

Medium-Term Management Plan “PALTAC VISION 2027”

May 13, 2024



**Tokyo Stock Exchange
(Code number: 8283)**

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Review of Medium-Term Management Plan “PALTAC VISION 2024” Comparison with revised plan

Numerical targets

	Revised plan *	FY2024/3 Results	
Net Sales	¥ 1,142.0 bn	¥ 1,151.9 bn	Achieved
Operating Profit	¥ 26.5 bn	¥ 27.1 bn	Achieved
SG&A Expenses Ratio	5.25 %	5.14 %	Achieved

* Revised the initial plan on May 11,2023 Business environment substantially changed from assumptions at the beginning of that plan, as seen conditions such as soaring raw material prices and energy prices and the accelerated trend of breaking away from the COVID-19 era

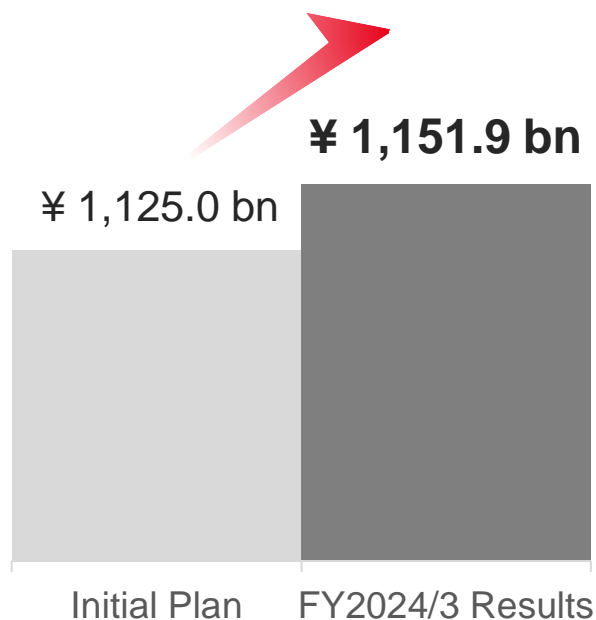
Summary

- Achieved all revised numerical targets (for details of the revised plan : please refer to the presentation for the fiscal year ended March 31,2023)
- Procurement of new products to meet diverse consumer needs and strengthening initiatives through cooperation with customers contributed to achievement of net sales and operating profit targets
- Preparation stages to create new revenue bases was ready
(Started operation of Tochigi distribution center, Established local subsidiaries)
- With rising costs, improvement from multiple perspectives, such as purchasing, delivery and warehouse operation, contributed to reduction of the SG&A expenses ratio

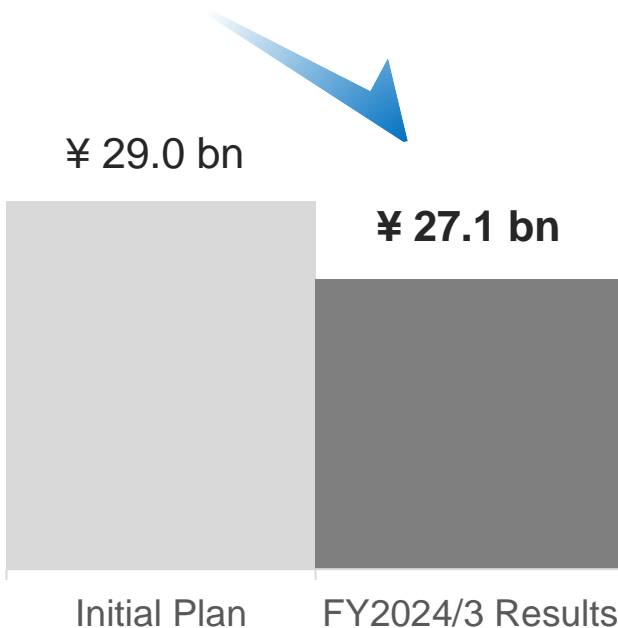
Review Comparison with the initial plan

- Compared to the initial plan, net sales exceeded the plan, but operating profit fell short in both amount and ratio
 - Net sales increased due to expanding business dealings with customers, strengthening procurement of new products and recovery in demand for cosmetics and OTC pharmaceuticals thanks to increase in people's outings, etc.
 - SG&A expenses ratio was below the plan through continued improvement activities
 - **Operating profit was below the plan resulting from the decline in gross profit margin due to a rise in energy price and growing consumer's preference for low-price**

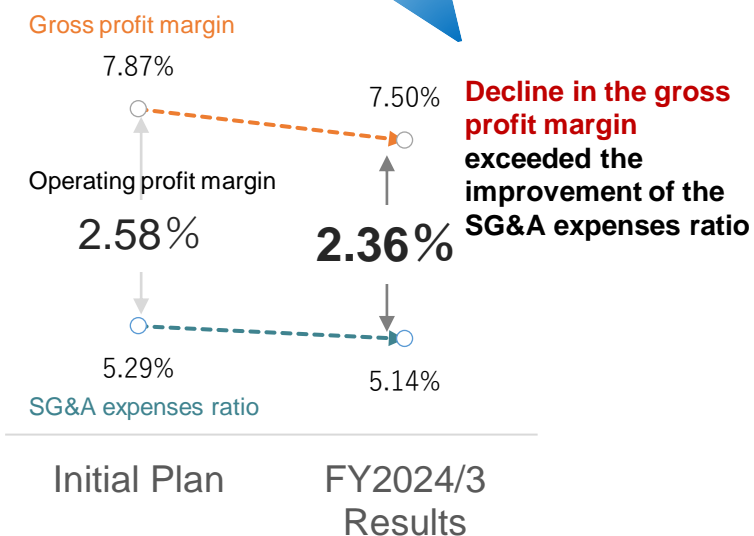
Net Sales



Operating Profit



Operating Profit Margin



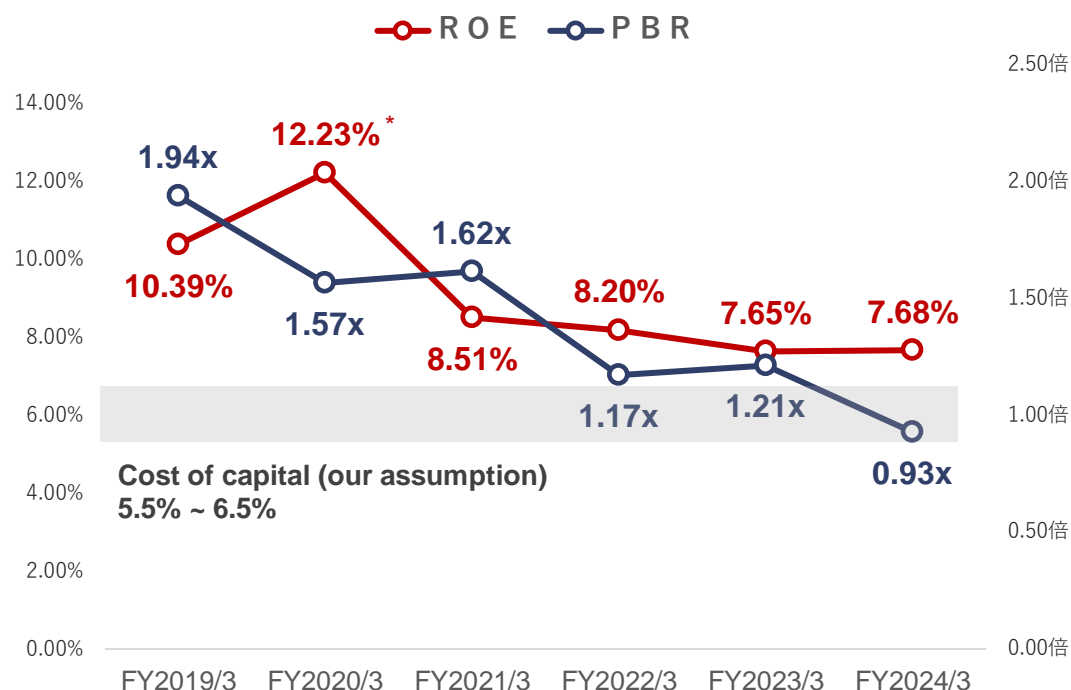
Review Analysis of capital profitability

