

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2023 [Japanese GAAP]



May 12, 2023

Company name: **VITAL KSK HOLDINGS, INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3151

URL: <https://www.vitalksk.co.jp/english/>

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Scheduled date of annual meeting of shareholders: June 28, 2023

Scheduled date of commencing dividend payments: June 8, 2023

Scheduled date of filing securities report: June 30, 2023

Preparation of supplementary explanatory materials: Yes

Financial results briefing: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Results for the Fiscal Year Ended March 31, 2023 (April 1, 2022 – March 31, 2023)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Year ended	Million yen %	Million yen %	Million yen %	Million yen %
March 31, 2023	579,772 0.4	2,470 (16.1)	5,960 2.2	4,831 1.3
March 31, 2022	577,249 7.5	2,945 -	5,834 741.4	4,770 307.1

(Note) Comprehensive income: Year ended March 31, 2023: ¥2,491 million [-%]

Year ended March 31, 2022: ¥(1,663) million [-%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Year ended	Yen	Yen	%	%	%
March 31, 2023	92.69	-	4.9	2.0	0.4
March 31, 2022	87.88	-	4.7	1.9	0.5

(Note) Share of profit (loss) of entities accounted for using equity method: Year ended March 31, 2023: ¥108 million

Year ended March 31, 2022: ¥87 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2023	297,316	100,165	33.3	1,911.44
March 31, 2022	313,033	100,041	31.6	1,858.86

(Reference) Equity: As of March 31, 2023: ¥98,986 million

As of March 31, 2022: ¥98,961 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
Year ended	Million yen	Million yen	Million yen	Million yen
March 31, 2023	(3,001)	(1,038)	(4,080)	15,147
March 31, 2022	7,487	(2,013)	(8,486)	23,239

2. Cash Dividends

	Cash dividends per share					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Year ended March 31, 2022	Yen -	Yen 12.00	Yen -	Yen 14.00	Yen 26.00	Million yen 1,400	% 29.6	% 1.4
March 31, 2023	-	12.00	-	27.00	39.00	2,019	42.1	2.1
Year ending March 31, 2024 (Forecast)	-	19.00	-	20.00	39.00		38.8	

3. Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2024 (April 1, 2023 - March 31, 2024)

(% indicates changes from the previous corresponding period.)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
	Million yen %	Million yen %	Million yen %	Million yen %	Yen
First half	290,000 -	2,400 -	3,100 27.9	2,000 39.1	38.62
Full year	576,000 -	4,700 -	6,000 0.7	5,200 7.6	100.41

* For the forecast of consolidated results for the year ending March 31, 2024, percentage changes in comparison with the results for the year ended March 31, 2023 have been omitted. For performance forecast, please see "1. Overview of Operating Results, etc.; (4) Future Outlook" on page 4.

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): None
- (2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (3) Total number of outstanding shares (common shares)
 - 1) Total number of outstanding shares at the end of the period (including treasury stocks):

March 31, 2023: 61,224,796 shares
March 31, 2022: 61,224,796 shares
 - 2) Total number of treasury stocks at the end of the period:

March 31, 2023: 9,438,699 shares
March 31, 2022: 7,987,331 shares
 - 3) Average number of shares during the period:

Year ended March 31, 2023: 52,119,939 shares
Year ended March 31, 2022: 54,280,124 shares

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Results for the Fiscal Year Ended March 31, 2023 (April 1, 2022 - March 31, 2023)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales	Operating profit	Ordinary profit	Profit
Year ended	Million yen %	Million yen %	Million yen %	Million yen %
March 31, 2023	5,161 5.3	4,392 6.6	4,355 6.6	4,355 6.9
March 31, 2022	4,901 93.1	4,118 118.6	4,085 118.3	4,073 121.9

	Basic earnings per share	Diluted earnings per share
Year ended	Yen	Yen
March 31, 2023	83.57	-
March 31, 2022	75.04	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2023	69,162	48,251	69.8	931.75
March 31, 2022	69,162	46,251	66.9	868.78

(Reference) Equity: As of March 31, 2023: ¥48,251 million
As of March 31, 2022: ¥46,251 million

* These financial results are outside the scope of audit procedures by certified public accountants or audit corporations.

* Explanation of the proper use of performance forecast and other notes

- The earnings forecast and other forward-looking statements herein are based on the information currently available and certain assumptions deemed reasonable by the Company, and thus actual results may differ significantly from these forecasts due to a wide range of factors. For cautionary notes on assumptions that form the basis of the performance forecast and the use of performance forecast, please see "Overview of Operating Results, etc." on page 2 of the attached materials.
- The Company plans to hold a financial results briefing for institutional investors and analysts on May 17, 2023. The presentation materials to be used at the briefing will be posted on the Company's website immediately after the briefing.

Table of Contents

1. Overview of Operating Results, etc	2
(1) Overview of Operating Results for the Fiscal Year Under Review.....	2
(2) Overview of Financial Position for the Fiscal Year Under Review	3
(3) Overview of Cash Flows for the Fiscal Year Under Review	4
(4) Future Outlook	4
(5) Important Events Related to Going Concern Assumption	6
(6) Dividend Policy and Payments for This Period and Next Period.....	6
2. Overview of the Corporate Group	7
3. Management Policy.....	8
(1) Basic Management Policies	8
(2) Target Management Indicators.....	8
(3) Medium- and Long-term Business Strategies	8
(4) Issues to be Addressed	9
(5) Other Important Management Matters	10
4. Basic Idea for Selection of Accounting Standards	10
5. Consolidated Financial Statements and Primary Notes	11
(1) Consolidated Balance Sheets.....	11
(2) Consolidated Statements of Income and Comprehensive Income	13
(3) Consolidated Statements of Changes in Equity.....	15
(4) Consolidated Statements of Cash Flows	17
(5) Notes to Consolidated Financial Statements	19
(Notes on going concern assumption)	19
(Changes in accounting policies).....	19
(Segment information)	19
(Per share information).....	23
(Significant subsequent events)	23

1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Fiscal Year Under Review

The Japanese economy during the year ended March 31, 2023 remained unpredictable with the ongoing COVID-19 pandemic, while vaccination rates increased.

