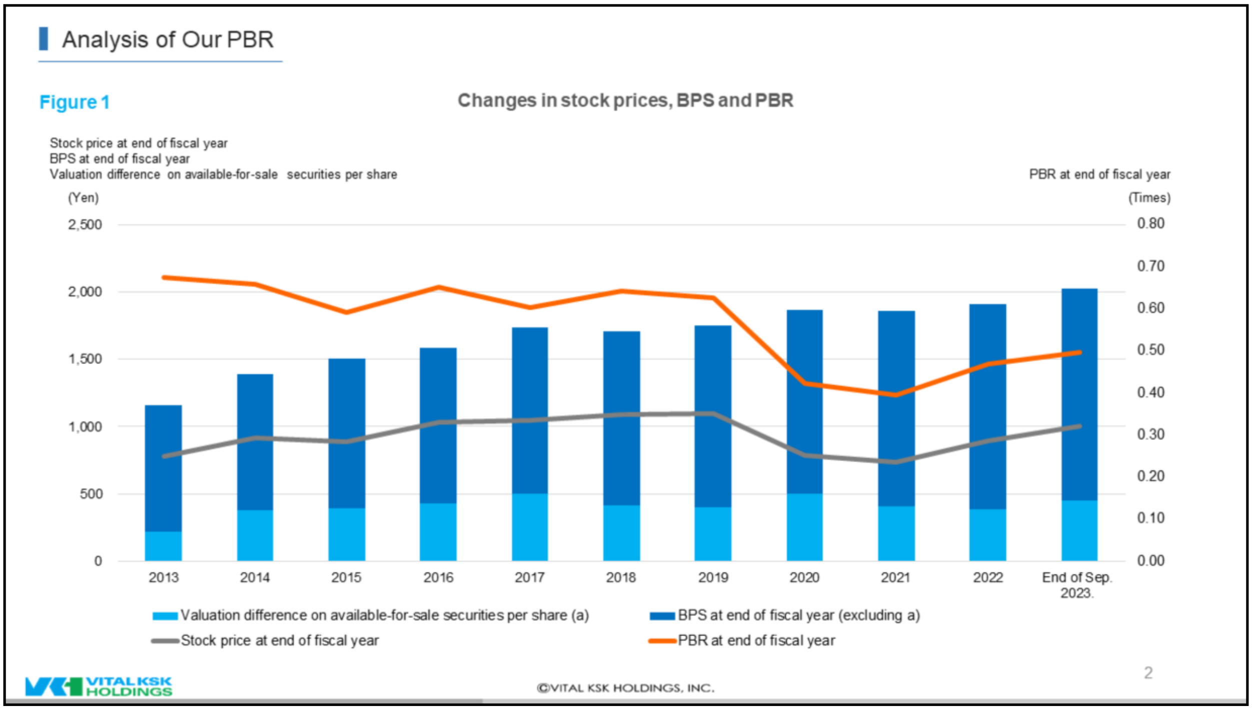
Measures to Implement Management Based on an Awareness of Cost of Capital and Stock Price

December 26, 2023

VITAL KSK HOLDINGS, INC.

At a meeting of the Board of Directors held on December 25, 2023, we analyzed and assessed the current status of measures for the implementation of management based on an awareness of the cost of capital and the stock price, and passed a resolution on policies for improvement, targets and other matters, the details of which are described on the subsequent pages.



First, we analyzed the status of our PBR.