【 Recognition of current status 】

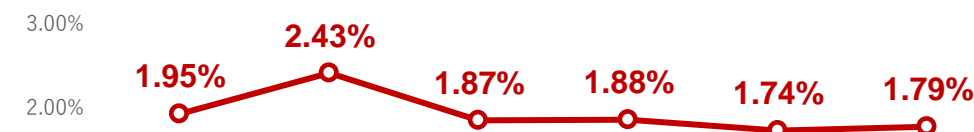
- Return on equity (ROE) exceeded the assumed cost of capital (Equity spread was positive)
- ROE was tending to decline, PBR was less than 1.0 times as of March 31, 2024

⇒ While net sales and profits increased, ROE was tending to decline due to worsening both profit ratios and asset efficiency

Capital profitability and valuation from the stock market



Profit margin



Total asset turnover

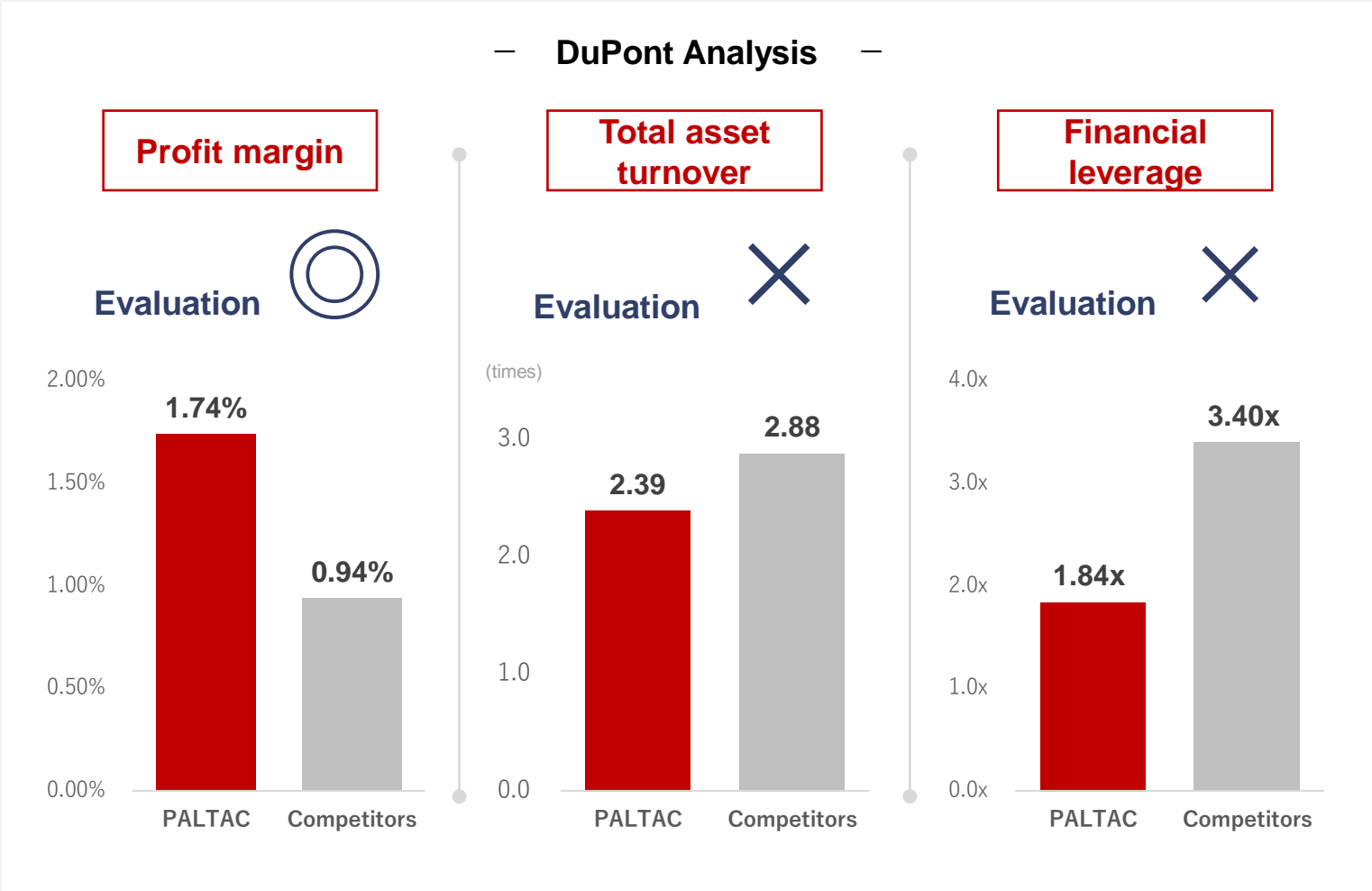
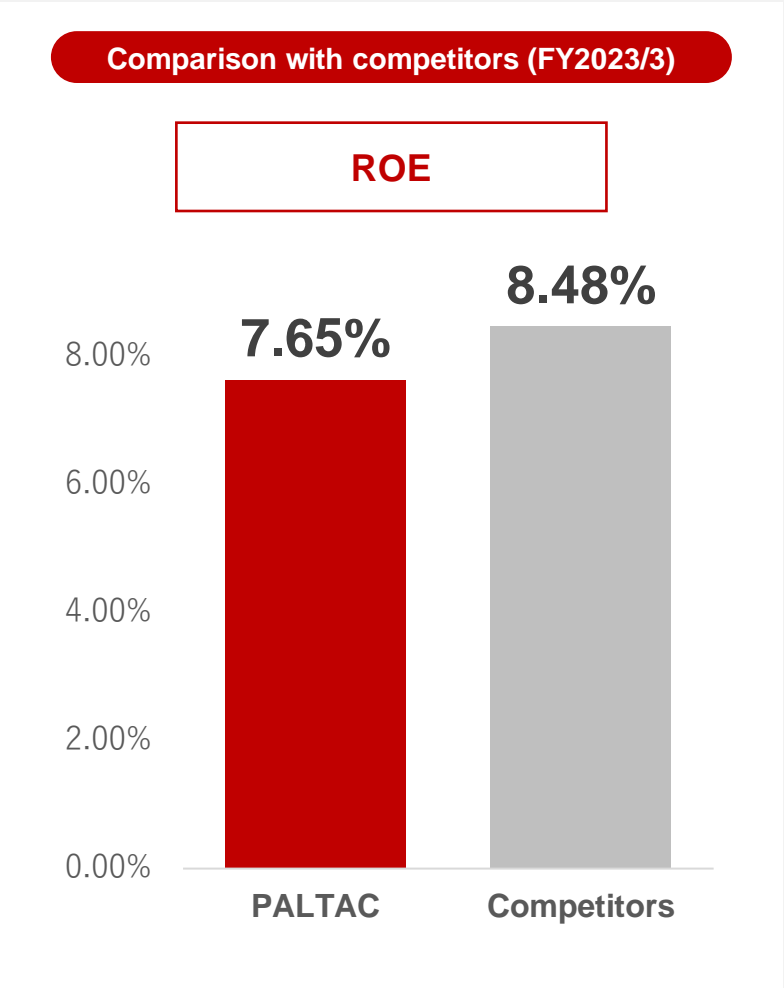


Financial leverage



* FY2020/3 profit margin increased significantly due to gain on sale of the distribution center (RDC Tokyo)

- **Total asset turnover and financial leverage** are lower than those of competitors



- Although sales and profits grew steadily, **declined profit margins**
- As a result of management by emphasizing the statements of profit or loss, capital adequacy has been amassed and **total asset turnover and the financial leverage worsened**