Under these circumstances, the Group started its fifth medium-term management plan for the three-year period from the year ending March 31, 2023 to the year ending March 31, 2025. In the fifth medium-term management plan, the Company will continue to work on its long-term vision toward 2025 of “Becoming an indispensable presence in regional and community healthcare by strategically providing products and services to support medicine and nursing.” In addition, under its medium-term vision “to drive business model innovation for the next generation,” the Company has set out practical tasks to “1. Explore a pharmaceutical distribution model to adapt to changes in the market structure and meet market characteristics,” “2. Evolve distribution and marketing models tailored to the advancement of DX in the field of medical care,” and “3. Promote the Group management that meets Prime Market requirements.” By steadily solving these issues, we will aim to further evolve as a company indispensable for local healthcare.

For the year ended March 31, 2023, net sales were ¥579,772 million (100.4% of that of the same period of the previous year), operating profit was ¥2,047 million (83.9% of that of the same period of the previous year), ordinary profit was ¥5,960 million (102.2% of that of the same period of the previous year), and profit attributable to owners of parent was ¥4,831 million (101.3% of that of the same period of the previous year).

Performance results by business segment are as follows.

1) Pharmaceutical Wholesale Business

In the year ended March 31, 2023, the pharmaceutical wholesale business, which is our Group’s primary business segment, achieved steady sales, mainly of COVID-19-related prescription pharmaceuticals and medical devices and clinical test reagents, etc., despite the negative impact of NHI drug price revision rate of 6.69% on a pharmaceutical spending basis. As a result, sales increased from the previous year.

Operating profit was expected to exceed the level a year earlier due to increased sales of COVID-19-related medical equipment and clinical test reagents, etc., as well as higher-than-expected revenue from COVID-19 vaccine delivery continued to be commissioned by national and local governments since the previous fiscal year, in addition to thorough price negotiations with an awareness of transaction costs and sales of vaccines.

However, on October 28, 2022, some of the Group’s customers filed for voluntary bankruptcy with the Tokyo District Court. The Group judged that its receivables may become uncollectible and recorded an allowance for doubtful accounts in the second quarter. Although the Company subsequently reversed the allowance for doubtful accounts in the fourth quarter on expectations that a portion of the receivables is recoverable, profitability was still adversely impacted and operating profit was below the level a year earlier.

As a result, net sales were ¥546,058 million (100.3% of that of the same period of the previous year), and segment profit (operating profit) was ¥2,053 million (84.0% of that of the same period of the previous year).

2) Pharmacy Business

In the pharmacy business, we worked to calculate relevant dispensing fees, aiming to offer family pharmacies as required by the government; however, due to the impact of drug price revisions, net sales were ¥18,361 million

(99.8% of the level a year earlier) and segment profit (operating profit) was ¥106 million (51.9% of the level a year earlier).

3) Veterinary Drug Wholesale Business

In the veterinary drug wholesale business, although net sales were ¥10,879 million (104.6% of the level a year earlier) due to increased sales of increased sales of pet-related products, segment profit (operating profit) was ¥339 million (91.4% of the level a year earlier) due to the recording of an allowance for doubtful accounts.

4) Other Businesses

In other businesses, strong sales in the agricultural chemicals wholesale business were offset by a lackluster performance in the nursing care business and the sports facility management business due to impacts of COVID-19, and net sales were ¥4,473 million (106.5% of the level a year earlier), and segment loss (operating loss) was ¥204 million (segment loss of ¥131 million in the same period of the previous year).

(2) Overview of Financial Position for the Fiscal Year Under Review

Assets as of the end of the year ended March 31, 2023 amounted to ¥297,316 million, a decrease of ¥15,717 million from the end of the previous consolidated fiscal year. Assets comprised ¥188,502 million of current assets and ¥108,813 million of non-current assets.

Current assets mainly comprised ¥19,029 million of cash and deposits, ¥118,386 million of notes and accounts receivable - trade, ¥30,846 million of inventories and ¥16,665 million of accounts receivable - other. Current assets decreased ¥10,030 million from the end of the previous consolidated fiscal year, due primarily to a decrease of ¥7,942 million in cash and deposits and a decrease of ¥1,146 million in notes and accounts receivable - trade.

Non-current assets comprised ¥49,024 million of property, plant and equipment, ¥3,377 million of intangible assets and ¥56,411 million of investments and other assets. Non-current assets decreased ¥5,687 million from the end of the previous consolidated fiscal year, due primarily to a decrease of ¥2,865 million in investment securities, a decrease of ¥2,056 million in goodwill, and a decrease of ¥1,597 million in construction in progress, offsetting an increase of ¥4,182 million in land.

Liabilities amounted to ¥197,150 million, a decrease of ¥15,841 million from the end of the previous consolidated fiscal year. Liabilities comprised ¥178,659 million of current liabilities and ¥18,491 million of non-current liabilities.

Current liabilities mainly comprised ¥164,571 million of notes and accounts payable - trade and ¥2,095 million of income taxes payable. Current liabilities decreased ¥11,433 million from the end of the previous consolidated fiscal year, due primarily to a decrease of ¥12,113 million in notes and accounts payable - trade and a decrease of ¥303 million in income taxes payable.

Non-current liabilities mainly comprised ¥8,676 million of deferred tax liabilities, ¥6,790 million of long-term borrowings, and ¥1,498 million of lease obligations. Non-current liabilities decreased ¥4,407 million from the end of the previous consolidated fiscal year, due primarily to a decrease of ¥1,774 million in retirement benefit liability and a decrease of ¥1,068 million in deferred tax liabilities.

