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January 12, 2023

Consolidated Financial Results for the Three Months Ended November 30, 2022 (Under Japanese GAAP)

Company name: TRANSACTION CO., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 7818
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 Scheduled date to file quarterly securities report: January 13, 2023
 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 three months ended November 30, 2022 (from September 1, 2022 to November 30, 2022)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
November 30, 2022	5,969	33.9	1,262	60.3	1,255	59.2	818	57.3
November 30, 2021	4,457	(7.9)	787	(11.2)	788	(13.6)	520	(16.6)

Note: Comprehensive income For the three months ended November 30, 2022: ¥719 million [22.9%]
 For the three months ended November 30, 2021: ¥585 million [(1.0)%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
November 30, 2022	28.12	–
November 30, 2021	17.88	–

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
November 30, 2022	16,638	13,346	80.2
August 31, 2022	16,650	13,354	80.2

Reference: Equity
 As of November 30, 2022: ¥13,346 million
 As of August 31, 2022: ¥13,354 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended August 31, 2022	Yen –	Yen 0.00	Yen –	Yen 25.00	Yen 25.00
Fiscal year ending August 31, 2023	–				
Fiscal year ending August 31, 2023 (Forecast)		0.00	–	27.00	27.00

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

3. Consolidated earnings forecasts for the fiscal year ending August 31, 2023 (from September 1, 2022 to August 31, 2023)

(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
Six months ending February 28, 2023	10,098	12.6	1,728	7.1	1,736	6.9	1,156	7.8	39.72
Fiscal year ending August 31, 2023	20,600	12.7	3,560	10.2	3,577	8.3	2,375	8.2	81.60

Note: Revisions to the consolidated earnings forecasts most recently announced: None

*** 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 November 30, 2022	29,375,400 shares
As of August 31, 2022	29,375,400 shares

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

As of November 30, 2022	270,865 shares
As of August 31, 2022	270,865 shares

- (iii) Average number of shares outstanding during the period

Three months ended November 30, 2022	29,104,535 shares
Three months ended November 30, 2021	29,104,535 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 5 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 three months ended November 30, 2022, the Japanese economy continued to be affected by the spread of novel coronavirus (COVID-19) mutations, but due to the progressive normalization of social and economic activities, centered on personal consumption, a moderate trend of recovery was maintained. However, soaring energy prices driven by the situation in Russia and Ukraine and other geopolitical risks, the sharp depreciation of the yen, and rapid increases in raw materials prevented mitigation of deterioration in terms of trade, and resulted in uncertainty about the future. In addition to concerns about the impact on supply chains due to the rapid spread of COVID-19 in China going forward, the recovery in the global economy is being blunted by a prolongation of the situation in Russia and Ukraine and a slowing of economic activity caused by the adoption of monetary tightening policies in countries around the world, and it is feared that the Japanese economy will also be affected.

In this environment, the TRANSACTION Group (the “Group”) executed marketing activities to capture changes in the social environment and demand trends in a timely fashion, and strengthened new product development based on the five key strategies designated in the 4th medium-term management plan of “finished goods demand arising from the promotion of SDGs,” “tangible goods consumption originating from intangible goods consumption,” “demand for revenge spending coming after COVID-19,” “strengthened e-commerce,” and “strengthened domestic in-house manufacturing.”

Eco-products

In Eco-products, we set the key strategy of “finished goods demand arising from the promotion of SDGs,” and continued to offer and strengthened our lineup of finished goods made from raw materials such as environmentally-friendly materials organic cotton and recycled materials, biomass plastics, and natural materials. There was also a strengthening trend among client entities towards selecting eco-products for novelties used in exhibitions, seminars, and sales promotions. As a result, eco bags, tumblers, thermos bottles and other mainstay products put in a strong performance, and sales rose significantly year on year. In a continuation of the previous fiscal year, finished goods from our “MOTTERU” ethical brand were selected for the “Let’s choose! 3R campaign 2022” sponsored by the Ministry of the Environment. This, together with a rise in replacement demand for retail eco bags, an increase in color variations achieved by the addition in the previous fiscal year of genderless colors, and the expansion of product categories such as cutlery, umbrellas, and handkerchiefs, resulted in solid performance. As a result, overall sales of Eco-products increased by 846 million yen, or 43.3% year on year.