The tasks towards increase in capital profitability

**Improvement in profit margin,
adjustment of capital structure**

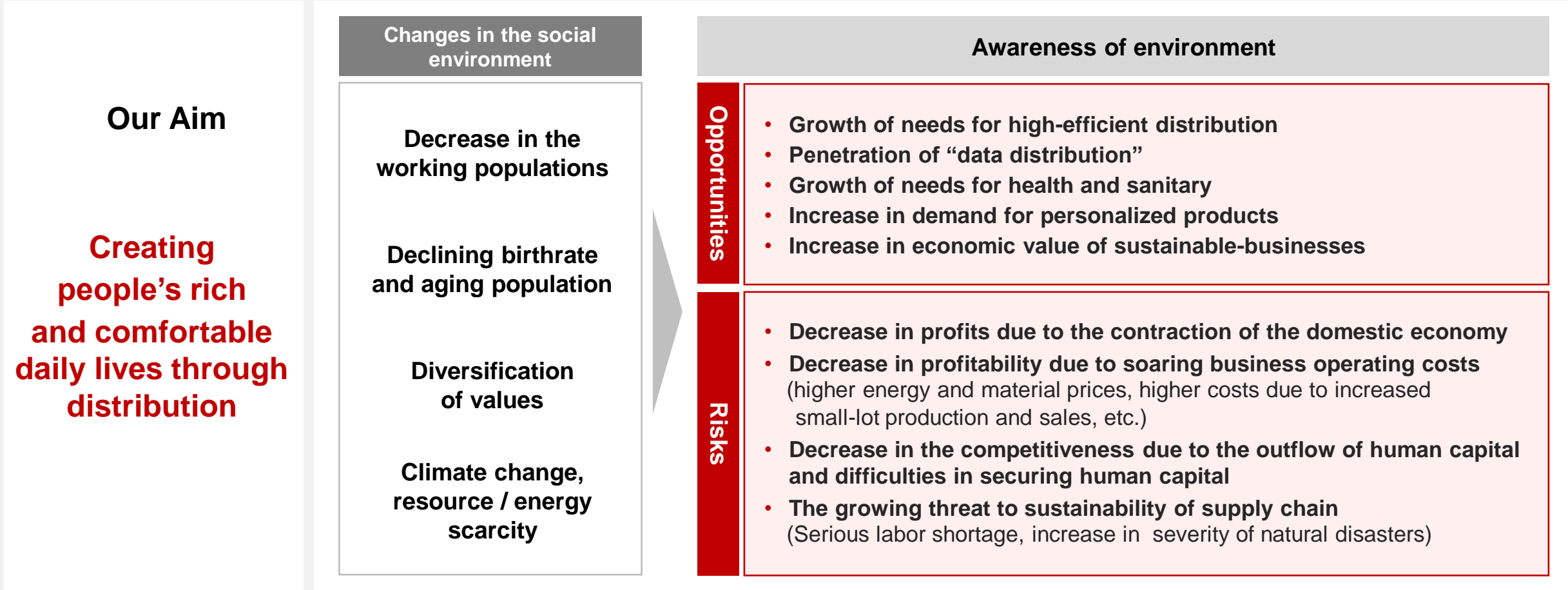
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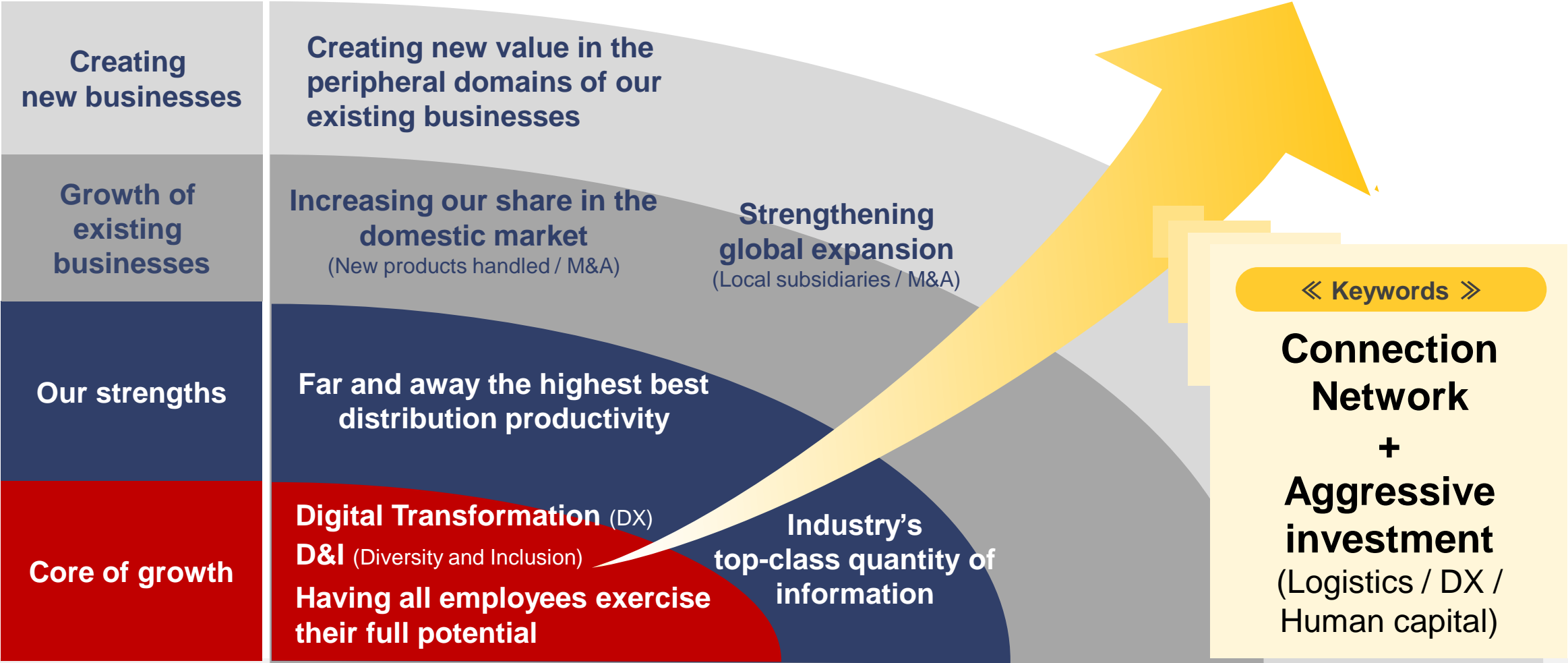
Recognition of the environment from a long-term perspective

(approximately 10 years into the future)

- **The next decade should be a time of transformation towards a sustainable society**
(The standard and the fundamental nature will change across many different areas of society)
- **Fulfil our aim, through the resolution of social issues by innovation in distribution**



Net sales 2 trillion yen / ROE 9% - 10%
Coexisting and co-creation with the environment and society



Creating the future of people and society through the power of connections

Creating “the future” in which sustainable well-being of people and society can be realized by diverse connection of supply chain from innovation

Materiality		
Securing new revenue opportunities	Creating new value through developing borderless supply chain network	<ul style="list-style-type: none">■ Eliminating unreasonable, wasteful acts and unevenness factors through digitalizing distribution process■ Connecting people, things and information with the digital network and creating colorful and rich daily lives
	Developing distribution network beyond the conventional approach through far and away the highest productivity	<ul style="list-style-type: none">■ Developing high-efficient distribution network, which has far and away the highest productivity■ Developing sustainable distribution network through cooperation beyond the industries and the conventional business practices
Reduction of risk	Coexisting and co-creation with the environment and society	<ul style="list-style-type: none">■ Contributing to the realization of sustainable environment and society by developing supply chain that does not incur burdens
	Cultivating a corporate culture that emphasizes autonomy and spontaneity and realizing a state where individual employees' growth leads to the growth of our company and society	<ul style="list-style-type: none">■ Cultivating a corporate culture that emphasizes autonomy and spontaneity and building an environment where diverse human capital can exercise their full potential■ Establishing governance that supports the sustainable growth of individual employees, our company and society

Creating the future of people and society through the power of connections

- **Accumulating knowledge and resources through strengthening existing businesses**
(Various abilities : Logistics function / Trading function / Human capital / Data)
- **Taking on the challenge for new business domains by leveraging these abilities**
- **Improving profitability through the creation of new businesses**

New business domains
(Including the expansion of business domains)

Existing business domains

FY2024/3

Long-term goals

Net Sales **2 trillion** yen

ROE **9 -10** %

Sustainability

- Building organization in which diverse human capital play active roles with autonomous and spontaneous thinking
- Developing a safe and secure supply chain
- Contributing to the transition to a decarbonized society and circular economy