Net assets amounted to ¥100,165 million, an increase of ¥123 million from the end of the previous consolidated fiscal year, due primarily to the reporting of profit attributable to owners of parent of ¥4,831 million, a decrease of ¥994 million due to an increase in treasury shares and a ¥1,672 million decrease in valuation difference on available-for-sale securities.

(3) Overview of Cash Flows for the Fiscal Year Under Review

Cash and cash equivalents (collectively, “Cash”) as of the end of the year ended March 31, 2023 amounted to ¥15,147 million (compared to ¥23,239 million at the end of the previous consolidated fiscal year).

a) Cash Flows from Operating Activities

Cash used in operating activities during the year ended March 31, 2023 was ¥3,001 million (¥7,487 million provided for the previous consolidated fiscal year). This is attributable mainly to decreasing factors such as a decrease in trade payables of ¥12,113 million (an increase of ¥9,624 million for the previous consolidated fiscal year), a gain on sale and valuation of investment securities of ¥4,118 million (¥2,536 million for the previous consolidated fiscal year), and income taxes paid of ¥3,527 million (¥1,512 million for the previous consolidated fiscal year), offsetting increasing factors such as profit before income taxes of ¥8,111 million (¥7,648 million for the previous consolidated fiscal year), a decrease in trade receivables of ¥1,146 million (an increase of ¥4,933 million for the previous consolidated fiscal year), and a decrease in guarantee deposits of ¥4,278 million (a decrease of ¥13 million for the previous consolidated fiscal year).

b) Cash Flows from Investing Activities

Cash used in investing activities during the year ended March 31, 2023 was ¥1,038 million (¥2,013 million used for the previous consolidated fiscal year). This is attributable mainly to decreasing factors such as purchase of property, plant and equipment of ¥5,840 million (¥3,415 million for the previous consolidated fiscal year) and purchase of intangible assets of ¥759 million (¥725 million for the previous consolidated fiscal year) despite increasing factors such as proceeds from sale of investment securities of ¥5,491 million (¥2,588 million for the previous consolidated fiscal year).

c) Cash Flows from Financing Activities

Cash used in financing activities during the year ended March 31, 2023 was ¥4,080 million (¥8,486 million used for the previous consolidated fiscal year). This is attributable to decreasing factors such as dividends paid of ¥1,365 million (¥651 million for the previous consolidated fiscal year), repayments of long-term borrowings of ¥970 million (¥5,370 million for the previous consolidated fiscal year) and purchase of treasury shares of ¥998 million (¥1,559 million for the previous consolidated fiscal year).

(4) Future Outlook

With the year 2025 just around the corner, when the baby boomers will be late-stage elderly, the restrictions on social security payments and revisions to the system in anticipation of social structural changes that have been implemented are considered to continue in the future. Similarly, although in the pharmaceutical wholesale business, the core business of the Group, the market for new drugs such as anticancer drugs is expected to continue growing and demand will be strong, overall growth is expected to be restrained, reflecting less frenzied sales of COVID-related products in addition to ongoing drug price revisions and continued encouragement of the use of generics, and it will be necessary to realize further efficiency in distribution channels in order to ensure a stable supply.

In the field of medical care, new diagnostic and therapeutic techniques that use cutting-edge technology is about to bring forth substantial innovations. In addition to regenerative medicine, new diagnostic drugs, medical devices, robots, and other means of diagnosis and medical treatment will drive future market growth, while also

posing new distribution challenges. Furthermore, in the health care domain centering on medical care, the advancement of DX is expected to contribute to improving efficiency for regional healthcare providers and bring significant changes to every business involved in the domain.

In light of these changes in the market structure and business environment, the Group has formulated a new Long-term Vision 2035 to replace its long-term vision toward 2025 described above (see below). Based on a new long-term vision, the Group will expand medical care-related businesses with the aim of developing a sustainable distribution structure for drugs and medical products through independence and cooperation and contributing to the resolution of social issues and the extension of healthy life expectancy.

[Long-term Vision 2035]

To transform the future of medical care by transcending boundaries and “acting as a bridge” to cutting-edge medicines

<Major practical issues>

- Sophistication of logistics functions	Expansion of 3PL business
- Overhaul of pharmaceutical wholesale business	Optimal business strategies in each business area
- Expansion of medical product sales	Further development into drug-related business
- Strengthening of rental business	Changes to the way medication is picked up
- Expansion of pharmacy business	Various last-mile delivery solutions
- Strengthening of cooperation with central and local governments	Contribution to extension of healthy life expectancy
- Expansion of life support business	Parenting support and disease prevention
- Business expansion in the companion animal and agritech fields	Area expansion and new business development

The Group has also established the fifth Medium-Term Management Plan, spanning three years from April 2022 to March 2025, and is implementing the plan with "Business model innovation looking at next-generation capabilities" as its medium-term vision.

In addition to various initiatives in line with the Long-term Vision and Medium-term Vision, the Group will also continue to focus on initiatives to enhance its corporate value announced on October 28, 2022.

<Enhancement of corporate governance>

- Introduction of a performance-based restricted stock unit plan to align the interests of shareholders and managers
- Transition to a company with an Audit & Supervisory Committee to strengthen the functions of the Board

* Both measures are on condition of approval at the 14th Annual Shareholders' Meeting of the Company to be held on June 29, 2023.