Lifestyle products

In lifestyle products, we set the key strategies of “tangible goods consumption originating from intangible goods consumption” and “demand for revenge spending coming after COVID-19” and strengthened sales to the game and animation industries, where performance remains strong, in a continuation of the previous fiscal year. In particular, major event projects making use of IP showed signs of movement, and this was partially responsible for the considerable year-over-year growth in sales to the game and animation industries. In the media content-related industry, which recorded significant growth in sales in the previous fiscal year, we again achieved a considerable year-on-year increase by establishing a structure to enable us to achieve stable sales. Pet wear and related finished goods recorded a strong performance, driven by “RAKURUMU WEAR” winning a prize in the Good Design Award 2022, the introduction of new products, and an expansion in sales channels. Sales of travel and related finished goods have not recovered to pre-COVID-19 levels, but we succeeded in growing sales year on year. In addition, we focused on marketing activities aimed at the future expansion of demand. As a result, overall sales of Lifestyle products increased by 683 million yen, or 33.0% year on year.

Wellness products

As for Wellness products, although there were concerns over the potential 8th wave of the COVID-19 infection, demand for anti-infection products remained flat, resulting in a decrease in sales of 49 million yen, or 13.1% year on year.

■ E-commerce business

In the E-commerce business, in accordance with the key strategy of “strengthened e-commerce,” we reinforced initiatives to achieve the target of accounting for at least 30% of consolidated net sales in the fiscal year ending August 31, 2025. Regarding our main sites, we worked to expand the number of registered finished goods in “HANSOKU-STYLE” and improve its usability. In “MARKLESS STYLE,” as well as expanding the number of companies that have introduced “MARKLESS Connect” and “MARKLESS Partner,” we rolled out hybrid marketing activities that fuse the in-person sales approach with e-commerce, and focused on growing sales at companies that have deployed these services. In the “D2C”^{*} site, by strengthening social media activities for our “Original Goods Press” platform site for product sales and OEM, and for the “Calulu ONLINE STORE” for pet wear and related finished goods, we raised awareness among users and promoted activities that contribute to sales growth. As a result, the main sites recorded significant growth along with the D2C site, leading to e-commerce sales growing 437 million yen year on year, or 73.4%. E-commerce also rose as a proportion of total sales, to 17.3%.

* 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.

In terms of production, we secured multiple production bases in preparation for suspension of production and delayed deliveries due to the spread of infection in countries and regions where production bases are located, maintained our inventory levels in Japan that were built up in the previous fiscal year, flexibly switched production bases in response to exchange rate fluctuations and soaring raw material prices, and optimized distribution routes, while striving to realize continuous stable supply and strengthen price competitiveness. Nevertheless, due to the continuing impact of such factors as higher energy prices, caused by the situation in Ukraine and other geopolitical risks, and China’s zero-COVID policy, there were no signs of a turnaround in the manufacturing environment overseas, and conditions remained characterized by uncertainty. Under these circumstances, and in response to the increased burden caused by the unexpectedly large depreciation of the yen, we began to implement price increases for finished products in our main brand “MARKLESS STYLE” in October. In addition, in accordance with the key strategy of “strengthened domestic in-house manufacturing” we increased capacity at our factories in Japan and invested in new facilities in order to promote in-house manufacturing of finished products for product sales in Lifestyle Products for which demand is high. As a result of taking various measures besides these, we were able to maintain the gross profit margin for the three months ended November 30, 2022 at the same level as the same period of the previous fiscal year. However, there was a further strengthening of the trend toward higher manufacturing costs in our factories in Japan. These included increases in the costs of printing ink and other raw materials, and sharp increases in electricity charges, and our response to this increased burden will be an important issue going forward.