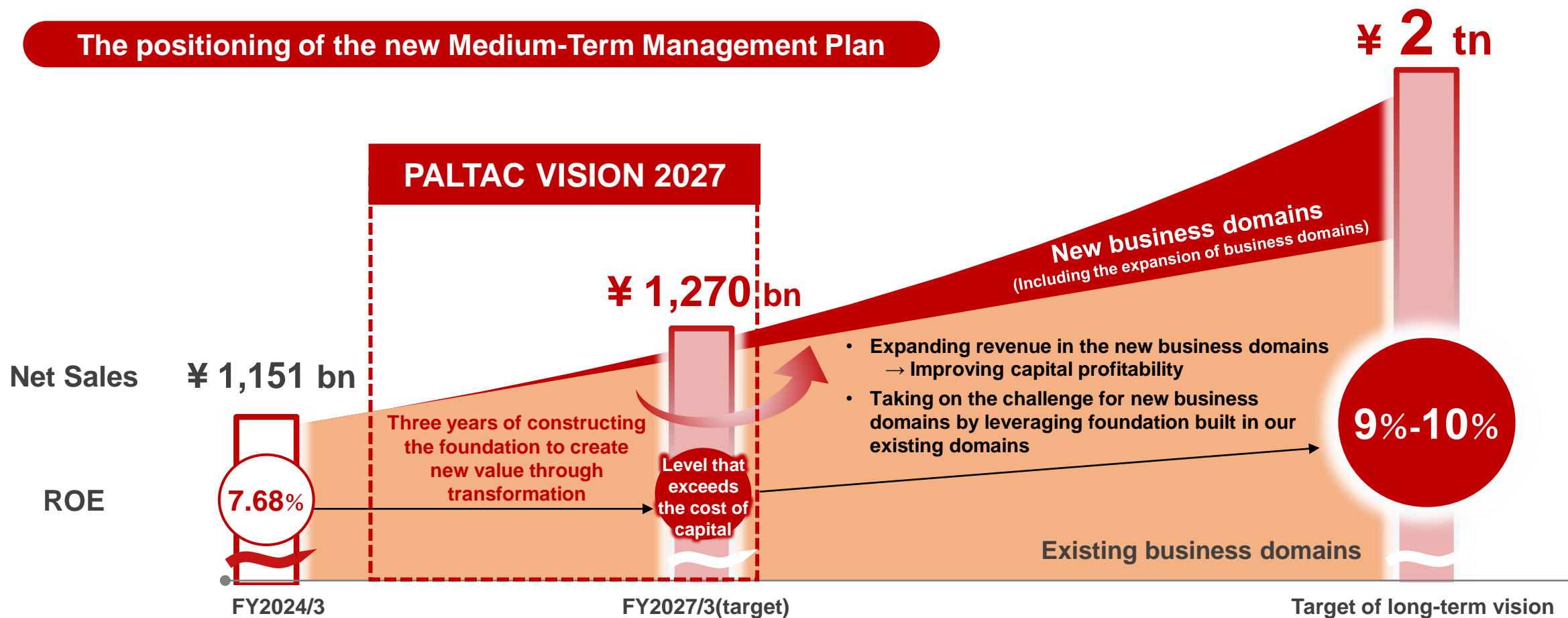
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PALTAC VISION 2027

Constructing the foundation for transformation through structural reform

The positioning of the new Medium-Term Management Plan



The essence of constructing the foundation for transformation

Towards the realization of our long-term vision

Connect / be Connected	Securing “adequate capitals”	Expanding sales and profits of existing businesses
	Gaining “competitive edge”	Enhancing our functions of distribution, sales and digital Promoting new value creation (cultivating the seeds of new business) Enhancing and building connection with our partners Accumulating valuable information
	Acquiring “practical abilities”	Increasing capacity of organization (through business structural reforms) Securing and developing human capital Improving work environment Strengthening governance system Improving utilization of digital and information
	Obtaining “cooperation”	Promoting cooperation with multi-stakeholders (contribution to environment and society, the appropriate distribution of profits to employees and shareholders, etc.)

Key strategies

1 . Improving profitability of existing business

- Enhancing the handling of new products
- Enhancing improvement in delivery efficiency

2 . Taking on the challenge to create new value

- Digitalizing supply chain information
- Developing a new logistics model
- Expanding domains in which our logistics values could be provided
- Developing a global network

3 . Improving sustainability

- Maximizing the value of human capital
- Enhancing foundation for DX promotion
- Contributing to environment and society
- Strengthening corporate governance

4 . Undertaking management to enhance capital efficiency

Input
(Financial capital)

¥ **135** bn

Output
(Financial aspect)

Net Sales
¥ **1,270** bn

ROE
Maintaining the
level that exceeds
the cost of capital

New Medium-Term Management Plan “PALTAC VISION 2027”

Numerical targets

Targets		FY2027/3	Vs. FY2024/3 Amount	Vs. FY2024/3 Rate
Financial	Net Sales	¥ 1,270.0 bn	+ ¥ 118.0 bn	+ 10.2%
	Operating Profit	¥ 30.0 bn	+ ¥ 2.8 bn	+ 10.4%
	ROE	Maintaining the level that exceeds the cost of capital	—	—
	Payout Ratio	Aiming for the level of 35% or more	—	—
Non-Financial	Ratio of CO2 emissions reduction *1	Reduction of 28%	+ 16%	—
	Diversity	Percentage of female employees in management positions : 8.4% Percentage of male employees taking childcare leave : 60%	+ 1.7% + 30%	—
	Engagement Score *2	55.0	+ 6.9	—

*1 Ratio of CO2 emissions reduction : Scope 1+2 (Vs. FY2021/3)

*2 Engagement score: Measured by “Motivation Cloud” service of Link and Motivation Inc.

Improving profitability of exiting business Enhancing the handling of new products