<Improvement of capital efficiency>

- Strengthening of shareholder returns	Dividend policy: Dividend on equity (DOE) of 2% or more Total return ratio of 50% or more
- Purchase of treasury shares	Acquisition of treasury shares will continue until the highest PBR in the industry is achieved
- Disposal of cross-shareholdings	Reduction of cross-shareholdings to less than 20% of

	consolidated net assets by the year ending March 31, 2026 and to less than 10% by the year ending March 31, 2032
- ROE targets	5.2% for the year ending March 31, 2024 and 8.0% for the year ending March 31, 2032

As for the forecast of results for the year ending March 31, 2024, the Company expects net sales of ¥576,000 million, operating profit of ¥4,700 million, ordinary profit of ¥6,000 million (100.7% of that of the same period of the previous year), and profit attributable to owners of parent of ¥5,200 million (107.6% of that of the same period of the previous year)

Income from the provision of sales information to manufacturers was previously recognized as administrative service fee income under non-operating income; however, from now on, given the Group's policy of expanding business utilizing digital data, income from the information business including income from the provision of sales information to manufacturers will also be considered as income from core business activities and we have therefore decided to include this income in net sales from the year ending March 31, 2024, and this change in presentation method is reflected in this forecast of consolidated results.

(5) Important Events Related to Going Concern Assumption

Not applicable.

(6) Dividend Policy and Payments for This Period and Next Period

The Group recognizes the return of profits to shareholders as a management task of paramount importance. To fulfill this task, it will make efforts to maintain stable and continuous dividend payment and to enhance internal reserves from the long-term perspective of maximizing corporate value.

For the year ended March 31, 2023, the Group has decided to pay the interim dividend of ¥12 per share, as previously paid, and a year-end dividend of ¥27 per share, bringing the total annual dividend to ¥39 per share.

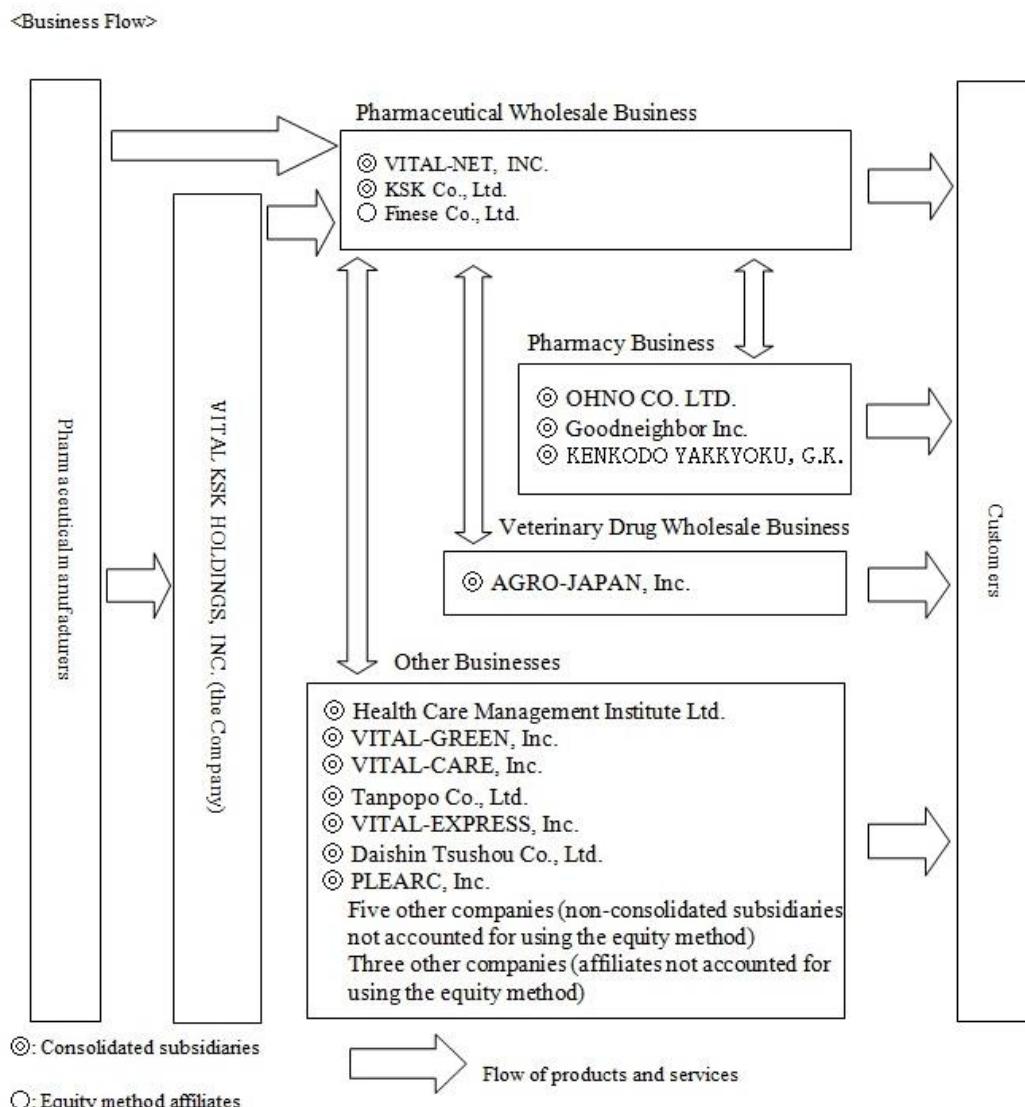
For the year ending March 31, 2024, based on its policy of DOE of 2% or more, the Group expects to pay an annual dividend of ¥39 per share consisting of the interim dividend of ¥19 per share and the year-end dividend of ¥20 per share.

2. Overview of the Corporate Group

The Group (the Company and the associated companies of the Company) comprises the Company, its 18 subsidiaries and four affiliates. The Group is mainly engaged in businesses associated with the four businesses of the pharmaceutical wholesale business, the pharmacy business, the veterinary drug wholesale business, and other businesses. Other businesses include the retail of pharmaceuticals, the wholesale of agricultural chemicals, the transportation business, the nursing care service business, the consulting services for medical institutions, the non-life insurance agency business, the real estate brokerage business and the operation of parking lots.