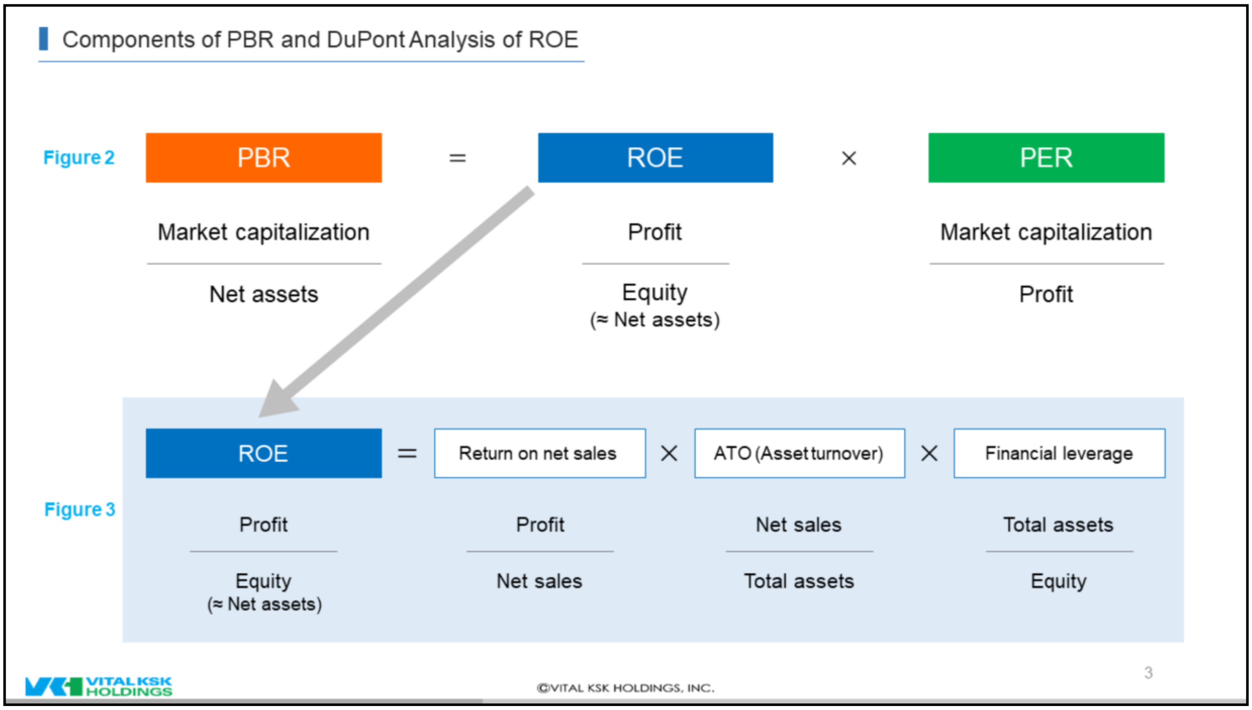
Figure 1 shows the change in our stock prices, BPS (book value prices per share) and PBR (price book-value ratios) over the past 10 years. It indicates that BPS has been steadily rising year on year. The valuation difference on available-for-sale securities per share has been flat in general due to the ongoing sale of cross-shareholdings. Despite that, BPS has been rising year on year because of the steady accumulation of retained earnings and continuation of share buybacks.

Meanwhile, the stock price had been rising moderately and the PBR was over 0.6 until fiscal 2019. However, the COVID-19 pandemic beginning in the winter of 2019, resulting in patients refraining from receiving medical treatments and restrictions on sales activities. This caused us to incur an operating loss in fiscal 2020, the following year. This, coupled with the decision to not pay year-end dividends, caused the stock price to decline significantly (The PBR also fell sharply to the 0.4 range).

In fiscal 2021, despite the V-shaped recovery of the business's performance, our stock price further declined (the PBR also fell to 0.4), reflecting the uncertainty linked to COVID-19 and disappointment in the sluggishness of not only our company but also the pharmaceutical wholesale industry as a whole attributable to the impact of the mid-year revision of drug prices that started in April (starting then, drug prices are revised every year).

Subsequently, after listing on the Prime market of the Tokyo Stock Exchange in April 2022 as a result of market realignment, we had more opportunities to engage in dialogue with institutional investors, which enabled us to gain an awareness of a range of issues. Taking these factors into consideration, we posted a press release on October 28, 2023 titled, "Strengthening Efforts Toward Corporate Value Enhancement." As a result, the stock price soared and the PBR recovered to a level slightly lower than 0.5.