Responding to diverse needs
Reducing environmental burden

Expanding sales
Improving gross profit

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

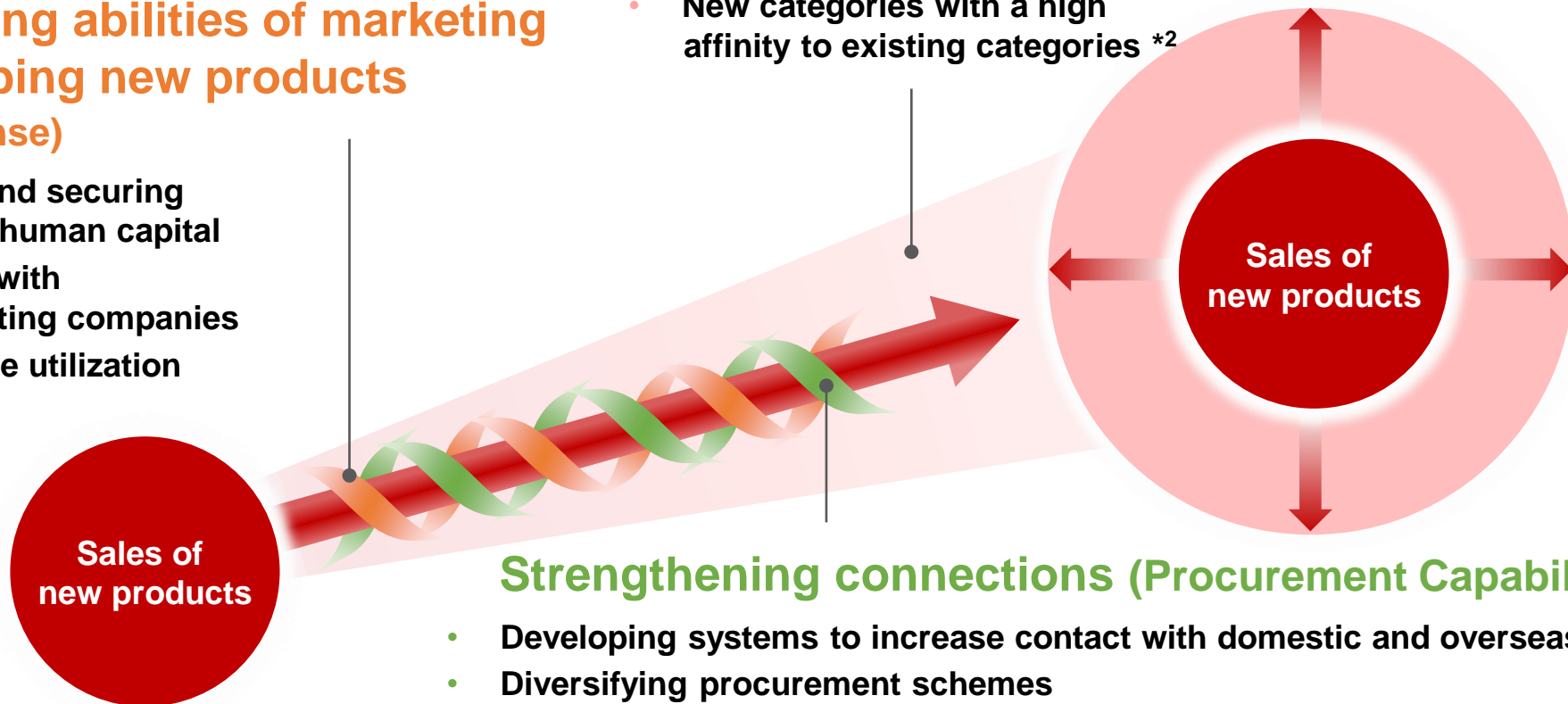
Enhancing the handling of new products

Strengthening abilities of marketing and developing new products (Marketing sense)

- Developing and securing professional human capital
- Cooperating with digital marketing companies
- Enhancing the utilization of PIT ^{*1} data

Expanding sales categories

- New categories with a high affinity to existing categories ^{*2}



Strengthening connections (Procurement Capability)

- Developing systems to increase contact with domestic and overseas manufacturers
- Diversifying procurement schemes

^{*1} PIT: The in-store information sharing platform developed by our company ^{*2} Existing categories: Cosmetics, daily necessities, OTC drugs, health and hygiene products

Improving profitability of exiting business

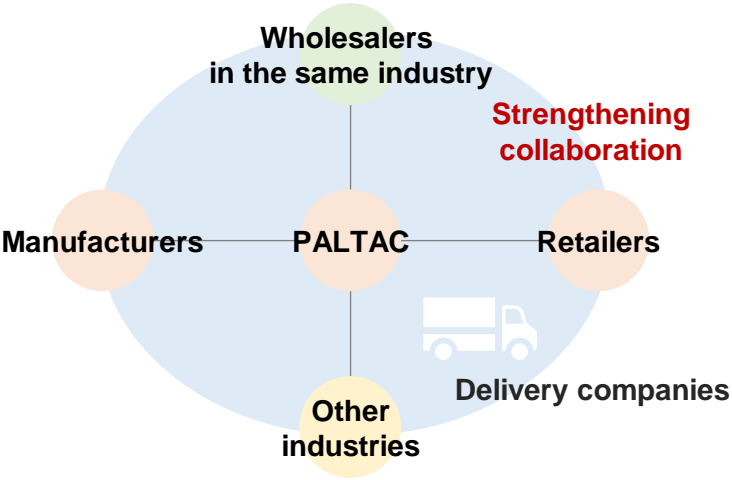
Enhancing improvement in delivery efficiency

- Addressing labor shortages
- Reducing environmental burden
- Improving SG&A expenses ratio

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

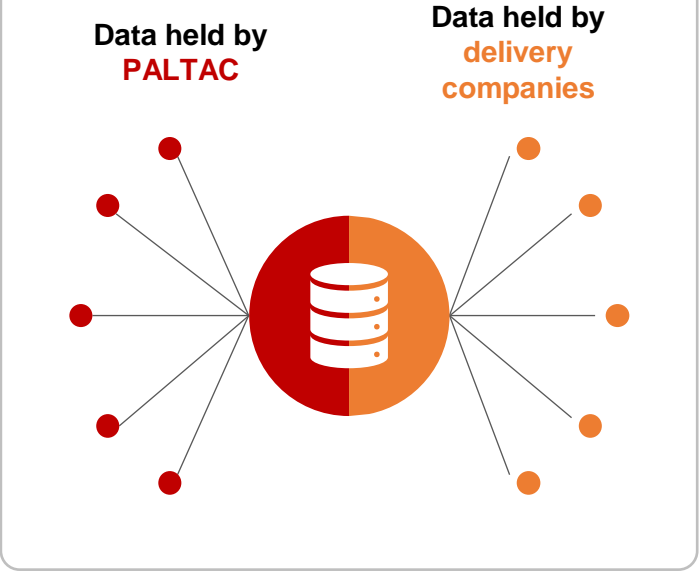
Promoting joint delivery

Accelerating improvements of delivery efficiency through **partnerships** beyond competitive barriers and industry boundaries



Strengthening the delivery management

Developing the delivery management system which integrates various delivery data



Visualizing more delivery data through cooperation with delivery companies

Strengthening delivery management through **KPI control and broadening initiatives**

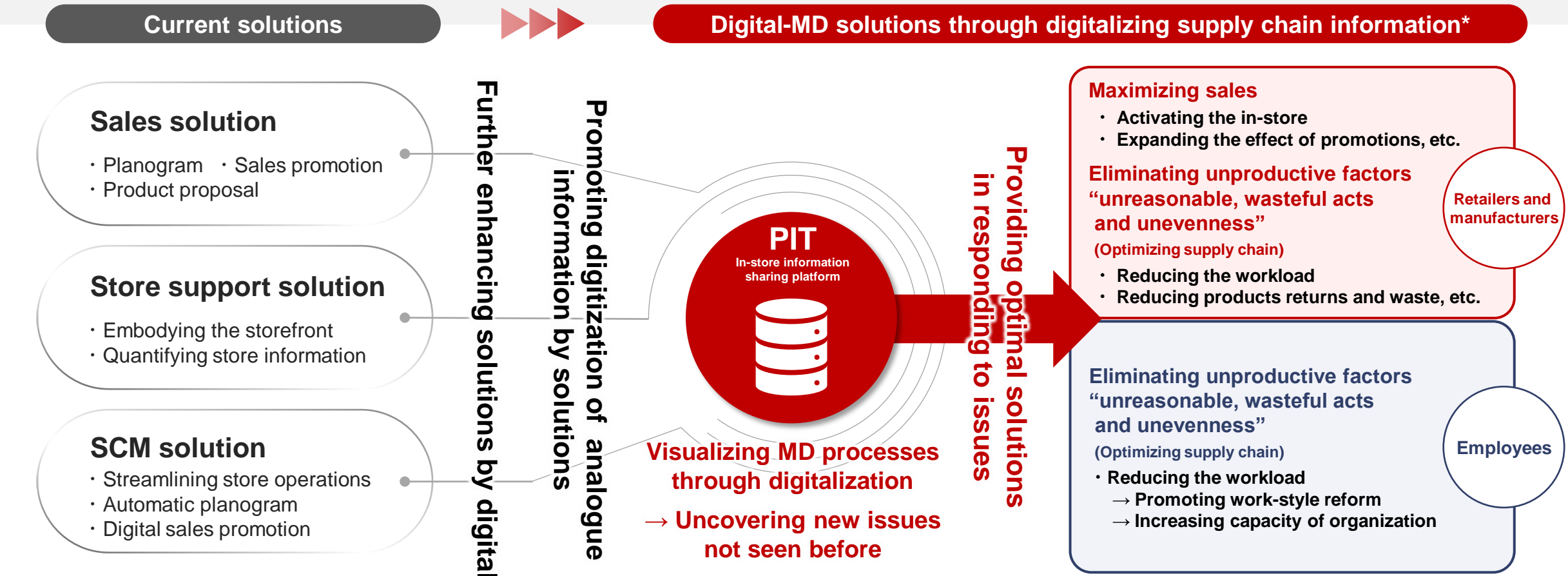
Foundation for contributing to the “developing joint delivery network”

Taking on the challenge to create new value

Digitalizing supply chain information

- Addressing labor shortages
- Responding to diversifying needs
- Reducing environmental burden
- Expanding sales
- Developing new revenue foundation