Business	Associated companies
Pharmaceutical Wholesale Business	VITAL KSK HOLDINGS, INC. (the Company), VITAL-NET, INC., KSK Co., Ltd., Finese Co., Ltd.
Pharmacy Business	OHNO CO. LTD., Goodneighbor Inc., KENKODO YAKKYOKU, G.K.
Veterinary Drug Wholesale Business	AGRO-JAPAN, Inc.
Other Businesses	Health Care Management Institute Ltd., VITAL-GREEN, Inc., VITAL-CARE, Inc., Tanpopo Co., Ltd., VITAL-EXPRESS, Inc., Daishin Tsushou Co., Ltd., PLEARC, Inc., 8 other companies

The following figure illustrates the Company's business structure.



3. Management Policy

(1) Basic Management Policies

On April 1, 2009, the VITAL KSK Group was launched upon the establishment of VITAL KSK HOLDINGS, INC., a joint holding company, through the share transfer of VITAL-NET, INC. and KSK Co., Ltd. and 14 years have passed since then.

With “Towards realization of healthy and prosperous society” as its corporate slogan, the VITAL KSK Group adopted “To transform the future of medical care by transcending boundaries and “acting as a bridge” to cutting-edge medicines” as its new long-term vision from the year ending March 31, 2024, and is working to tackle the practical issues described above.

(2) Target Management Indicators

The Group formulated its fifth medium-term management plan for the three-year period from the year ending March 31, 2023 to the year ending March 31, 2025.

Targets

	Year ending March 31, 2023			Year ending March 31, 2024			Year ending March 31, 2025		
	Plan (Million yen)	Sales ratio (%)	YoY (%)	Plan (Million yen)	Sales ratio (%)	YoY (%)	Plan (Million yen)	Sales ratio (%)	YoY (%)
Net sales	563,300		97.6	576,000		—	576,000		100.0
Operating profit	2,300	0.41	78.1	4,700	0.82	—	5,300	0.92	112.8
Ordinary profit	4,900	0.87	84.0	6,000	1.04	122.4	6,200	1.08	103.3
Profit attributable to owners of parent	4,500	0.80	94.3	5,200	0.90	115.6	5,400	0.94	103.8

* As explained earlier, income from the provision of sales information to manufacturers was previously recognized as administrative service fee income under non-operating income; however, from now on, given the Group's policy of expanding business utilizing digital data, income from the information business including income from the provision of sales information to manufacturers will also be considered as income from core business activities. The presentation method has, therefore, changed and income will be included in net sales from the year ending March 31, 2024. The plans for the year ending March 31, 2024 and the year ending March 31, 2025 in the above chart have also been changed accordingly. Year-on-year comparisons for net sales and operating profit for the year ending March 31, 2024 are omitted due to this change in the presentation method.

(3) Medium- and Long-term Business Strategies

As stated above, the Group started its fifth medium-term management plan in April 2022. The Group aims to realize its newly established Long-term Vision: “Vision 2035: To transform the future of medical care by transcending boundaries and “acting as a bridge” to cutting-edge medicines.” Additionally, in its fifth medium-term management plan, in order to achieve its medium-term vision “To Drive Business Model Innovation for the Next Generation,” the Group is working through the three basic policies, “Exploring a pharmaceutical distribution model to adopt changes in the market structure and meet market characteristics,” “Evolving distribution and marketing models tailored to the advancement of DX in the field of medical care,” and “Promoting the Group management that meets Prime Market requirements.”

[Major Practical Issues]

<Pharmaceutical Wholesale Business>

1. Establishing a system that accommodates changes in the market structure
 - (1) Realizing low-cost operations with improved and optimized processes
 - (2) Conducting efficient and effective marketing activities to prescribers
 - (3) Expanding MS functions (to replace MR functions)
2. Strengthening efforts for “hospitals,” the core regional health care providers, and reorganizing sales structures
3. Promoting DX for dispensing pharmacies
4. Sustainably improving supply chain management capabilities
 - (1) Expanding the scope of packaged product delivery using inventory management systems
 - (2) Developing a third-party logistics (3PL) business
 - (3) Implementing a supply chain concept utilizing dispensing centers
 - (4) Sustainably increasing logistics quality and efficiency

<Group management strategy>

1. Financial strategy
 - (1) Achieving ROE of 5% or more
 - (2) Implementing appropriate shareholder return policies
(Dividend on equity (DOE) of 2% or more and total return ratio of 50% or more)
 - (3) Reducing cross-shareholdings
2. Reviewing and developing corporate governance at a higher level
3. Further enhancing corporate communication (CC)
 - (1) Conducting appropriate CC activities in light of the Internet age and the financial strategy
 - (2) Enhancing disclosure in English (including the Company’s website, notices of convocation of general meetings of shareholders)
 - (3) Conducting CC activities that address task force on climate-related financial disclosures (TCFD) in addition to environmental, social, and governance (ESG) activities

(4) Issues to be Addressed

Amid ongoing changes in the social structure and discussions about reforming social security systems and drug pricing systems, including health system reform, workstyle reform for doctors, revision of the Infectious Diseases Control Act and other laws, digital transformation of health care and Community Health Care Visions, in the prescription pharmaceuticals domain, drug prices were revised five times in the space of three-and-a-half years: in October 2019, April 2020, April 2021, April 2022 and April 2023. Drug price revisions are planned to take place every year and the government is likely to continue with its policy to limit medical costs in the future.

Under such circumstances, the Group started its fifth medium-term management plan in April 2022. In the pharmaceutical wholesale business, not only did the Group construct a business system to continue to create profits even under low growth in the prescription pharmaceutical market, but based on a foundation of the

Group's strengths in moving deeper into regional healthcare through its network with local governments, nursing professionals and other regional healthcare providers, in addition to its network of medical institutions developed through the prescription pharmaceutical wholesale business, the Group has made efforts to "become the corporate group of choice" for manufacturers, public administration, customers, and the community by providing support and solutions through a wide range of products and services as it steadily progresses into growth sectors. In particular, we will focus our efforts on being able to meet needs for digital transformation in the field of medical care, which is expected to advance rapidly in the future. We will also continue to develop medical-related business and explore new sources of revenue, aiming to realize our long-term vision newly established in 2023.