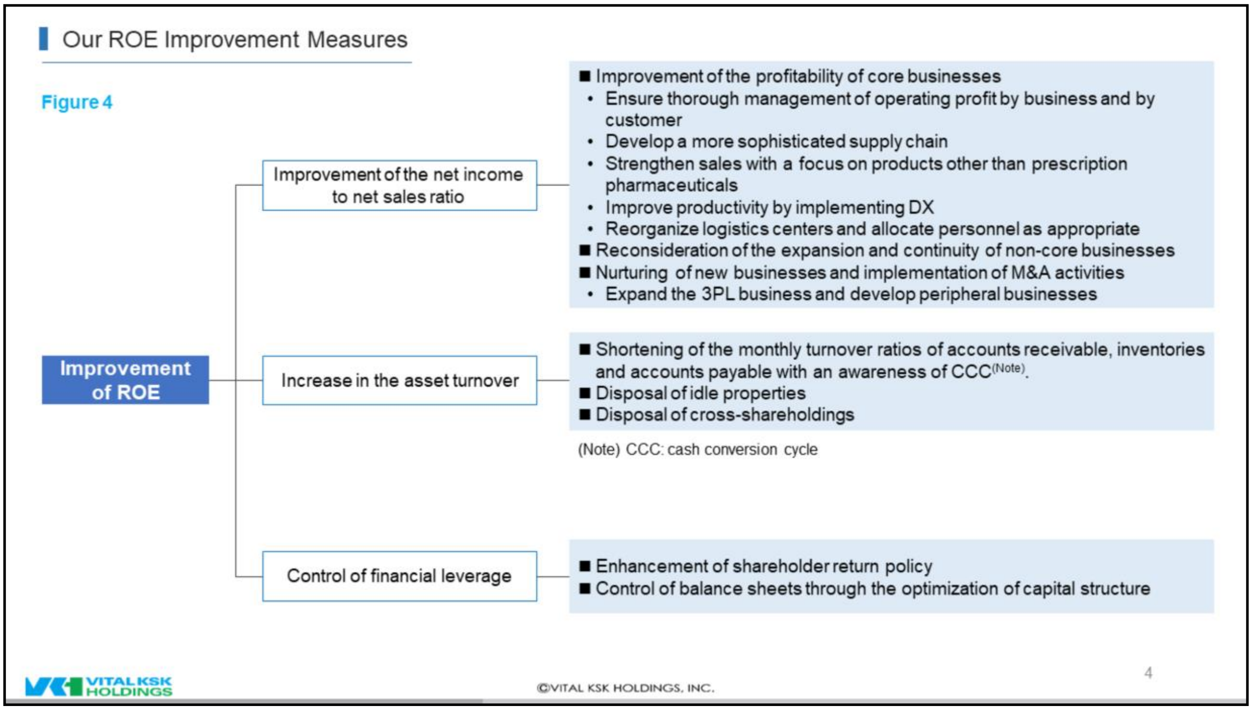
Partly reflecting the current strong performance of the business, the stock price recovered to a level surpassing 1,000 yen at the end of the second quarter of fiscal 2023. Even so, PBR was still hovering around the 0.5 range.



Taking the status of our PBR into consideration, we considered what actions we should take to improve it.

As shown in Figure 2, the PBR is calculated by multiplying the ROE (return on equity) by the PER (price-earnings ratio).

Furthermore, as shown in Figure 3, according to the DuPont analysis, ROE can be calculated by multiplying three factors, return on net sales, asset turnover and financial leverage.



Therefore, based on the decomposition formula in Figure 3, we summarized the measures to improve our ROE.

The first was improving the net income to net sales ratio.

First, we believe that the following five priority measures should be implemented to increase the profitability of the pharmaceutical wholesale business, our core business.

(i) Ensuring the thorough management of operating profit for each business and customer using our contribution profit management system.

(ii) Becoming a wholesaler that pharmaceutical manufacturers and customers are willing to choose by establishing more sophisticated logistics systems and supply chains.

(iii) Strengthening sales with a focus on products and services other than prescription pharmaceuticals while also decreasing dependency on prescription pharmaceuticals because the prescription pharmaceutical market is not expected to grow significantly partly due to yearly drug price revisions.

(iv) Increasing productivity by promoting DX and increasing the efficiency of transactions and operations internally and externally.

(v) Implementing logistics base consolidation and appropriate personnel placement

Secondly, regarding non-core businesses, specifically the businesses other than the pharmaceutical wholesale business, we will seek to expand the businesses stated in the Long-Term Vision 2035, particularly the pharmacy business and the animal drug wholesale business, while simultaneously taking appropriate measures, such as the facilitation of the improvement of management, for other businesses after assessing their potential for future growth.