As a result, in the three months ended November 30, 2022, net sales increased to 5,969 million yen (up by 1,511 million yen, or 33.9% year on year), and operating profit increased to 1,262 million yen (up by 474 million yen, or 60.3% year on year) owing to securing gross profit by increase in net sales, and well-planned expenditure of selling, general and administrative expenses. Ordinary profit increased to 1,255 million yen (up by 467 million yen, or 59.2% year on year). Profit attributable to owners of parent also increased to 818 million yen (up by 298 million yen, or 57.3% year on year).

Actual sales by sales channel and product classification for the three months ended November 30, 2022 were as follows.

<Actual sales by sales channel>

(Millions of yen)

Sales channel	Net sales		Change	
	Three months ended November 30, 2021	Three months ended November 30, 2022	Change (Amount)	Change (%)
Targeting end-user companies	2,219	2,959	739	33.3
Targeting wholesalers	1,642	1,977	334	20.4
E-commerce	595	1,032	437	73.4
Total	4,457	5,969	1,511	33.9

<Actual sales by product classification>

(Millions of yen)

Product classification	Net sales		Change	
	Three months ended November 30, 2021	Three months ended November 30, 2022	Change (Amount)	Change (%)
Eco-products	1,954	2,801	846	43.3
Lifestyle products	2,075	2,759	683	33.0
Wellness products	379	329	(49)	(13.1)
Design and other	49	79	30	62.6
Total	4,457	5,969	1,511	33.9

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 first quarter under review amounted to 12,762 million yen, a decrease of 48 million yen compared to the end of the previous fiscal year. This was due mainly to a decrease in cash and deposits by 1,130 million yen, and an increase in notes and accounts receivable - trade and contract assets by 876 million yen, and an increase in finished goods by 164 million yen.

(Non-current assets)

Non-current assets at the end of the first quarter under review amounted to 3,876 million yen, an increase of 36 million yen compared to the end of the previous fiscal year. This was due mainly to an increase in property, plant and equipment by 41 million yen, an increase in intangible assets by 23 million yen, and a decrease in investments and other assets by 28 million yen.

(Current liabilities)

Current liabilities at the end of the first quarter under review amounted to 2,686 million yen, an increase of 32 million yen compared to the end of the previous fiscal year. This was due mainly to an

increase in accounts payable - trade by 162 million yen, an increase in other current liabilities, including deposits received, by 255 million yen, a decrease in income taxes payable by 266 million yen, and a decrease in current portion of long-term borrowings by 62 million yen.

(Non-current liabilities)

Non-current liabilities at the end of the first quarter under review amounted to 606 million yen, a decrease of 36 million yen compared to the end of the previous fiscal year. This was due mainly to a decrease in long-term borrowings by 35 million yen.

(Net assets)

Net assets at the end of the first quarter under review amounted to 13,346 million yen, a decrease of 7 million yen compared to the end of the previous fiscal year. This was due mainly to an increase in retained earnings by 90 million yen, a decrease in deferred gains or losses on hedges by 71 million yen, and a decrease in valuation difference on available-for-sale securities by 21 million yen.

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

The consolidated earnings forecasts for the six months ending February 28, 2023 and the fiscal year ending August 31, 2023 are unchanged from the forecasts announced on October 13, 2022.

We will scrutinize operating performance in the first quarter and trends going forward, and if we deem it necessary to revise consolidated earnings forecasts for the six months ending February 28, 2023, and for the fiscal year ending August 31, 2023, we will make a prompt announcement.