(5) Other Important Management Matters

Not applicable.

4. Basic Idea for Selection of Accounting Standards

In order to ensure comparability between companies over time, the Group prepares its consolidated financial statements in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (excluding Chapters 7 and 8) (Ordinance of the Ministry of Finance No. 28 of 1976).

The Group will appropriately apply international accounting standards, while taking domestic and overseas situations into account.

5. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

	As of March 31, 2022	As of March 31, 2023	(Million yen)
Assets			
Current assets			
Cash and deposits	26,971	19,029	
Notes and accounts receivable - trade	119,533	118,386	
Inventories	31,788	30,846	
Accounts receivable - other	16,617	16,665	
Other	3,672	3,616	
Allowance for doubtful accounts	(50)	(41)	
Total current assets	198,532	188,502	
Non-current assets			
Property, plant and equipment			
Buildings and structures	47,987	50,310	
Accumulated depreciation	(28,684)	(29,940)	
Buildings and structures, net	19,303	20,370	
Machinery, equipment and vehicles	1,951	1,988	
Accumulated depreciation	(1,355)	(1,451)	
Machinery, equipment and vehicles, net	595	537	
Land	20,735	24,917	
Leased assets	6,814	6,604	
Accumulated depreciation	(3,929)	(4,229)	
Leased assets, net	2,885	2,375	
Construction in progress	1,629	31	
Other	3,739	4,184	
Accumulated depreciation	(3,126)	(3,391)	
Other, net	612	792	
Total property, plant and equipment	45,761	49,024	
Intangible assets			
Goodwill	2,874	818	
Software	1,356	1,415	
Other	805	1,143	
Total intangible assets	5,036	3,377	
Investments and other assets			
Investment securities	47,508	44,642	
Long-term loans receivable	1,588	1,419	
Retirement benefit asset	7,684	7,589	
Deferred tax assets	383	400	
Other	7,115	3,362	
Allowance for doubtful accounts	(576)	(1,002)	
Total investments and other assets	63,703	56,411	
Total non-current assets	114,501	108,813	
Total assets	313,033	297,316	

	(Million yen)	
	As of March 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	176,685	164,571
Short-term borrowings	990	990
Current portion of long-term borrowings	970	970
Income taxes payable	2,399	2,095
Provision for bonuses	1,542	1,569
Other	7,505	8,462
Total current liabilities	190,092	178,659
Non-current liabilities		
Long-term borrowings	7,760	6,790
Lease liabilities	2,129	1,498
Deferred tax liabilities	9,744	8,676
Provision for retirement benefits for directors (and other officers)	193	196
Provision for share awards for directors (and other officers)	51	54
Retirement benefit liability	2,629	855
Other	391	419
Total non-current liabilities	22,898	18,491
Total liabilities	212,991	197,150
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	12,810	12,810
Retained earnings	64,402	67,864
Treasury shares	(6,581)	(7,575)
Total shareholders' equity	75,631	78,099
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,645	19,972
Remeasurements of defined benefit plans	1,683	913
Total accumulated other comprehensive income	23,329	20,886
Non-controlling interests	1,080	1,179
Total net assets	100,041	100,165
Total liabilities and net assets	313,033	297,316

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31, 2022	For the fiscal year ended March 31, 2023
Net sales	577,249	579,772
Cost of sales	533,272	534,809
Gross profit	43,976	44,963
Selling, general and administrative expenses	41,030	42,492
Operating profit	2,945	2,470
Non-operating income		
Gain on investments in investment partnerships	62	617
Interest income	49	31
Dividend income	804	751
Share of profit of entities accounted for using equity method	87	108
Rental income	240	240
Administrative service fee income	1,556	1,554
Other	300	377
Total non-operating income	3,100	3,682
Non-operating expenses		
Interest expenses	99	96
Rental expenses	85	79
Other	27	15
Total non-operating expenses	212	192
Ordinary profit	5,834	5,960
Extraordinary income		
Gain on sale of non-current assets	310	22
Gain on sale of investment securities	2,545	4,201
Other	18	-
Total extraordinary income	2,873	4,224
Extraordinary losses		
Loss on sale of non-current assets	19	14
Loss on retirement of non-current assets	4	3
Impairment losses	946	1,791
Loss on sale of investment securities	-	26
Loss on valuation of investment securities	8	56
Other	80	180
Total extraordinary losses	1,059	2,072
Profit before income taxes	7,648	8,111
Income taxes - current	2,575	3,184
Income taxes - deferred	191	(7)
Total income taxes	2,767	3,177
Profit	4,880	4,934
Profit attributable to non-controlling interests	110	102
Profit attributable to owners of parent	4,770	4,831

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended March 31, 2022	For the fiscal year ended March 31, 2023
Profit	4,880	4,934
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,819)	(1,690)
Remeasurements of defined benefit plans, net of tax	(546)	(762)
Share of other comprehensive income of entities accounted for using equity method	(178)	11
Total other comprehensive income	(6,543)	(2,442)
Comprehensive income	(1,663)	2,491
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,773)	2,388
Comprehensive income attributable to non-controlling interests	110	102

(3) Consolidated Statements of Changes in Equity

Fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	5,000	12,810	60,285	(5,025)	73,070
Changes during period					
Dividends of surplus			(653)		(653)
Profit attributable to owners of parent			4,770		4,770
Purchase of treasury shares				(1,559)	(1,559)
Disposal of treasury shares by stocks payment trust				3	3
Net changes in items other than shareholders' equity					
Total changes during period	-	-	4,116	(1,555)	2,561
Balance at end of period	5,000	12,810	64,402	(6,581)	75,631