The third is to nurture new businesses and implement M&A activities. For the time being, we plan to continue to expand the ongoing 3PL business. Also, in conjunction with the businesses peripheral to the core businesses, we intend to implement M&A activities focused on businesses and companies from which synergy is expected.

The next is increasing asset turnover. We will implement asset-light management mainly through the following three measures.

(i) Shortening of the monthly turnover ratios of accounts receivable, inventories and accounts payable to prevent the deterioration of the cash conversion cycle.

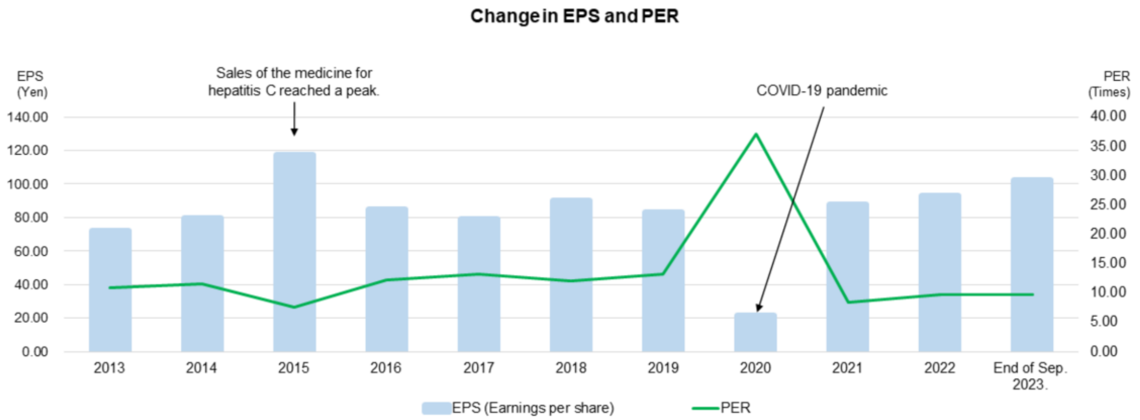
(ii) Quick disposal of properties that became idle due to the above consolidation of logistics bases and other measures.

(iii) Continuation of the disposal of cross-shareholdings to make sure that the ratio of cross-shareholdings to net assets is lower than 10% by fiscal 2031.

The last is controlling financial leverage. Basically, we will maintain it at the current level for the time being while simultaneously enhancing shareholder return measures as necessary to adjust it. In addition, if large-scale capital investments and M&A activities need to be carried out in the future, we will consider utilizing interest-bearing liabilities while also considering the optimal capital structure.