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, 2022	As of November 30, 2022
Assets		
Current assets		
Cash and deposits	4,335,232	3,204,946
Notes and accounts receivable - trade, and contract assets	2,679,941	3,555,975
Securities	291,900	298,484
Finished goods	4,443,094	4,607,662
Other	1,068,729	1,103,602
Allowance for doubtful accounts	(8,187)	(8,483)
Total current assets	12,810,710	12,762,189
Non-current assets		
Property, plant and equipment	1,067,821	1,109,113
Intangible assets		
Other	126,671	150,553
Total intangible assets	126,671	150,553
Investments and other assets		
Investment securities	1,578,124	1,544,287
Other	1,067,257	1,072,910
Allowance for doubtful accounts	(380)	(380)
Total investments and other assets	2,645,001	2,616,817
Total non-current assets	3,839,494	3,876,485
Total assets	16,650,205	16,638,674

(Thousands of yen)

	As of August 31, 2022	As of November 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	1,035,921	1,198,141
Current portion of long-term borrowings	387,628	324,878
Income taxes payable	647,298	380,386
Provision for bonuses	169,848	120,802
Provision for shareholder benefit program	6,909	–
Other	406,209	662,080
Total current liabilities	2,653,814	2,686,287
Non-current liabilities		
Long-term borrowings	234,819	199,387
Retirement benefit liability	315,035	318,024
Asset retirement obligations	36,791	36,898
Other	55,390	51,720
Total non-current liabilities	642,035	606,031
Total liabilities	3,295,850	3,292,319
Net assets		
Shareholders' equity		
Share capital	93,222	93,222
Capital surplus	3,294,777	3,294,777
Retained earnings	9,567,299	9,658,099
Treasury shares	(223,253)	(223,253)
Total shareholders' equity	12,732,046	12,822,846
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	180,323	158,436
Deferred gains or losses on hedges	239,913	168,877
Foreign currency translation adjustment	160,031	156,266
Remeasurements of defined benefit plans	42,039	39,927
Total accumulated other comprehensive income	622,307	523,508
Total net assets	13,354,354	13,346,355
Total liabilities and net assets	16,650,205	16,638,674

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

(Thousands of yen)

	Three months ended November 30, 2021	Three months ended November 30, 2022
Net sales	4,457,730	5,969,644
Cost of sales	2,716,480	3,640,956
Gross profit	1,741,249	2,328,688
Selling, general and administrative expenses		
Salaries and allowances	322,001	325,339
Provision for bonuses	65,754	91,419
Retirement benefit expenses	13,113	7,484
Provision of allowance for doubtful accounts	58	295
Other	552,905	642,136
Total selling, general and administrative expenses	953,832	1,066,675
Operating profit	787,417	1,262,012
Non-operating income		
Interest income	57	87
Interest on securities	4,827	10,452
Other	11,585	1,249
Total non-operating income	16,470	11,788
Non-operating expenses		
Interest expenses	667	462
Foreign exchange losses	14,617	17,654
Other	16	21
Total non-operating expenses	15,301	18,137
Ordinary profit	788,586	1,255,663
Extraordinary income		
Insurance claim income	15,513	–
Total extraordinary income	15,513	–
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Loss on abandonment of inventories	13,703	–
Total extraordinary losses	13,703	0
Profit before income taxes	790,396	1,255,663
Income taxes - current	215,959	373,623
Income taxes - deferred	54,085	63,625
Total income taxes	270,045	437,249
Profit	520,351	818,413
Profit attributable to owners of parent	520,351	818,413

(Quarterly Consolidated Statement of Comprehensive Income) (Cumulative)

(Thousands of yen)

	Three months ended November 30, 2021	Three months ended November 30, 2022
Profit	520,351	818,413
Other comprehensive income		
Valuation difference on available-for-sale securities	26,123	(21,886)
Deferred gains or losses on hedges	21,385	(71,036)
Foreign currency translation adjustment	17,719	(3,765)
Remeasurements of defined benefit plans, net of tax	(259)	(2,111)
Total other comprehensive income	64,968	(98,799)
Comprehensive income	585,320	719,614
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	585,320	719,614
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.

(Changes in accounting policies)

None.

(Subsequent events)

None.