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	27,652	2,220	29,873	972	103,916
Changes during period					
Dividends of surplus					(653)
Profit attributable to owners of parent					4,770
Purchase of treasury shares					(1,559)
Disposal of treasury shares by stocks payment trust					3
Net changes in items other than shareholders' equity	(6,006)	(537)	(6,543)	108	(6,435)
Total changes during period	(6,006)	(537)	(6,543)	108	(3,874)
Balance at end of period	21,645	1,683	23,329	1,080	100,041

Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	5,000	12,810	64,402	(6,581)	75,631
Changes during period					
Dividends of surplus			(1,369)		(1,369)
Profit attributable to owners of parent			4,831		4,831
Purchase of treasury shares				(998)	(998)
Disposal of treasury shares for stocks payment trust				4	4
Change in scope of consolidation			0		0
Net changes in items other than shareholders' equity					
Total changes during period	-	-	3,461	(994)	2,467
Balance at end of period	5,000	12,810	67,864	(7,575)	78,099

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	21,645	1,683	23,329	1,080	100,041
Changes during period					
Dividends of surplus					(1,369)
Profit attributable to owners of parent					4,831
Purchase of treasury shares					(998)
Disposal of treasury shares for stocks payment trust					4
Change in scope of consolidation					0
Net changes in items other than shareholders' equity	(1,672)	(769)	(2,442)	98	(2,343)
Total changes during period	(1,672)	(769)	(2,442)	98	123
Balance at end of period	19,972	913	20,886	1,179	100,165

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended March 31, 2022	For the fiscal year ended March 31, 2023
Cash flows from operating activities		
Profit before income taxes	7,648	8,111
Depreciation	2,780	3,010
Impairment losses	946	1,791
Amortization of goodwill	343	343
Increase (decrease) in allowance for doubtful accounts	(15)	416
Increase (decrease) in provision for bonuses	106	26
Increase (decrease) in retirement benefit liability	(3,323)	(1,679)
Interest and dividend income	(853)	(783)
Rental income	(240)	(240)
Administrative service fee income	(1,556)	(1,554)
Interest expenses	99	96
Loss (gain) on investments in investment partnerships	-	(617)
Share of loss (profit) of entities accounted for using equity method	(87)	(108)
Loss (gain) on sale and valuation of investment securities	(2,536)	(4,118)
Loss on valuation of shares of subsidiaries and associates	11	-
Loss (gain) on sale and retirement of property, plant and equipment	(286)	(4)
Decrease (increase) in trade receivables	(4,933)	1,146
Decrease (increase) in inventories	(2,450)	942
Decrease (increase) in accounts receivable - other	(1,109)	(73)
Decrease (increase) in guarantee deposits	13	4,278
Increase (decrease) in trade payables	9,624	(12,113)
Other, net	1,348	(1,468)
Subtotal	5,528	(2,597)
Interest and dividends received	852	790
Office work fee received	1,548	1,580
Interest paid	(98)	(96)
Income taxes paid	(1,512)	(3,527)
Income taxes refund	1,156	836
Other, net	10	12
Net cash provided by (used in) operating activities	7,487	(3,001)

	(Million yen)	
	For the fiscal year ended March 31, 2022	For the fiscal year ended March 31, 2023
Cash flows from investing activities		
Net decrease (increase) in time deposits	(200)	(150)
Purchase of property, plant and equipment	(3,415)	(5,840)
Proceeds from sale of property, plant and equipment	551	200
Purchase of intangible assets	(725)	(759)
Purchase of investment securities	(885)	(353)
Proceeds from sale of investment securities	2,588	5,491
Proceeds from repayment of investment securities	7	4
Proceeds from redemption of investment securities	-	100
Loan advances	(10)	(60)
Proceeds from collection of loans receivable	40	89
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(217)	-
Other, net	252	238
Net cash provided by (used in) investing activities	(2,013)	(1,038)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(210)	-
Repayments of long-term borrowings	(5,370)	(970)
Repayments of lease liabilities	(694)	(742)
Purchase of treasury shares	(1,559)	(998)
Dividends paid	(651)	(1,365)
Other, net	(2)	(4)
Net cash provided by (used in) financing activities	(8,486)	(4,080)
Net increase (decrease) in cash and cash equivalents	(3,013)	(8,121)
Cash and cash equivalents at beginning of period	26,252	23,239
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	-	29
Cash and cash equivalents at end of period	23,239	15,147

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Changes in accounting policies)

The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASB Guidance No. 31, June 17, 2021; hereinafter “Fair Value Measurement Guidance”) from the beginning of consolidated fiscal year under review, and has decided to prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Fair Value Measurement Guidance. There are no effects on the consolidated financial statements for the fiscal year under review due to the application of the Implementation Guidance

(Segment information)

1. Overview of reportable segments

The Group’s reportable segments are components of the Group about which separate financial information is available. These segments are subject to periodic examinations to enable the company’s Board of Directors to decide how to allocate resources and assess performance.

The Group’s segment is categorized based on the business of its operating company, and thus its main segments, the “Pharmaceutical Wholesale Business,” the “Pharmacy Business,” and the “Veterinary Drug Wholesale Business” comprise the Group’s reportable segments.

The “Pharmaceutical Wholesale Business” is engaged in sales of drugs, diagnostic products, medical devices, materials, etc. to medical institutions, such as hospitals, clinics, and pharmacies. The “Pharmacy Business” is engaged in sales of drugs, medical devices and equipment, and hygiene materials, etc. to general consumers. The “Veterinary Drug Wholesale Business” is engaged in sales of veterinary drugs, feeds, etc. to farms, ranches, veterinary hospitals, clinics, etc.