Change in Our PER

Figure 5

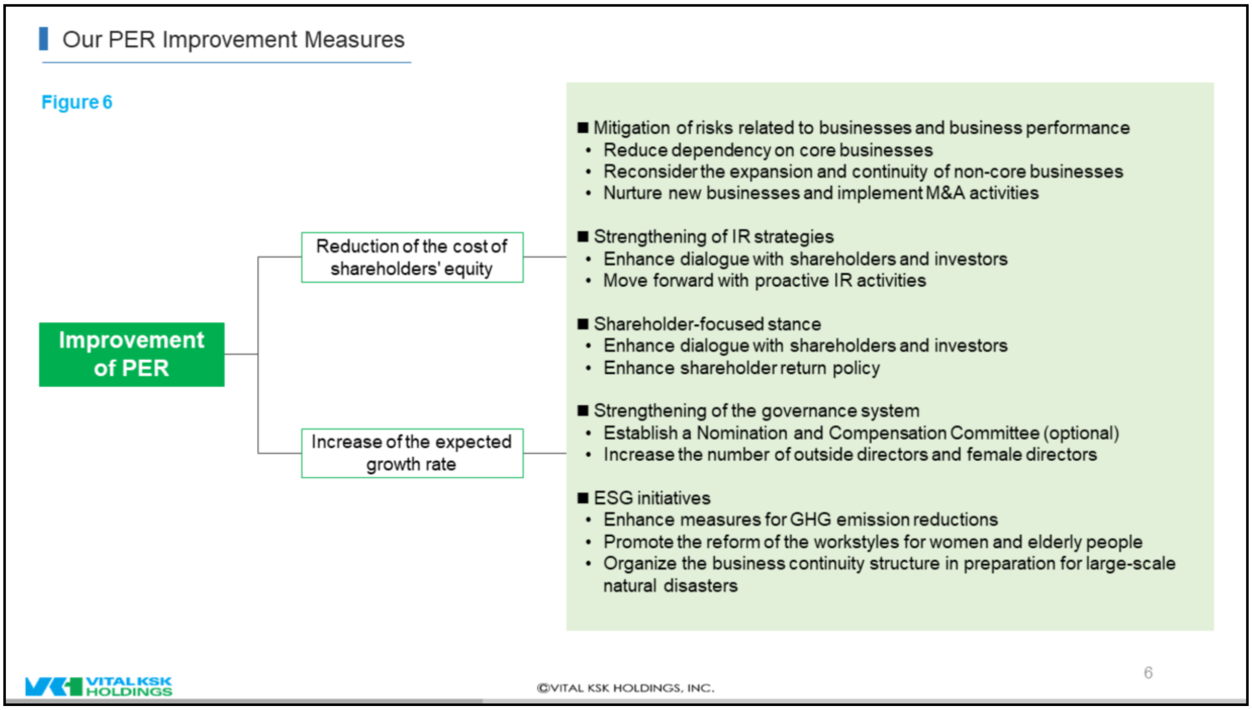


(Note) PER (price-earnings ratio) is calculated by dividing the stock price at the end of the period by the earnings per share. However, PER as of the end of September 2023 is calculated by dividing the stock price at the end of September by the full-year results forecast-based earnings per share.

Next, we examined what actions should be taken to increase our PER.

Figure 5, which shows changes in our EPS (earnings per share) and PER over the past 10 years, reflects an exceptional increase in the EPS in fiscal 2015, when sales of the medicine for hepatitis C reached the peak. In contrast with this, the EPS declined extremely in fiscal 2020, a year in which the COVID-19 pandemic occurred. Looking at the other fiscal years, the EPS remained at the 80 to 100 yen level and has been on a rising trend in the most recent three years.

That said, the PER, which increased exceptionally to over 35 just in fiscal 2020, has been hovering around 10 in other years, indicating sluggish growth.



We considered measures to improve our PER and came to the conclusion that we should continue to implement a range of measures with a view toward reducing the cost of shareholders' equity and increasing the expected growth rate as shown in Figure 6.

A particular important measure will be the reduction of risks related to businesses and business performance. In other words, we should demonstrate internally and externally that we are growing while simultaneously continuing to record stable results. Therefore, as described on page 4, we will steadily implement the following measures.

