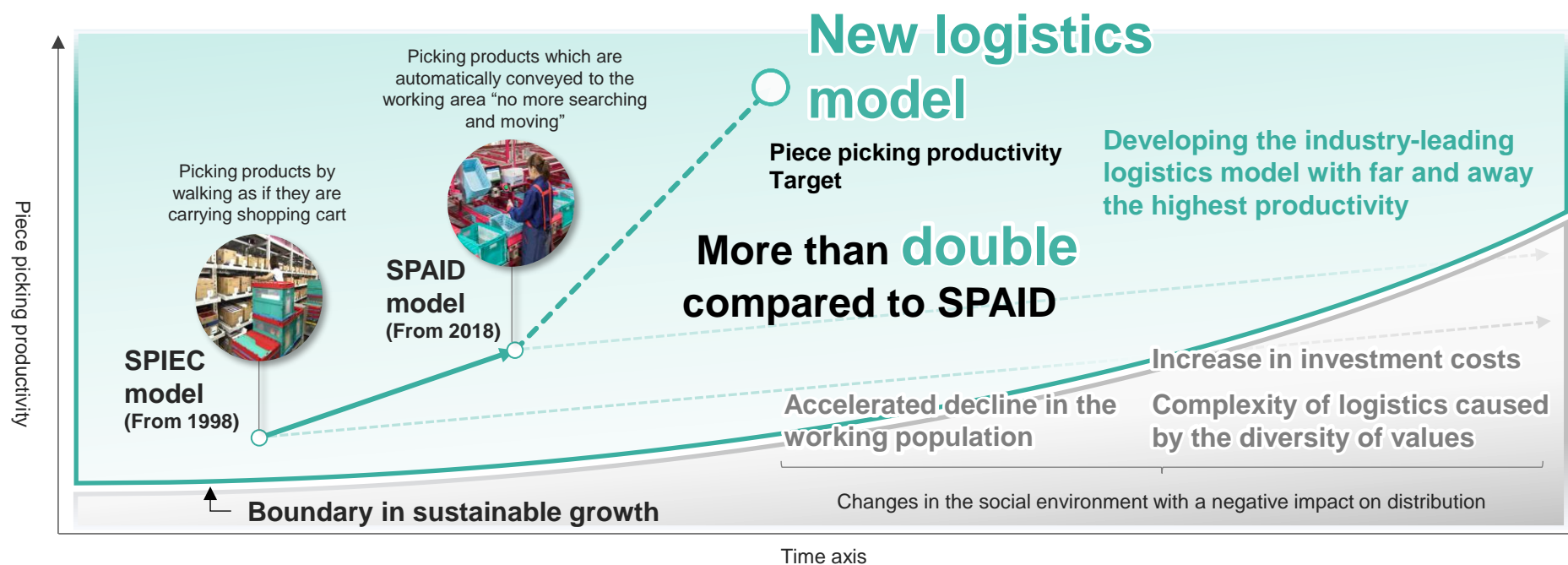
However, further productivity improvements will be needed to cope with changes in a more challenging distribution environment, such as a decline in the working population, higher investment costs due to rising material prices and growing in complexity of logistics operations due to diversifying value.

Therefore, we will challenge ourselves to innovate the operation of our distribution centers, aiming at a productivity that is twice as high as the SPAID model, by taking advantage of more than 200 expert employees who “create systems” and the know-how that cultivated over the years. In doing so, we will develop a logistics model with unprecedented productivity, which will support the distribution of the future and our sustainable growth.

Changes in distribution models and future targets

Piece picking: Picking products by the piece (accounting for approx. 60% of the operation in distribution centers)

In intermediate distribution, we stock products received from manufacturers in case units. In response to orders from retailers, we consolidate products in piece units by category and ship them faster and more accurately, thereby supporting the wide variety of products availability in retail stores.



Key strategies.2 Taking on the challenge to create new value

Expanding the areas of value creation in logistics solutions by realizing unprecedented productivity and strengthening our know-how and connections

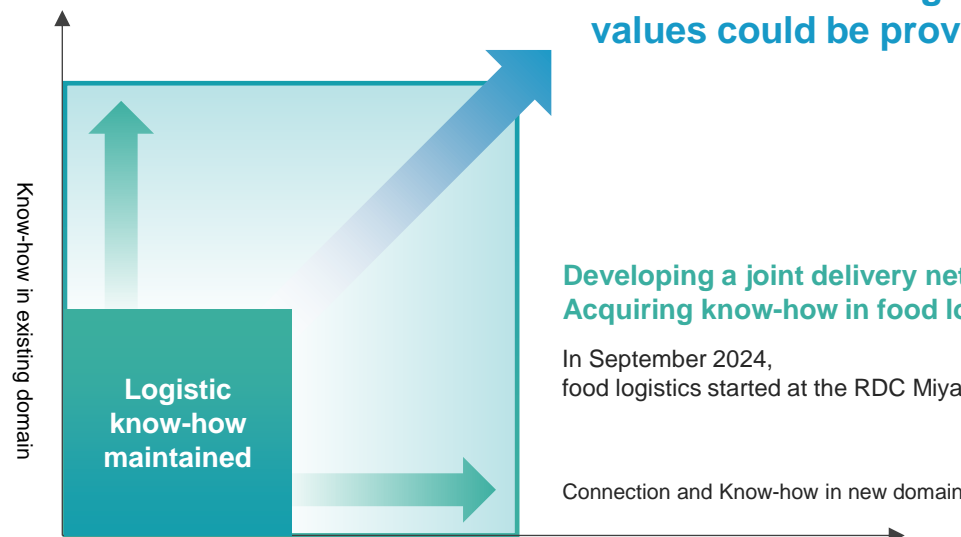
In the future, the decline in the working population will accelerate, so we anticipate a labor shortage in every process in supply chain, not just truck drivers. On the other hand, as values diversify and products and services become more personalized, there would be an increase in “high-mix, low-volume production and sales”. This would lead to the possibility that the operation in distribution will become complicated.

Even in such a changing environment, we believe that a distribution network with unprecedented productivity is essential to “continuously deliver the products when it is necessary, what it is necessary, to whom it is necessary”.

Therefore, in order to make us an “essential presence” in the distribution network, we will develop a new logistics model with unprecedented productivity. Obtaining know-how and shipping capacity from these efforts, accumulating know-how in new areas such as food logistics, and developing a delivery network that bridges competitive and industry barriers, we will expand the value creation of logistics beyond the boundaries of both categories and industries.

Areas in which our logistics values could be provided

Developing the logistics model with far and away the highest productivity



Further expanding business areas where our logistics values could be provided

Developing a joint delivery network Acquiring know-how in food logistics

In September 2024, food logistics started at the RDC Miyagi

Connection and Know-how in new domain

Collectively-managed logistics both Non-Food and Food products

We are taking on the challenge of Collectively-managed logistics both non-food (categories handled by us, such as cosmetics and daily necessities) and food products in cooperation with YAKUODO Co., Ltd Drugstores, which account for about 60% of our sales, are expanding sales of foods due to rising consumer needs. Collectively-managed logistics for both non-food and food products will improve the efficiency not only of delivery, but also of in-store display operations by applying our know-how, such as category delivery to food logistics. Also, through these initiatives, we will try to achieve the knowledge such as characteristics and operation know-how in the food logistics and will expand value creation area of logistics.