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



*Digital-MD (Merchandising) solution: A service that digitally solves “product merchandising issues” that originate in the store

Taking on the challenge to create new value

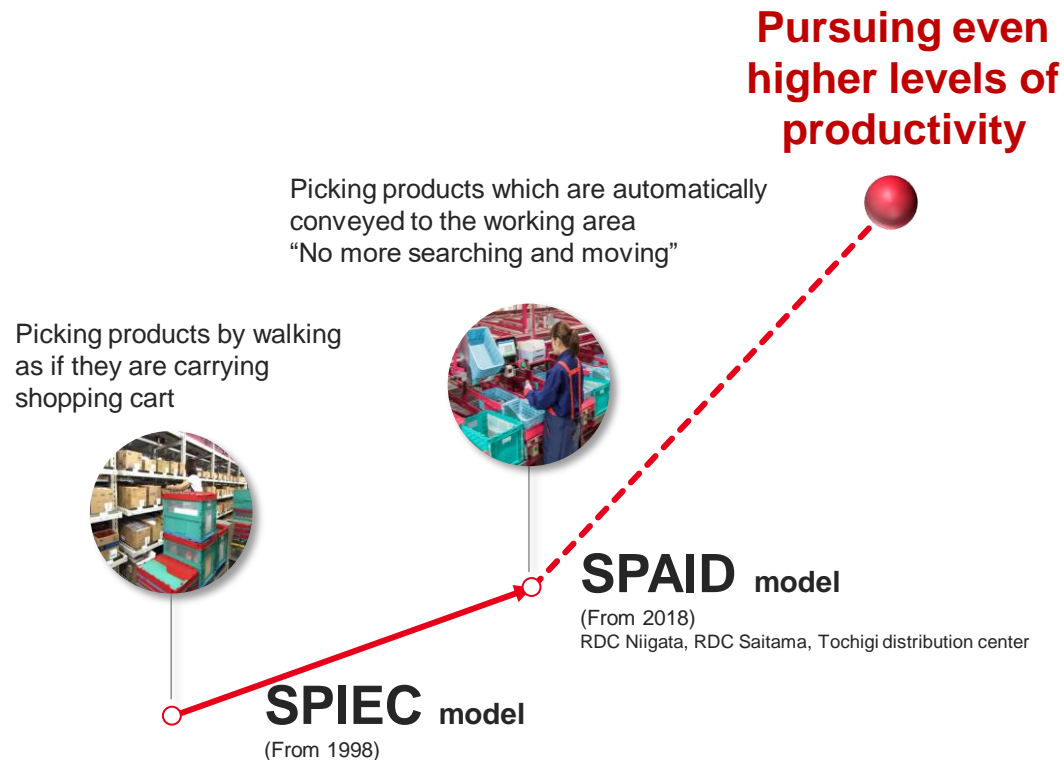
Developing a new logistics model

Addressing labor shortages

Improving SG&A expenses ratio
Improving efficiency of capital investment

Developing the industry-leading logistics model with far and away the highest productivity

The changes of logistics model and next target



New logistics model

Piece picking productivity
Target

More than double compared to SPAID

- Starting technological development of the new logistics model
- Aiming to begin to construct during the new medium-term management plan and to **start operation in FY2028/3**

Taking on the challenge to create new value

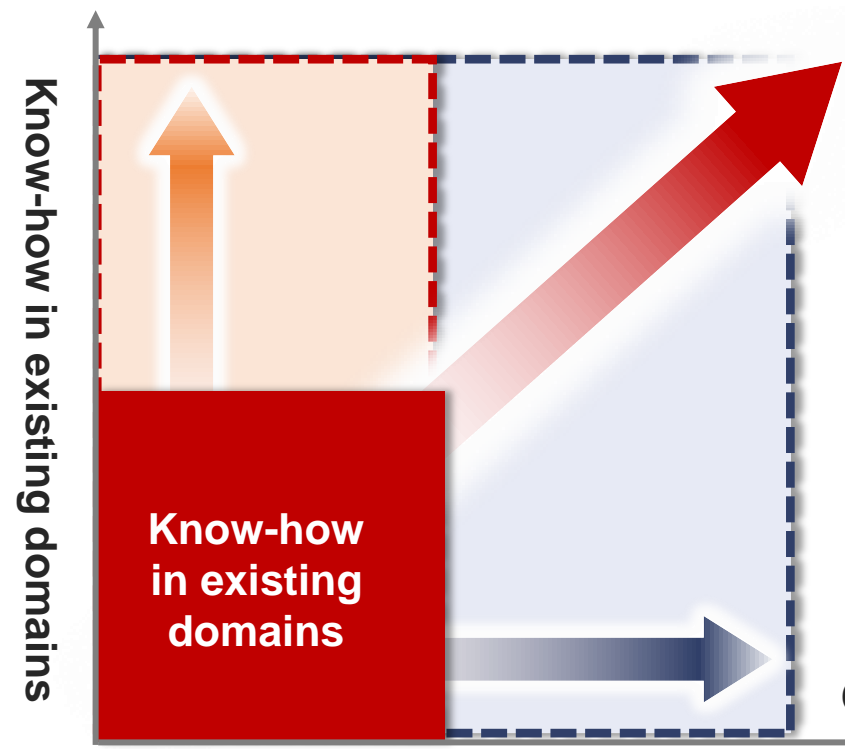
Expanding domains in which our logistics values could be provided

- Addressing labor shortages
- Reducing environmental burden
- Developing new revenue foundation

Expanding domains in which our logistics values could be provided through developing far and away the highest productivity and strengthening know-how and connections

Domains in which our logistics values could be provided

Developing the logistics model with far and away the highest productivity



Further expanding business domains where our logistics values could be provided

- Developing a joint delivery network
- Acquiring know-how in food logistics
- Starting food logistics at RDC Miyagi in September 2024
- Connection / Know-how in new domains

Taking on the challenge to create new value

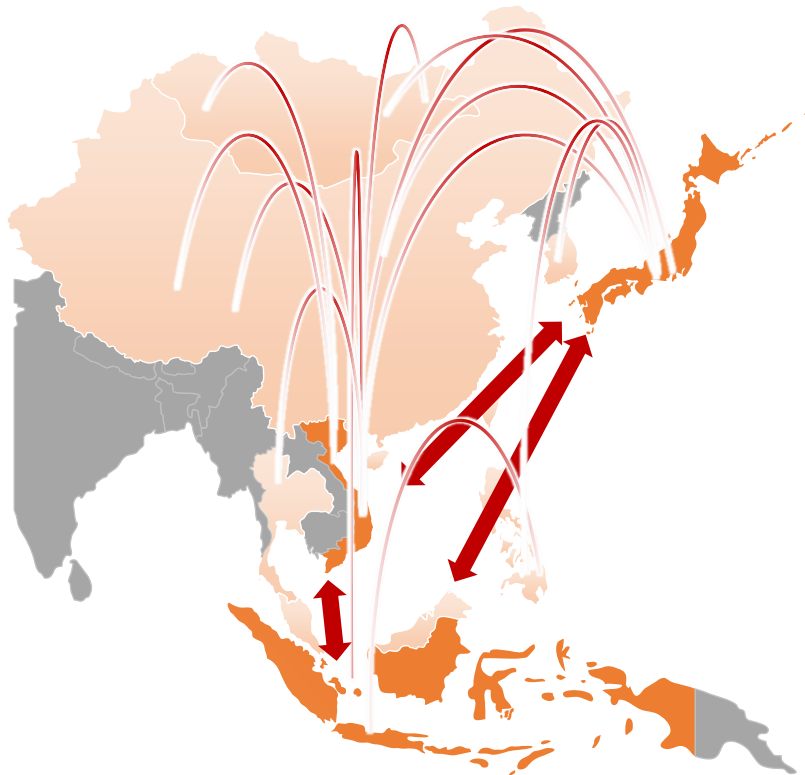
Developing a global network

Responding to diverse needs
Reducing environmental burden

Expanding sales
Developing new revenue foundation



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

Image of the global network



Connecting various products and information

into a global network by leveraging our bases in each country as the hubs

 Trade with overseas companies in 15 countries and region
 PALTAC's bases (Japan/Vietnam/Indonesia)