2. Method of measurement for the amounts of net sales, income (loss), assets and other items for each reportable segment

The method of accounting for the reportable business segments is generally the same as those stated in “Basis for the Presentation of the Consolidated Financial Statements.”

Profit in the reportable segments is based on operating profit.

Inter-segment revenues and transfers are calculated at prevailing market prices.

3. Information on net sales, income (loss), assets and other items by reportable segment

For the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	544,249	18,397	10,399	573,047	4,201	577,249	-	577,249
Inter-segment net sales or transfers	8,811	3	0	8,815	2,502	11,317	(11,317)	-
Total	553,061	8,401	10,399	581,862	6,704	588,566	(11,317)	577,249
Segment income (loss)	2,443	205	371	3,020	(131)	2,889	56	2,945
Segment assets	295,496	10,610	5,186	311,292	8,780	320,073	(7,039)	313,033
Other items								
Depreciation	2,476	144	14	2,636	144	2,780	-	2,780
Amortization of goodwill	15	327	-	343	-	343	-	343
Increase in property, plant and equipment, and intangible assets	3,218	48	112	3,380	803	4,184	-	4,184

(Notes) 1. "Others" is the segment which is not included in reportable segments, including such businesses as wholesale of agricultural chemicals, nursing care service business, transportation business, and consulting services for medical institutions.

2. Adjustment of segment income (loss) of ¥56 million and adjustment of segment assets of ¥(7,039) million refer to elimination of inter-segment transactions.

3. Adjustments are made to reconcile segment income to operating loss reported on the consolidated statements of income.

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	546,058	18,361	10,879	575,299	4,473	579,772	-	579,772
Inter-segment net sales or transfers	10,452	9	0	10,462	2,553	13,015	(13,015)	-
Total	556,511	18,371	10,879	585,761	7,026	592,788	(13,015)	579,772
Segment income (loss)	2,053	106	339	2,499	(204)	2,295	175	2,470
Segment assets	281,594	8,794	5,288	295,676	9,666	305,343	(8,027)	297,316
Other items								
Depreciation	2,640	142	17	2,800	210	3,010	-	3,010
Amortization of goodwill	15	327	-	343	-	343	-	343
Increase in property, plant and equipment, and intangible assets	6,070	57	9	6,137	836	6,974	-	6,974

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as wholesale of agricultural chemicals, nursing care service business, transportation business, and consulting services for medical institutions.

2. Adjustment of segment income (loss) of ¥175 million and adjustment of segment assets of ¥(8,027) million refer to elimination of inter-segment transactions.

3. Adjustments are made to reconcile segment income to operating profit reported on the consolidated statements of income.

[Related information]

1. Information by product and service

Statement has been omitted as net sales to outside customers in a single product/service category exceed 90% of total net sales in the consolidated statements of income.

2. Information by geographic area

(1) Net sales

Not applicable as there are no net sales to outside customers other than in Japan.

(2) Property, plant and equipment

Not applicable as there are no property, plant or equipment in areas other than in Japan.

3. Information by major customer

Statement has been omitted as no outside customer accounts for 10% or more of total net sales in the consolidated statements of income.

[Information concerning impairment loss on non-current assets by reportable segment]

Fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(Million yen)

	Reportable segment				Others	Total	Adjustment	Amount recorded in Consolidated Statements of Income
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Impairment losses	922	23	-	946	-	946	-	946

Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Million yen)

	Reportable segment				Others	Total	Adjustment	Amount recorded in Consolidated Statements of Income
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Impairment losses	78	1,713	-	1,791	-	1,791	-	1,791

[Information concerning amortization of goodwill and unamortized balances by reportable segment]

Fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(Million yen)

	Reportable segment				Others	Total	Adjustment	Amount recorded in Consolidated Statements of Income
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
(Goodwill)								
Amortization expense	15	327	-	327	-	343	-	343
Balance at end of period	35	2,839	-	2,874	-	2,874	-	2,874

Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Million yen)

	Reportable segment				Others	Total	Adjustment	Amount recorded in Consolidated Statements of Income
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
(Goodwill)								
Amortization expense	15	327	-	343	-	343	-	343
Balance at end of period	19	798	-	818	-	818	-	818

(Per share information)

	For the fiscal year ended March 31, 2022	For the fiscal year ended March 31, 2023
Net assets per share	¥1,858.86	¥1,911.44
Basic earnings per share	¥87.88	¥92.69

(Notes) 1. Diluted earnings per share is not stated as there are no dilutive shares.

2. Basis of calculation of basic earnings per share and diluted earnings per share is as follows:

	For the fiscal year ended March 31, 2022	For the fiscal year ended March 31, 2023
Basic earnings per share		
Profit income attributable to owners of parent (Million yen)	4,770	4,831
Amount not attributable to common stockholders (Million yen)	-	-
Profit attributable to owners of parent relating to common stock (Million yen)	4,770	4,831
Average number of shares of common stock outstanding during the period (Thousand shares)	54,280	52,119

3. Basis for the calculation of net assets per share is as follows:

	For the fiscal year ended March 31, 2022	For the fiscal year ended March 31, 2023
Total net assets (Million yen)	100,041	100,165
Amount deducted from total net assets (Million yen)	1,080	1,179
(Non-controlling interests) (Million yen)	(1,080)	(1,179)
Year-end net assets corresponding to common stock (Million yen)	98,961	98,986
Number of common stock at the year-end used to calculate net assets per share (Thousand shares)	53,237	51,786

(Note) The Company shares held by the Custody Bank of Japan, Ltd. (Trust Account E) as trust assets for the “Board Benefit Trust (BBT)” are included in treasury stock to be deducted in the calculation of average number of shares during the period for the purpose of calculating basic earnings per share (120 thousand shares for the fiscal year ended March 31, 2022, and 116 thousand shares for the fiscal year ended March 31, 2023).

(Significant subsequent events)

Not applicable.