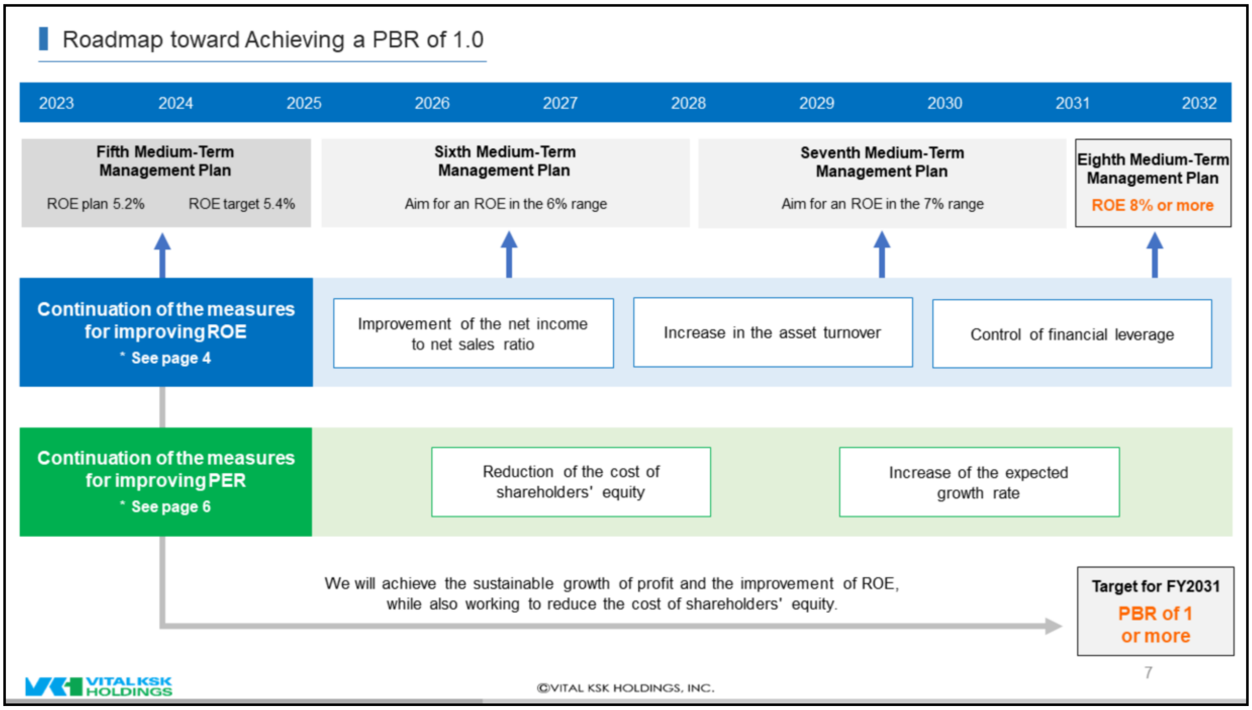
(i) Reducing dependency on core businesses because the prescription pharmaceutical market is not expected to achieve high growth partly due to yearly drug price revisions.

(ii) Expanding prospective non-core businesses while also facilitating the restructuring of or withdrawal from other businesses.

(iii) Nurturing new businesses such as 3PL while at the same time actively implementing M&A activities in peripheral businesses.

Then, efforts will be made to strengthen IR strategies with a focus on measures to reduce business and business performance risks. Specifically, while providing information proactively from our side , we will increase opportunities for dialogue with shareholders and investors, taking advantage of the information we learn through this dialogue in the management of our company. In addition, we will continue to make efforts to increase individual investors' awareness of our company by holding briefings more often.

Additionally, as shown in Figure 6, we believe that we should adhere to our shareholder-focused stance and further strengthen the governance system while also working proactively on ESG-related measures.



So far, we have analyzed and assessed the current status of measures for the implementation of management based on awareness of the cost of capital and the stock price, and provided an explanation about policies for improvement.

Lastly, we are presenting a roadmap for achieving a PBR of 1 or higher, including related targets and schedule.

First, in terms of ROE, an important factor for a higher PBR, by steadily implementing the measures presented on page 4, we aim to achieve the targets of 5.2% and 5.4% for the current fiscal year (fiscal 2023) and the next fiscal year (fiscal 2024), respectively, in the period of the ongoing Fifth Medium-Term Management Plan. Next, we will aim to increase ROE to the 6-7% range in the Sixth Medium-Term Management Plan (fiscal 2025-fiscal 2027) and the 7-8% range in the Seventh Medium-Term Management Plan (fiscal 2028-fiscal 2030). And finally, we will aim for an ROE of 8% or higher in fiscal 2031, the first year of the Eighth Medium-Term Management Plan.

Additionally, regarding PER, which is another factor for a higher PBR, we will continue working to lower the current cost of capital ratio (in the range between 6% and slightly above 7% as of December 2023) by implementing the range measures presented on page 6.

As described above, we plan to achieve a PBR of 1 or higher in fiscal 2031, the first year of the Eighth Medium-Term Management Plan, by improving ROE and PER.

Note on Forward Looking Statements

The Company's current plans, strategies, earnings forecasts and other forward-looking statements in these materials are based on information currently available to the Company, and include potential risks and uncertainties.

Please be aware that there is a possibility that actual business activities and performance will differ greatly from these outlooks due to changes in the economic situation, market conditions and various other factors.

For this reason, please do not rely entirely on these forward-looking statements alone when considering aspects of the Company such as its performance and corporate value.

Furthermore, none of the information contained in these materials is intended to induce you to buy or sell the Company's stock or recommend investment in the Company's stock.

Final decisions on investment should be made at your own discretion.

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