Strengthening the network

Expanding the scale of overseas subsidiaries

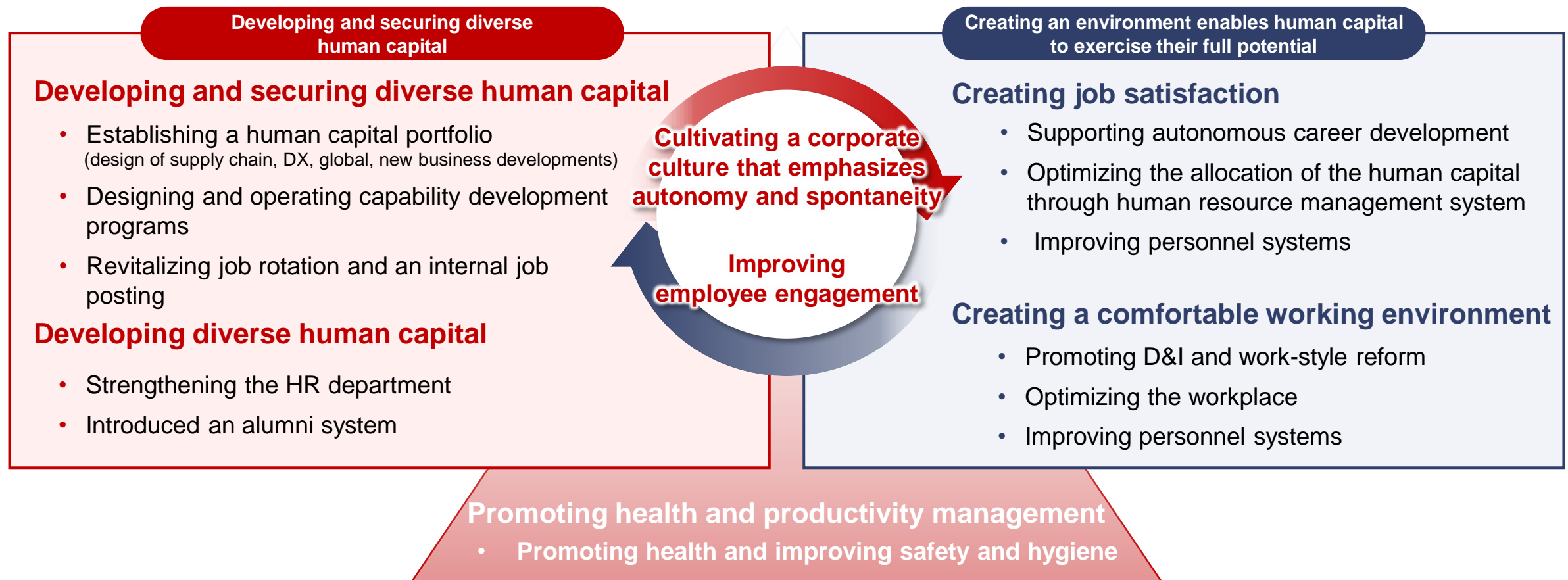
- Developing local brands
- M&A and alliances with leading local companies

Expanding the area

- Establishing business bases in the neighboring countries with high growth potential

Developing human capital, with autonomous and spontaneous thinking, who can create new values

▶▶ Optimizing the organization in line with the strategy



Strengthening the foundation for promoting transformation towards new value creation

Using data

Creating value through data-driven

- Enhancing solutions by improving the use of supply chain data
- Promoting visualization through digitizing analogue information
- Strengthening data quality management
- Enhancing infrastructure for utilization and analysis of data

Developing digital human capital

Promoting individual autonomous career development through opportunities of both learning and practicing

- Conducting training to improve digital literacy
- Establishing professional human capital developing programs (regarding to IT infrastructure etc.)
- Improving operations through using generative AI
- Establishing an online knowledge base using SNS within the Company

DX governance and capacity of organization

Strengthening the system for effectively promoting DX

- Undertaking business structural reforms under the leadership of top management
- Continuous PDCA control cycles to reinforce information security (Strengthening CSIRT systems, upgrading security structure, etc.)
- Strengthening the risk management department

Increasing capacity of organization through business structural reforms

- Visualizing the unproductive factors “unreasonable, wasteful acts and unevenness” in the operational processes
- Selecting, consolidating, and digitizing based on environmental changes
- Effectively using external resources

Environment

- **Reducing CO2 emissions Scope 1+2**

- Promoting the introduction of renewable energy
(Purchasing non-fossil fuel certificates, installing solar panels, etc.)
- Switching to environmentally friendly vehicles (HV/EV)

- **Reducing CO2 emissions Scope 3**

- Reducing CO2 emissions during track transportation
- Promoting collaboration with customers to improve calculation accuracy and reduce CO2 emissions

- **Reducing waste**

- Promoting to reduce products return
- Promoting paperless operations in conjunction with improvement of operations

Social

- **Promoting D&I and work- style reform**

- Diversifying work styles
- Improving operations through using digital
- Promoting childcare leave by male employees
- Establishing systems to support promotion

- **Respecting human rights in the supply chain**

- Strengthening information sharing systems with customers
- Conducting human rights due diligence

- **Promoting health and productivity management**

- Expanding awareness activities to enhance health consciousness
- Developing professional in workplace safety and hygiene

Governance

- **Instilling a corporate philosophy**
- **Improving the effectiveness of the Board of Directors**

- Continuing improvements through evaluation of the effectiveness

- **Enhancing compliance**

- Conducting continuous education and training

- **Promoting risk management**

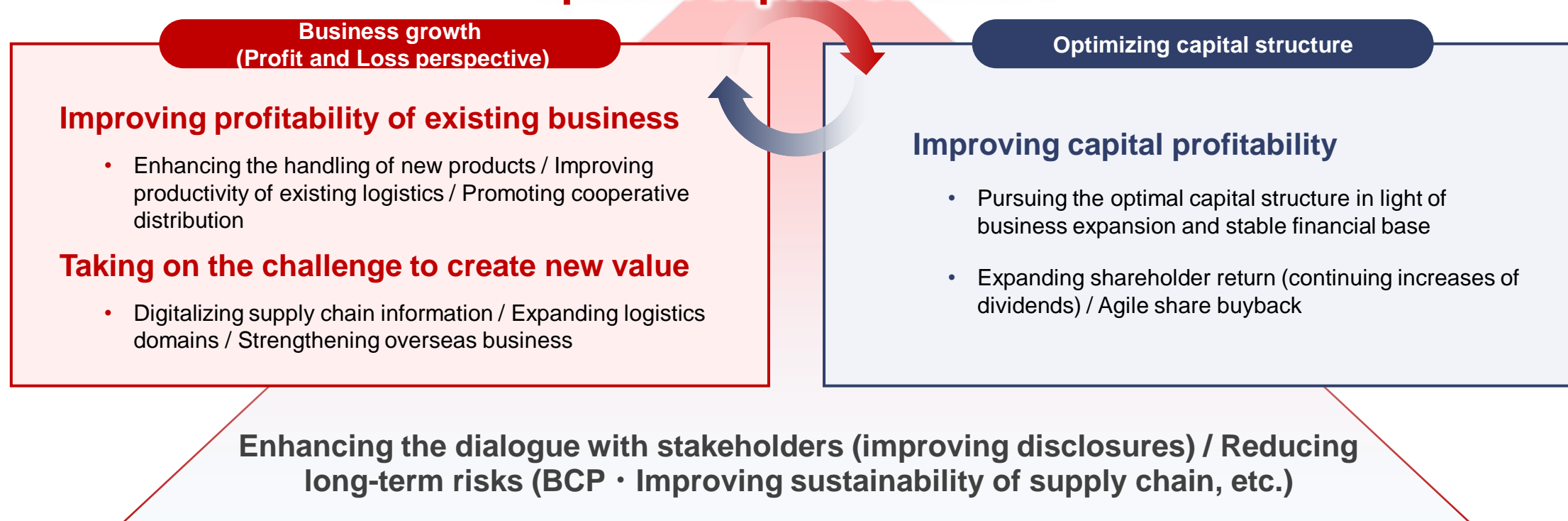
- Strengthening the risk management department
- Enhancing information security
- Cooperating with external partners

- **Enhancing dialogue with stakeholders**

- Enhancing information disclosure
- Incorporating dialogue into management

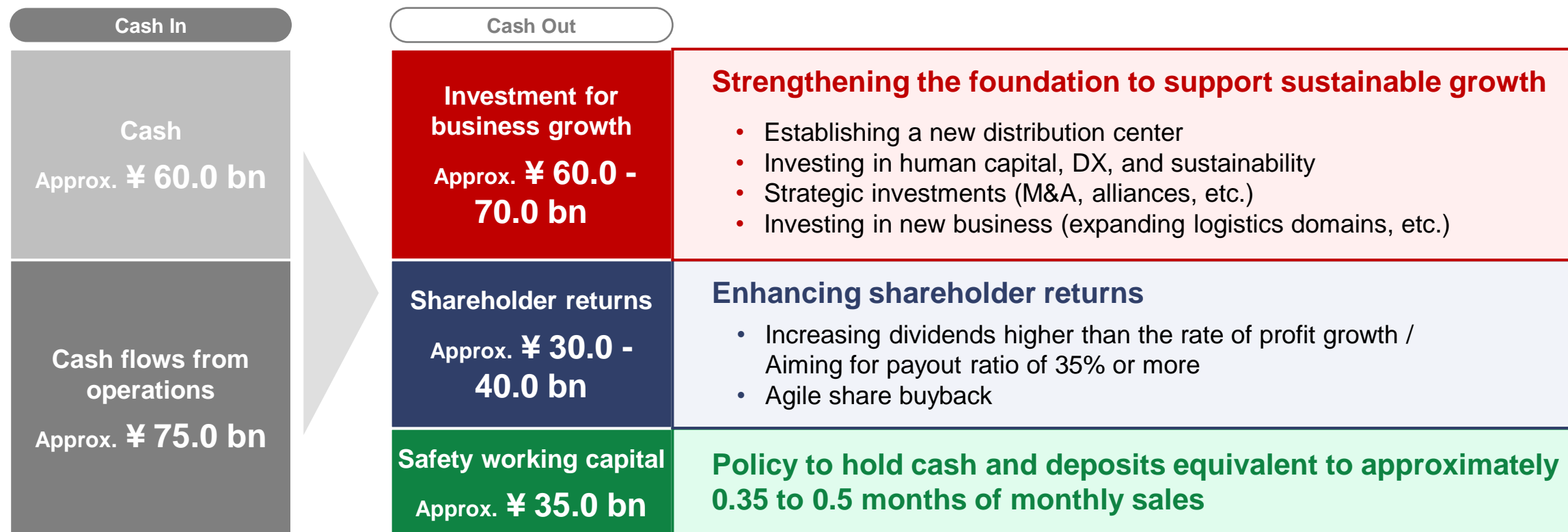
Maintain ROE above cost of capital, targeting 9-10% in the long term

Managing with an awareness of business growth and optimal capital structure



Enhancing return to shareholders along with aggressive investment for sustainable growth

Forecast of cash allocation (FY2025/3 - FY2027/3)



Policy on shareholder returns

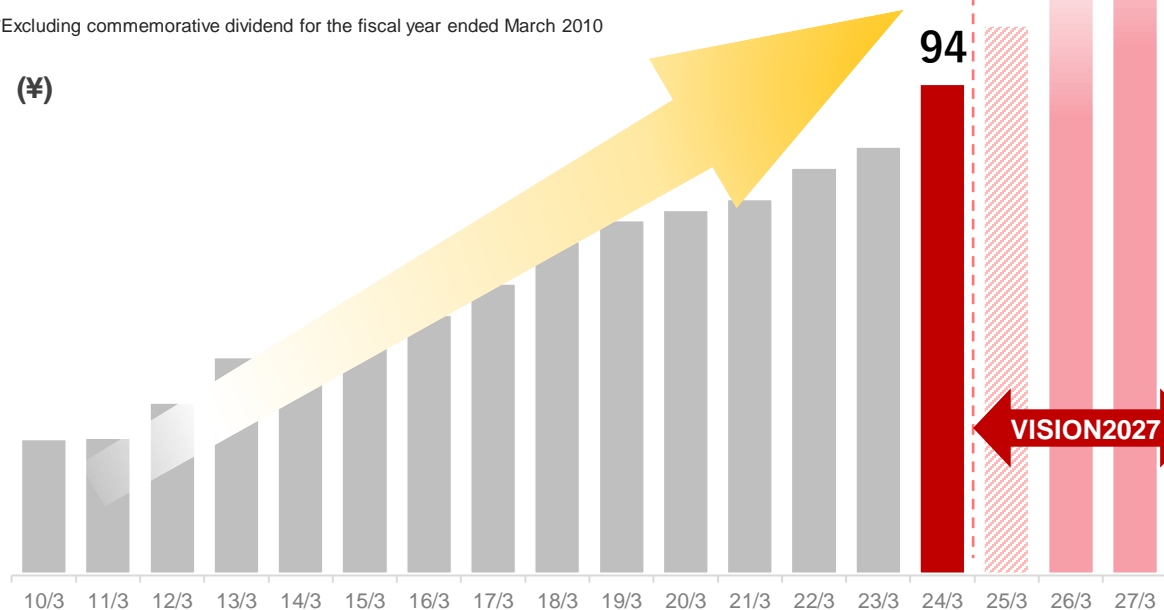
- Continuing to increase dividends
→ Increasing dividend exceeding profit growth
- Aiming for payout ratio of 35% or more
- Enhancing shareholder returns through share buyback

— Dividend per share —

Increasing dividends for
15th consecutive years since listing
(Including expected)

*Excluding commemorative dividend for the fiscal year ended March 2010

(¥)



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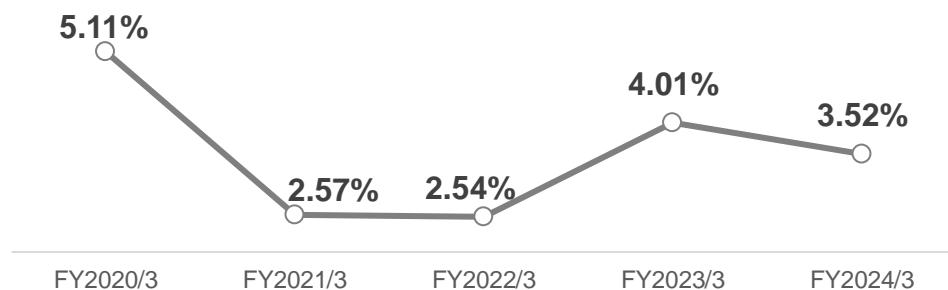
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The assumed cost of capital

Cost of capital (our assumption)

Calculated from CAPM

5-year average: **3.55%**



Risk-free rate

10-year government bond yield

Beta (β): Sensitivity

Regression coefficients of the Nikkei Stock Average and our stock price trends (3 years)

Risk premium

The risk-free rate is subtracted from the average profit yield (inverse of PER) of all issues in the Tokyo Stock Exchange prime market

Level of shareholder market expectations

- PALTAC PER (as of the end of March 2024)

12.7x ⇒ **7.87%** (inverse of PER)

- Russell/Nomura Large (excluding finance) PER(FY2024)

*The number of adjusted for our company's forecast EPS growth rate

*Analysts who are following our business performance use as a benchmark

15.0x ⇒ **6.67%** (inverse of PER)

Based on the above, our company's the cost of capital is assumed to be **between 5.5% and 6.5%**

Note Concerning **Forward-Looking Statements**

Information in this document presented by PALTAC CORPORATION (the “Company”) contains forward-looking statements regarding to the Company. Other than historical facts, these forecasts and strategies prepared under certain assumptions, and such matters include certain risks and uncertainties. As such, please be forewarned that actual results may not necessarily match these forecasts due to a variety of changes in the business environment and others causes.

Please also note that even in cases where it might be desirable for the forecast information to be updated or revised due to new information, future events or other items. The Company is not obliged and does not have a policy of updating this document and information to the most recent.